

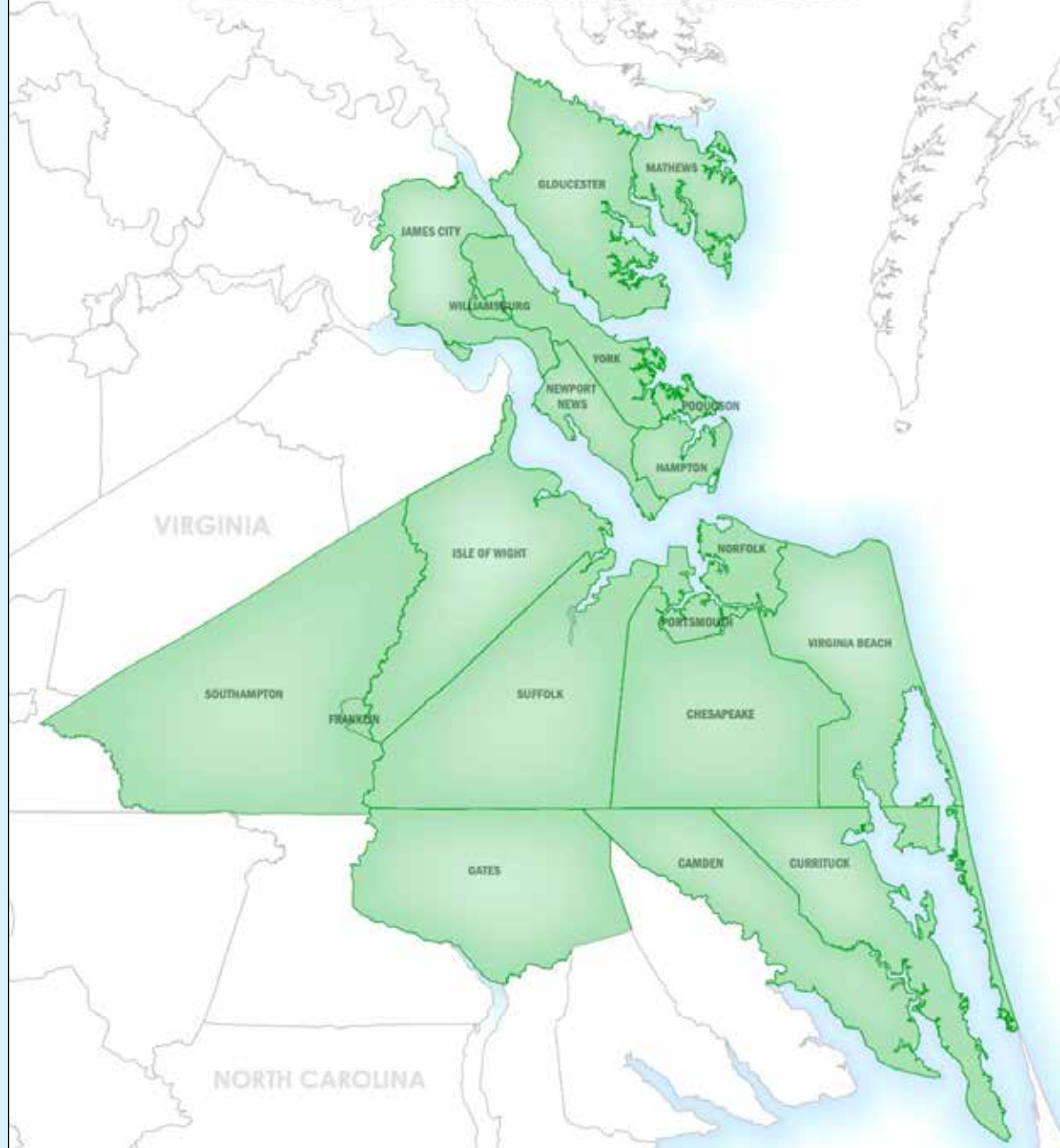


The State of the Region

HAMPTON ROADS 2021

DRAGAS CENTER FOR ECONOMIC ANALYSIS AND POLICY | STROME COLLEGE OF BUSINESS | OLD DOMINION UNIVERSITY

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



October 2021

Dear Reader:

This is Old Dominion University's 22nd 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, its president, Brian O. Hemphill, Ph.D., the Board of Visitors, the Strome College of Business or the generous donors who support the activities of the Dragas Center for Economic Analysis and Policy.

Over the past year, we have endured the depths of the COVID-19 pandemic, the introduction of vaccines and a return to a semblance of normality in Hampton Roads. Even as the economy recovers in the region, Virginia and the nation, we cannot forget that some have been left behind. Invigorating growth that raises the fortunes of all is the challenge that lies before us. This task will involve difficult discussions about how to diversify our economy in the coming years.

Hampton Roads plays a significant role in national security, provides college education to thousands of Virginians and is culturally diverse. Given these realities and the fact that many residents live in one community and work in another, solutions to our regional challenges will require conversations and policies that span jurisdictional boundaries. If there is an overarching lesson to be learned from the pandemic, it is simply that we are all in this together.

The 2021 State of the Region Report is divided into seven chapters:

Shock and Awe? COVID-19, Vaccines and the Recovery

The COVID-19 pandemic shook the Hampton Roads economy. One in 10 workers were unemployed at the height of the pandemic, 4 in 10 small businesses were forced to reduce hours and thousands of residents left the labor force entirely. Yet, in the midst of the pandemic, housing prices and trade volumes through the Port of Virginia continued to rise. We explore the economic recovery and discuss whether Hampton Roads can rely on defense spending in the coming decade.

Bounce Back? The Pandemic and Tourism in Hampton Roads

Nearly 1 in 5 workers in the Hampton Roads hospitality and leisure sector lost their jobs in 2020. Even as the sector started to recover, employers found themselves in need of employees to fill available positions. Now, with tourists returning to the region, we look at how traditional hotels and short-term rentals fared over the last 18 months.

Earn While You Learn:

The Apprentice School at Newport News Shipbuilding

The Apprentice School at Newport News Shipbuilding is not only one of the nation's premier schools for educating and training workers, but it also stands as

an example of how 21st-century learning can occur in the region. In this chapter, we look at the apprenticeship model and delve into the unique aspects of The Apprentice School that have made it successful.

All In: Casinos, Online Betting and the Future of Gambling in Hampton Roads

In 1987, Virginia voters approved the state lottery, bringing legalized gambling to the Commonwealth. Fast forward to 2021: Virginians can now buy lottery tickets online, place sports bets on their phones and wager in historical horse racing parlors. Now, with casinos opening soon in Norfolk and Portsmouth, as well as Bristol, Danville and, likely, Richmond, we discuss the benefits and costs of casinos in Hampton Roads.

Whither Old Dominion University?

The University of Virginia, Virginia Tech and College of William & Mary historically have played important roles in the Commonwealth. They have set impressive records in admitting and graduating talented students who (predictably) do well after they leave these campuses. Nevertheless, the future viability and cohesion of the Commonwealth in this century will more likely be determined on campuses like Old Dominion University, for it is there that the

critical social mobility challenge is being addressed in a meaningful way. We explore what the future may hold for ODU.

Bad News: The Decline of Local Journalism

Local journalism is in peril. Newspapers all over the country are reducing coverage, cutting staff, abandoning physical newsrooms or shuttering operations altogether. The United States has lost fully one-fourth of its newspapers since 2004, including 70 dailies and more than 2,000 weeklies and other nondaily papers. Hampton Roads has not escaped these cutbacks. We discuss the future of local journalism in Hampton Roads.

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

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All 22 State of the Region Reports are available at www.ceapodu.com. A limited number of printed copies of the 2021 report are available for purchase for \$50 each. If you have comments or suggestions, please email us at rmcnab@odu.edu.

Sincerely,



Robert M. McNab

Director of the Dragas Center for Economic Analysis and Policy

Securing Release: Cash Bail in Hampton Roads

On any given day in 2019, on average, there were more pretrial inmates per 100,000 residents in Hampton Roads than in Virginia or the United States. To secure their release from jail, many inmates must provide collateral in the form of a secured bond. Now, with momentum building for reducing or eliminating cash bail in the Commonwealth, we estimate the costs and benefits of cash bail reform for cities and counties in Hampton Roads.



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Shock and Awe? COVID-19, Vaccines and the Recovery



SHOCK AND AWE? COVID-19, VACCINES AND THE RECOVERY

I have therefore determined, not only to inoculate all the Troops now here, that have not had it, but shall order Doctor Shippen to inoculate the Recruits as fast as they come into Philadelphia.

– Gen. George Washington, Feb. 5, 1777

Upon taking command of the Continental Army in 1775, Gen. George Washington faced two foes: the British and smallpox. As the Continental Army laid siege to British-held Boston, smallpox ravaged its troops and evidence mounted that the British, who were largely immune due to the endemic nature of the disease in England, were working to infect soldiers and civilians alike. Washington ordered infected soldiers and civilians be held in quarantine, but as the battlefield broadened, smallpox continued to spread. At the Battle of Quebec in December 1775, the Continental Army was so weakened by smallpox that it had to retreat from the field of battle. By February 1777, Washington had seen enough. He wrote to John Hancock, president of the Second Continental Congress, that he was ordering the inoculation of troops under his command.¹ The need was palpable. John Adams estimated in 1777 that for every soldier killed in battle, disease killed 10.

Washington ordered vaccination preparations to begin in secret because the political and social climate was not conducive to a public campaign. In 1776, at the height of the smallpox epidemic, the Continental Congress had passed an ordinance prohibiting Continental Army surgeons from inoculating soldiers. A number of states and localities had also passed laws prohibiting vaccination of soldiers and civilians. As the Washington-ordered inoculations continued in 1777 and into 1778 (almost always in secret, as soldiers required a month of convalescence), smallpox mortality rates in the Continental Army dropped from between 10% and 60% to less than 2%. Dr. Benjamin Rush, surgeon general to the Continental Army and a signer of the Declaration of Independence, observed in 1781: “The small-pox which once proved equally fatal to thousands, has been checked in its career, and in a great degree subdued by the practice of inoculation.”

Jean-Baptiste Alphonse Karr, a 19th-century French critic, journalist and novelist, noted, “The more things change, the more they are the same.”

¹ Smallpox inoculation at the time required a surgeon to lance a smallpox pustule and then insert the infected blade underneath the skin of an uninfected person. This crude form of inoculation typically resulted in a milder form of smallpox; however, some inoculated individuals contracted a more severe form of the disease and died as a result of the inoculation. See: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5463674/>.

COVID-19 vaccinations dramatically reduced infections, hospitalizations and deaths in Hampton Roads, Virginia and the United States in the first six months of 2021. Yet, vaccine hesitancy and resistance continue to challenge public health efforts and the economic recovery. Disinformation, amplified by social media and certain cable news networks, not only undermines efforts to improve public health, but also threatens the core tenets of the American experiment in democracy. Even with these challenges, however, Hampton Roads is poised to grow faster in 2021 than at any time in the previous decade, and conditions are favorable for continued growth in 2022.

Over the last 18 months, our region experienced a historical economic shock that, at its peak, left 1 in 10 workers unemployed, 4 in 10 small businesses reducing hours and many schools shifting to virtual instruction. These challenges sparked difficult conversations about why Hampton Roads failed to keep pace with the Commonwealth and the nation over the previous decade. Would a recovery find Hampton Roads again in envy of its peers?

Now, with an economic recovery before us, will we move beyond meetings to boost economic growth, or will we return to the behaviors of the past? As the pandemic has so aptly shown us, we will rise or fall together.

In this chapter, we examine Hampton Roads' recovery from the COVID-19 pandemic and the prospects for continued growth in 2022. We highlight the rebound in labor markets, the benefits of increasing vaccination rates in the region and the emergence of the COVID-19 delta variant, which has led to rising infections, primarily among the unvaccinated. We explore the impacts of COVID-19 on the region's residents and discuss whether the plans for recovery are sufficient. Lastly, we consider how changes in the national security environment may pose the next challenge for growth in Hampton Roads.

The Pandemic, Variants And Vaccines

In October 2020, Hampton Roads and Virginia appeared to have weathered the summer surge in COVID-19 infections, hospitalizations and deaths. Within two months, however, the region, Commonwealth and nation would enter a dark winter, with deaths surging nationally to an average of 3,000 a day. In Hampton Roads, the seven-day rolling average of residents testing positive for COVID-19 peaked at 1,437 on Jan. 20, 2021, more than three times that of the previous peak observed in July 2020 (Graph 1).

Yet, even as infections surged in the fall of 2020, clinical trials of the Pfizer/BioNTech and Moderna COVID-19 vaccines provided hope. With emergency use authorization from the U.S. Food and Drug Administration, vaccinations started in late December 2020, although demand far outstripped initial supply. An aggressive pivot toward greater production and distribution of these vaccines (and eventually the Johnson & Johnson vaccine) in early 2021 marked an inflection point in the course of the pandemic. By late spring, Americans 12 and older could go to pharmacies, doctors' offices, vaccination clinics and even public schools to receive a free COVID-19 shot without significant delay.

In late summer, booster shots were available for the immunocompromised and would soon be available for those 12 and older.

In Hampton Roads, the seven-day rolling average of positive COVID-19 tests fell from 1,437 on Jan. 20, 2021, to 65 on June 1, 2021, a decline of 95%. By the end of June, the seven-day average had fallen further to 36. However, the good news would not last as the COVID-19 delta variant gained traction in the region, Commonwealth and nation. By the end of July, the seven-day rolling average of cases in Hampton Roads had risen to 226.

A continuing (and unfortunate) theme of the COVID-19 pandemic is that Black residents of Hampton Roads have borne a disproportionate burden of the public health crisis. While Black residents comprised 30% of the region's population in 2019, they accounted for 33.8% of positive COVID-19 tests, 50.9% of hospitalizations and 44.6% of COVID-19 deaths (Graph 2). White residents, who made up 55% of the Hampton Roads population in 2019, accounted for approximately 40.8%, 37.6% and 48.4% of the region's positive tests, hospitalizations and deaths, respectively, from COVID-19.

Why have we observed a high toll among Black residents in the region and Commonwealth? First, Black workers are more likely to be employed in occupations that are at higher risk of exposure. Second, as we note below, Black vaccination rates through the first eight months of 2021 lagged those of other races in the region and Virginia. Third, inequities in access and provision of health care can also negatively influence the course of the disease in Black residents.²

There was, however, a significant difference from the previous wave that peaked in January 2021: the availability of safe and effective vaccines. While COVID-19 vaccines are fiercely debated on social media and have become conflated in the minds of some with political identity, data provide a stark picture of the impact of the virus on the vaccinated and unvaccinated populations.

Data from the Virginia Department of Health illustrate these stark differences. Between Jan. 17 and Aug. 13, 2021,

² See our discussion of vaccinations and employment by race in this chapter. For a national perspective, see <https://www.kff.org/coronavirus-covid-19/issue-brief/latest-data-on-covid-19-vaccinations-race-ethnicity>.

fully vaccinated individuals accounted for 0.09%, 0.005% and 0.001% of reported cases, hospitalizations and deaths in the Commonwealth. In July, the rates of infection and hospitalization from COVID-19 in Virginia were 35 times lower among the fully vaccinated. Rates of hospitalization were 20 times lower among the fully vaccinated when compared to the not fully vaccinated.

While vaccinations can reduce future inequities from COVID-19, there have been troubling lags in vaccination rates across Hampton Roads. Graph 3 displays the percentage of the population in Virginia and selected Hampton Roads cities and counties who were fully vaccinated as of March 1, June 1 and Aug. 1, 2021. Of the 16 cities and counties in the Virginia portion of Hampton Roads, four (Mathews County, Poquoson, James City County and York County) had vaccination rates that were higher than the Commonwealth average.

Graph 4 illustrates the share of the population by race in Hampton Roads and Virginia that were fully vaccinated by Aug. 6, 2021. Asian residents were more likely to be vaccinated than their counterparts in the region but lagged the Commonwealth average. White residents of Hampton Roads were almost as likely to be fully vaccinated as the average for whites across the Commonwealth, while Black residents of the region were approximately 5 percentage points behind the state's average. Hispanic residents of the region were far less likely to be fully vaccinated relative to the share of the Hispanic population in Virginia.

In the early phases of the vaccination campaign, a likely explanation for the disparity in vaccination rates had to do with differences in median household income as well as personal and professional networks. However, given that the COVID-19 vaccines are free, the lower rates of vaccinations in Hampton Roads are a matter of concern. If vaccination rates continue to lag among residents, they remain vulnerable to the scourge of COVID-19.

Given the proven benefits of the vaccines to individual and public health, working to educate residents and reduce vaccine hesitancy and resistance is key to sustaining a regional recovery. Unvaccinated people represent an opportunity for the virus to mutate and undermine vaccine efficacy, especially with the rise of more infectious variants of the virus. Those who remain unvaccinated by choice also present a challenge to employers, since they pose an undue risk to co-workers and customers who cannot be vaccinated. One need only recall the impact of COVID-19 on our tourism industry to understand how a sustained outbreak among the unvaccinated could undermine the prospects for a sustained recovery in Hampton Roads.

The good news is that as the number of vaccinations has increased, public opinion polls have seen robust declines in vaccine hesitancy. However, there is a fraction of the population that has hardened its hostility. Disinformation persists through social media and certain cable news networks, which have served as platforms for anti-vaccination rhetoric. Breaching these walls of mistrust requires concerted and sustained effort from trusted agents in the community. Unfortunately, we have ample evidence of Jonathan Swift's observation: "Falsehood flies, and truth comes limping after it."

GRAPH 1

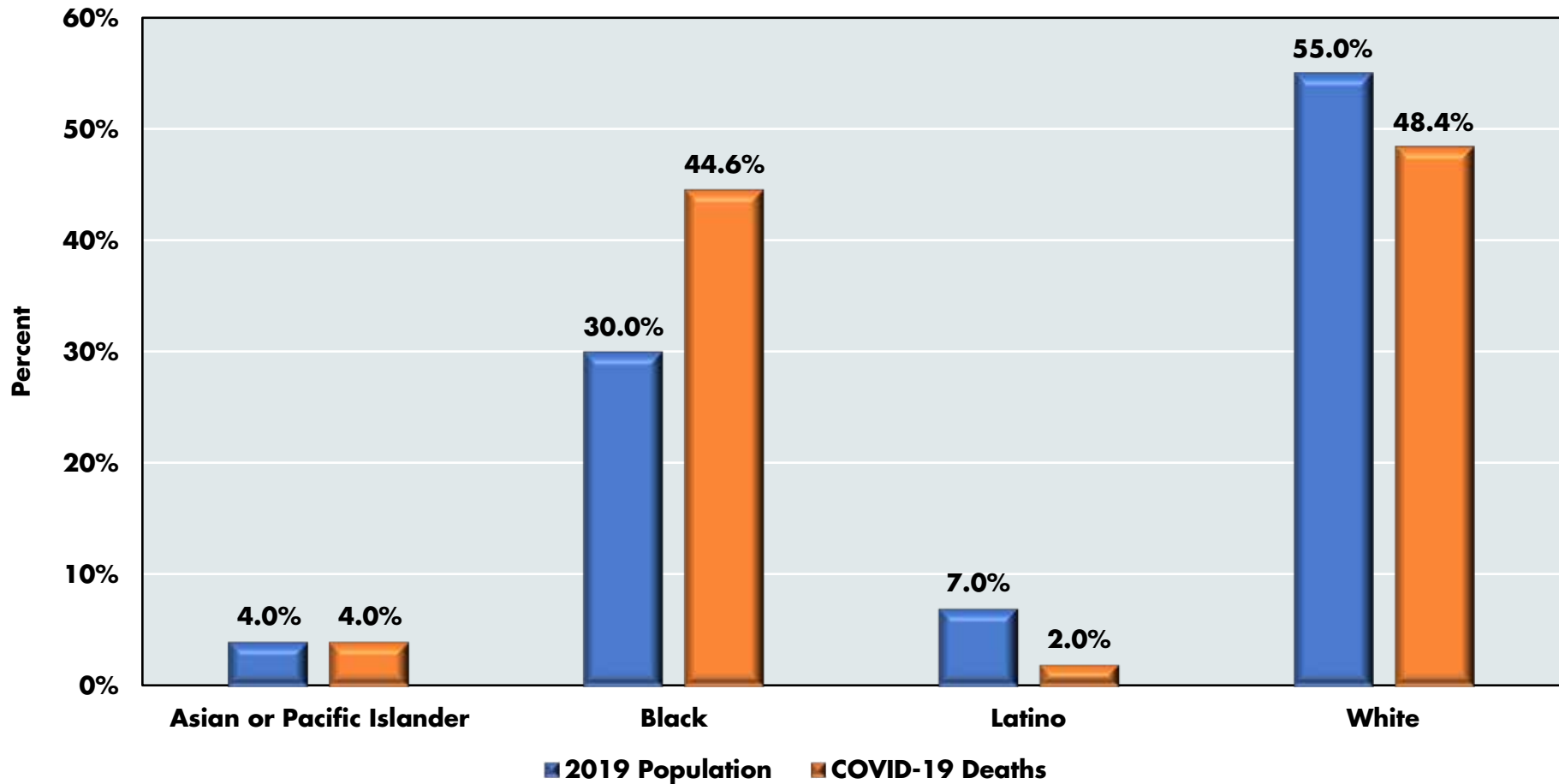
**SEVEN-DAY ROLLING AVERAGE OF POSITIVE TESTS FOR COVID-19: HAMPTON ROADS
APRIL 1, 2020-JULY 31, 2021**



Sources: Virginia Department of Health and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Virginia portion of the Virginia Beach-Norfolk-Newport News MSA.

GRAPH 2

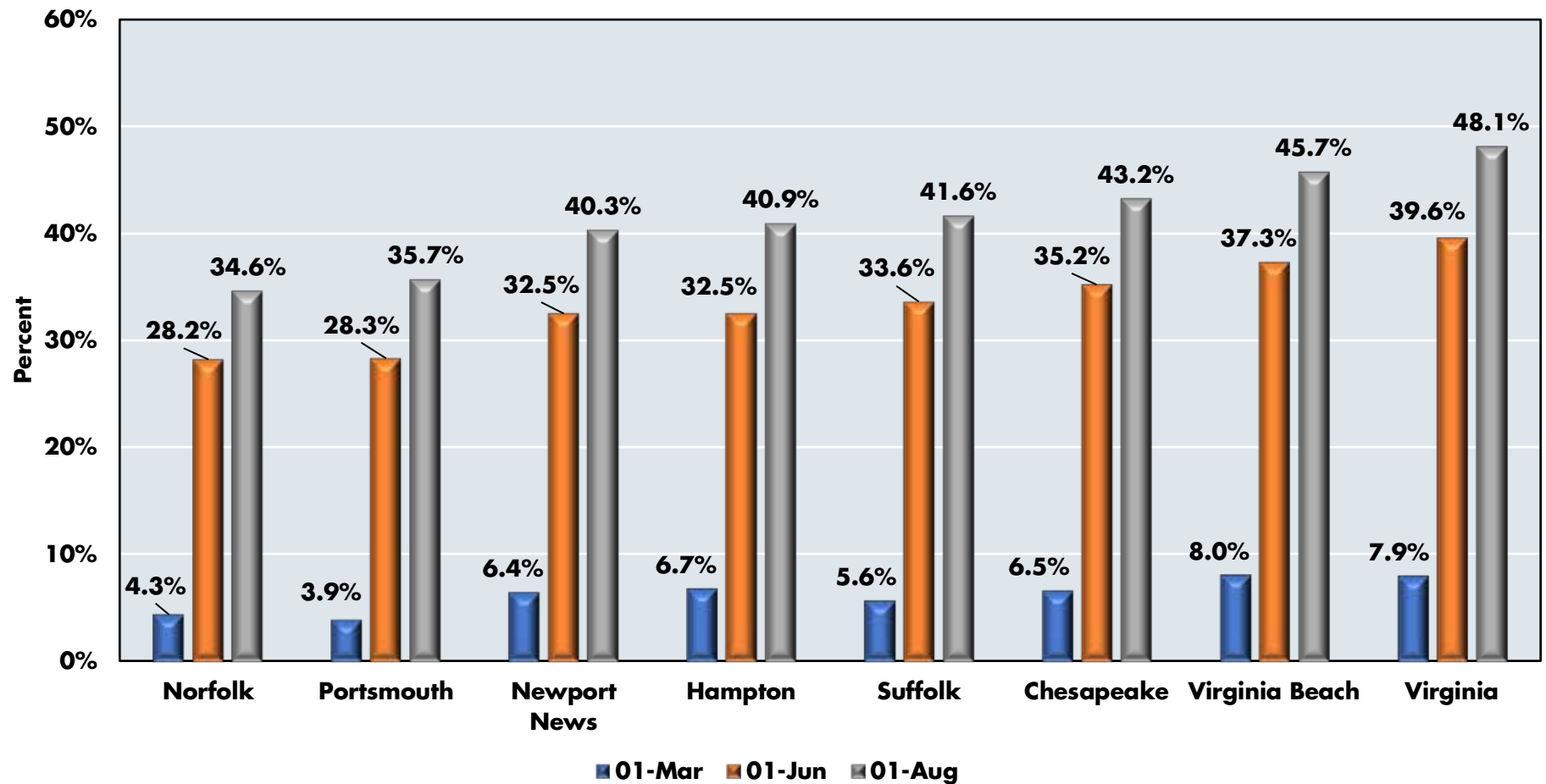
DISTRIBUTION OF POPULATION AND COVID-19 DEATHS: HAMPTON ROADS,*
JUNE 15, 2020-JULY 31, 2021



Sources: Virginia Department of Health and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Population data are from the 2019 American Community Survey 1-year estimates. COVID-19 data, from the Virginia Department of Health, cover the health districts of Chesapeake, Hampton, Norfolk, the Peninsula, Portsmouth, Virginia Beach and Western Tidewater. *Data at the city and county level are not available prior to June 15, 2020.

GRAPH 3

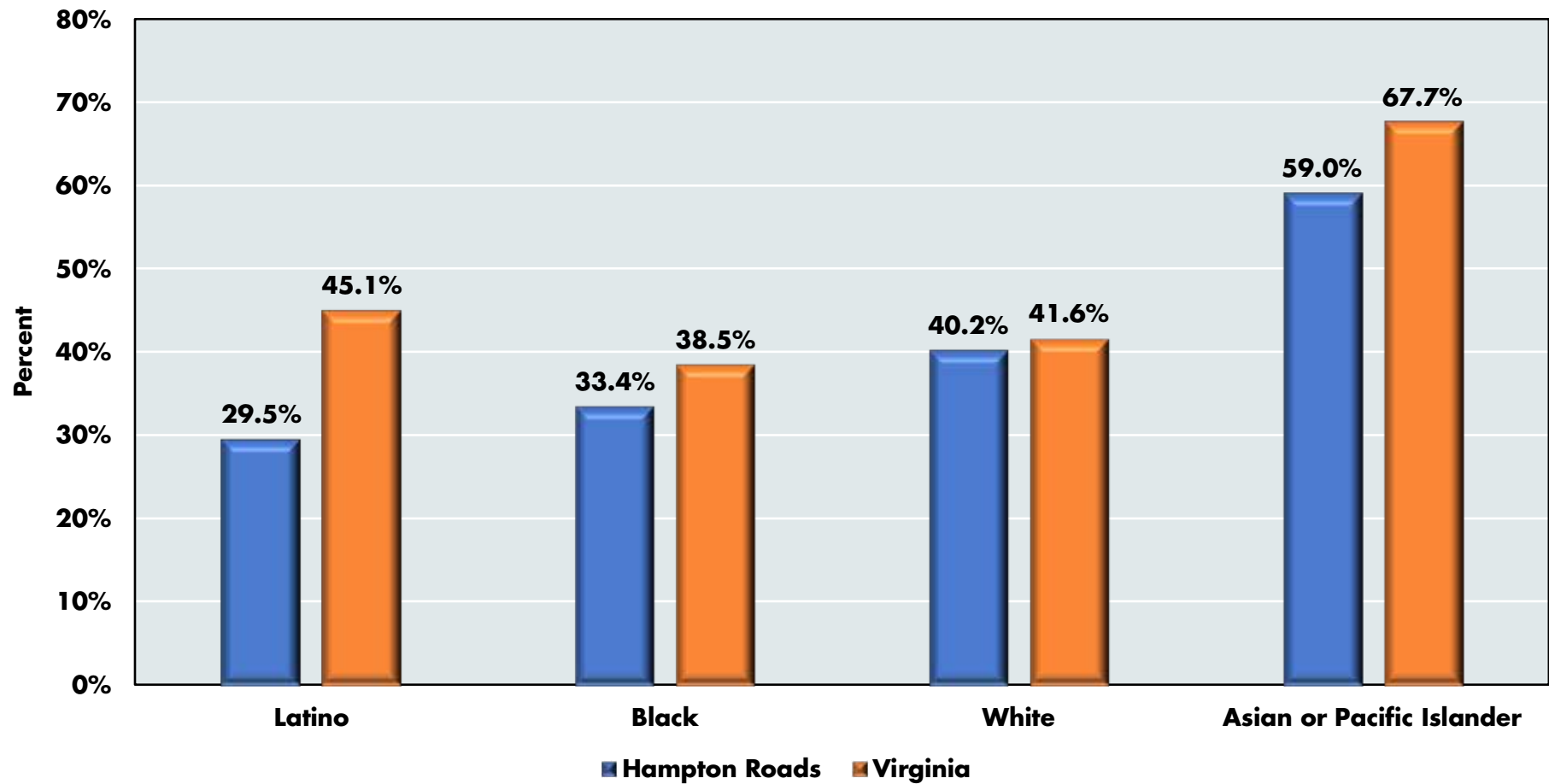
**PERCENTAGE OF POPULATION FULLY VACCINATED: VIRGINIA AND SELECTED CITIES IN HAMPTON ROADS,
MARCH 1, 2021, JUNE 1, 2021, AND AUG. 1, 2021**



Sources: Virginia Department of Health, COVID-19 Vaccine Summary; U.S. Census Bureau 2019 Population Estimates; and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Doses administered by federal agencies within Virginia are not included, since the federal government does not provide information regarding location and demographics. "Fully vaccinated" equates to one dose of the Johnson & Johnson vaccine or two shots of either the Pfizer/BioNTech or Moderna vaccine. The percentage fully vaccinated is estimated using the total population of each geographical area.

GRAPH 4

SHARE OF POPULATION FULLY VACCINATED:
VIRGINIA AND HAMPTON ROADS, AS OF AUG. 6, 2021



Sources: U.S. Census Bureau 2019 Population Estimates, Virginia Department of Health and the Dragas Center for Economic Analysis and Policy, Old Dominion University. The data do not include doses administered by federal agencies or out-of-state residents; 326,154 out of 4,431,177 observations do not include race information and are excluded from the analysis. The percentage fully vaccinated is estimated using the total population of each geographical area.

A Weak Recovery? Labor Force And Employment In Hampton Roads

The labor market in Hampton Roads is typically seasonal; that is, the number of people in the labor force looking for work or actively employed peaks in the summer and reaches its lowest point in the winter. In 2019, however, labor markets appeared to be gaining steam by the fall and into the winter of 2020. As illustrated in Graph 5, the civilian labor force and individual employment in Hampton Roads peaked at 874,900 and 852,600 individuals, respectively, in February 2020.

This positive upswing was soon dashed, however, by the emergence of the COVID-19 pandemic, social distancing measures and a rapid decline in domestic and international tourism. By May 2020, the civilian labor force was 5% smaller than in February 2020, while individual employment had declined by approximately 12.2%. The labor force and employment rebounded to some extent during the summer of 2020, but the recovery plateaued in the fall. At the beginning of 2021, the civilian labor force and individual employment in Hampton Roads were 5% and 8.5% lower, respectively, than in February 2020. Even though economic expectations improved in the spring of 2021, the civilian labor force continued to contract – a troubling development.

The headline unemployment rate is equal to the ratio of the number of unemployed people in the labor force to the overall labor force. The number of unemployed in Hampton Roads declined from a high of 109,046 in April 2020 to 40,191 in June 2021. Over the same period, the civilian labor force declined from 853,762 to 824,884. After peaking at 12.8% in April 2020, the unemployment rate in Hampton Roads steadily declined, falling to 4.9% in June 2021 (Graph 6).

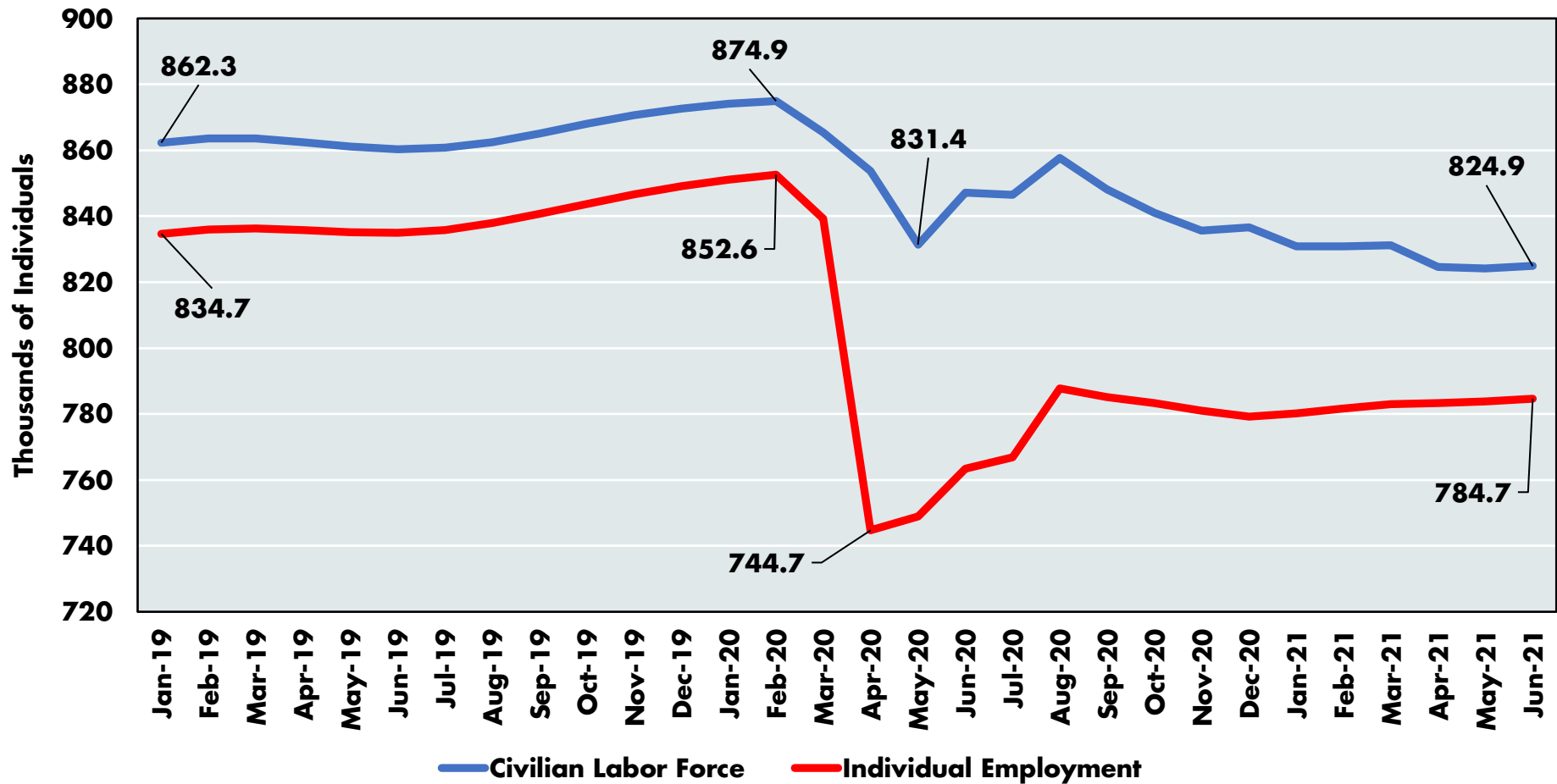
The decline in the unemployment rate in Hampton Roads in 2021 is the result of two factors: an increase in individual employment (good) and a decline in the civilian labor force (bad). From January to June 2021, unemployment has fallen by 10,417 individuals but only 4,448 individuals were gainfully employed. The remaining 5,969 left the labor force. A declining labor force is not a sign of a robust regional economic recovery.

If the 50,057 workers who left the labor force since February 2020 had remained in it as unemployed individuals, the region's unemployment rate in June 2021 would have been 10.9%, 2.2 times higher than the reported unemployment rate.



GRAPH 5

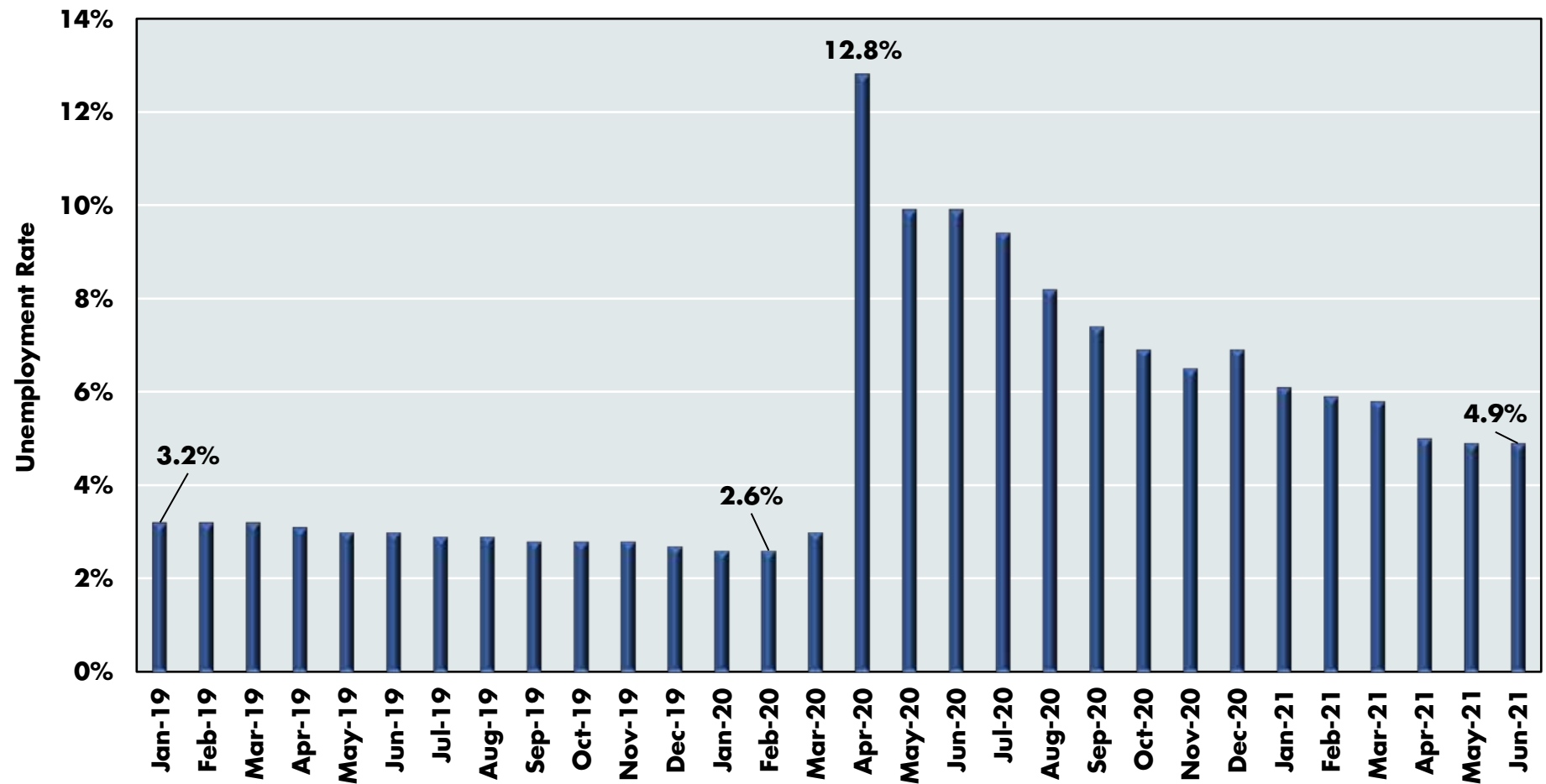
CIVILIAN LABOR FORCE AND INDIVIDUAL EMPLOYMENT:
HAMPTON ROADS, JANUARY 2019-JUNE 2021



Sources: Bureau of Labor Statistics and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are seasonally adjusted.

GRAPH 6

HEADLINE UNEMPLOYMENT RATE (U3):
HAMPTON ROADS, JANUARY 2019-JUNE 2021



Sources: Bureau of Labor Statistics and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are seasonally adjusted.

Did Expanded Unemployment Cause A Labor Shortage?

Employers in some sectors of the region reported difficulties in finding workers to fill available positions in the spring and summer of 2020. The leisure and hospitality sector appeared to be the most challenged by this development. Nationally, as well as in Virginia, online job postings surged past prepandemic levels. As more people in the labor force were employed, employers faced increasing difficulties to fill open positions. The question was: Where were all the workers?

A confluence of factors likely explains the apparent shortage of workers in lower-wage sectors. First, some workers left the labor force entirely. The absence of these individuals meant that employers were competing for a smaller pool of labor. Second, national evidence suggests that a greater proportion of women left the labor force or transitioned to part-time employment. Remote and hybrid schooling, coupled with constraints on the availability of child care, limited the ability of some to work full time, if at all. Third, some workers were (and remain) concerned about contracting the coronavirus.

Finally, expanded unemployment benefits may have influenced some workers on the margin. Recent findings from the National Bureau of Economic Research suggest that expanded unemployment benefits played a role in reducing job applications; a 10% increase in benefits contributed to a 3.6% decline in applications. For some workers, expanded benefits disincentivized work. Why? During the first eight months of 2021, full unemployment benefits in Virginia amounted to \$678 a week (\$378 regular plus \$300 expanded) or \$16.95 an hour.

In the summer of 2021, some states opted out of expanded unemployment benefits entirely, eliminating any financial incentive to remain on unemployment. Other states, including Virginia, reimposed job search stipulations, requiring individuals receiving unemployment to apply for two

or more jobs a week. As one might have expected, states that discontinued expanded unemployment saw declines in unemployment insurance claims. Yet, anecdotal complaints from employers in these states continued regarding difficulties in attracting and retaining employees in low-wage positions. Perhaps the only certainty is that this question will generate a large body of academic research in the coming decade.

As the unemployment rolls continue to shrink, our focus will need to shift to bringing back workers who have left the labor force entirely. Fully opening public schools, increasing child care availability and convincing the reluctant among us to get vaccinated will be necessary for this to occur. The recovery may be on the way, but it is not complete.



Unemployment Claims In Hampton Roads

When discussing unemployment claims, it is important to make the distinction between initial and continued claims. Initial claims represent the number of people who have filed a request for unemployment benefits after separation from an employer. Continued claims, or what is known as insured unemployment, reflect those who have already filed their initial claim, had the claim accepted by the government and continue to file claims to receive benefits for the current week of unemployment. In other words, continued claims represent the number of insured unemployed people, while initial claims reflect the number of initial requests for unemployment benefits in a given week.

In the spring of 2020, Congress passed, and President Trump signed into law, the Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC) programs. The PUA program provided up to 79 weeks of unemployment benefits for the self-employed, freelancers and independent contractors who would not typically qualify for regular state unemployment benefits. The PEUC program provided an additional 13 weeks of unemployment benefits for those who exhausted their state benefits. A number of states ended participation in these programs in the summer of 2021 and authorization for these programs lapsed in September 2021. Data for PUA and PEUC filings were only available at the state and federal levels.

In 2007, before the full impact of the Great Recession was felt in Hampton Roads, an average of 2,733 initial unemployment claims were filed monthly (Graph 7). Even though the recession was officially over in 2009, average monthly initial unemployment claims continued to rise in the region, reaching 8,257 in 2010. In retrospect, while the Great Recession was significant, its economic shock paled in comparison to the COVID-19 pandemic. **Average monthly claims were 3.4 times higher in 2020 than in 2010 and 13.2 times higher than in 2019.**

In August 2007, 2,872 initial unemployment claims were filed in Hampton Roads. Three years later, monthly initial unemployment claims peaked at 10,600. In other words, it took 36 months for the level of initial claims to rise from its prerecessionary low to its recessionary peak. In February 2020, 1,961 monthly initial unemployment claims were filed in Hampton Roads. Two months later, monthly initial claims rocketed to 76,723, an increase of 3,812% (Graph 8). The adjectives “unprecedented” and “historic” seem inadequate to describe the magnitude of the shock this had on labor markets in Hampton Roads.

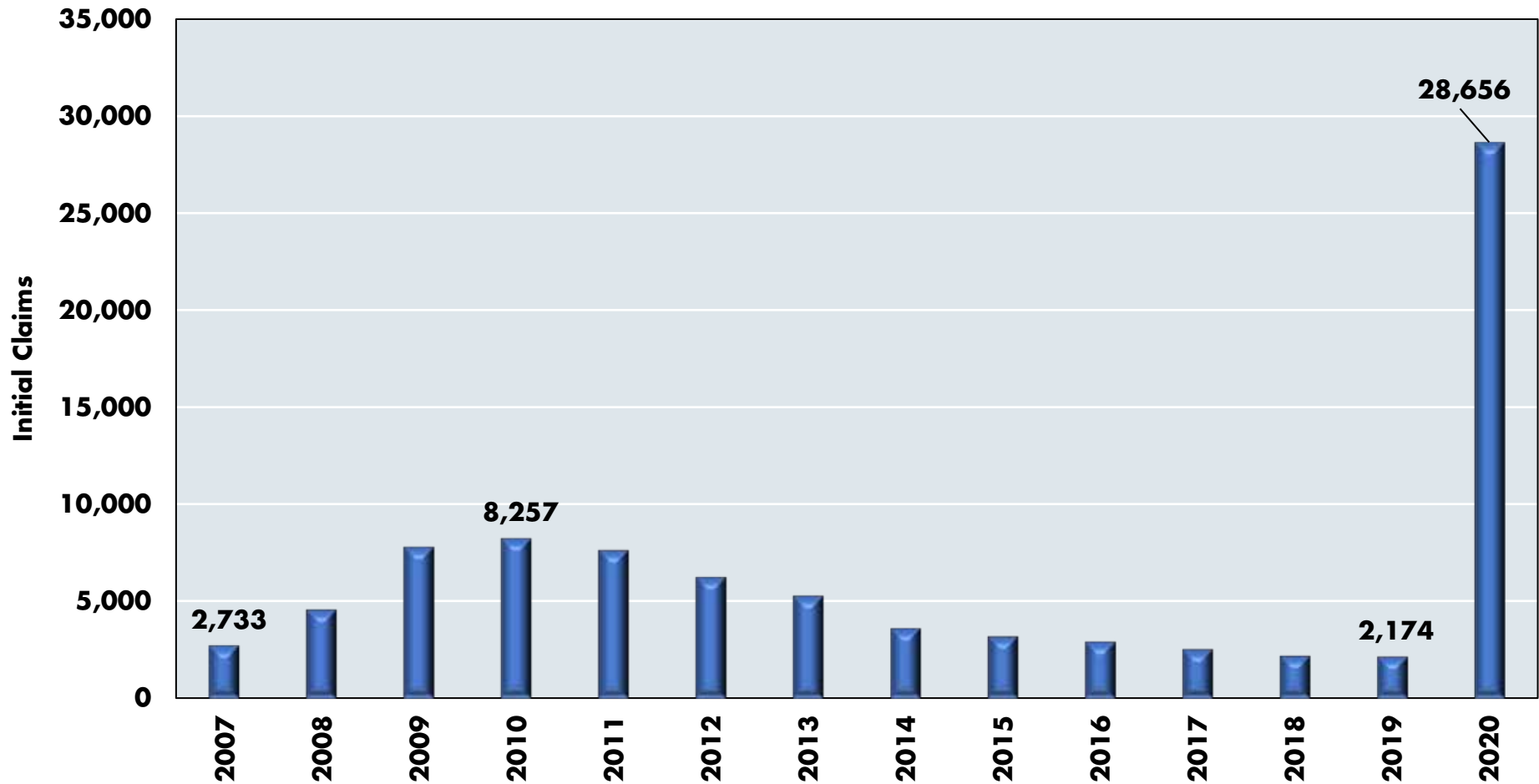
If there is a modicum of good news, it is that initial claims and continued claims have generally trended downward in 2021. While one can think of initial claims as representing “turbulence” in the regional economy, continued claims represent “slack.” An individual receiving continued unemployed benefits remains in the labor force and, as of the last week of May in Virginia, must actively search for employment each week.³

Graph 9 illustrates the change in weekly continued claims for unemployment benefits in Hampton Roads from March 14, 2020, to July 31, 2021. Continued claims increased from 4,315 for the week ending March 14, 2020, to 88,436 for the week ending May 16, 2020. At the peak, more than 1 in 10 workers in the region were receiving unemployment benefits. As Hampton Roads reopened in the summer of 2020, continued claims fell sharply, dropping to 13,936 at the end of December 2020. While continued claims remained above the prepandemic level during the first half of 2021, there has been measured progress in reducing the number of workers in the region receiving unemployment benefits.

³ In March 2020, Virginia Gov. Ralph Northam temporarily waived the requirement that unemployed individuals must actively search for work. This requirement came back into force on June 1, 2021. Virginians receiving unemployment benefits must apply for two or more jobs a week and report the details to the Virginia Employment Commission.

GRAPH 7

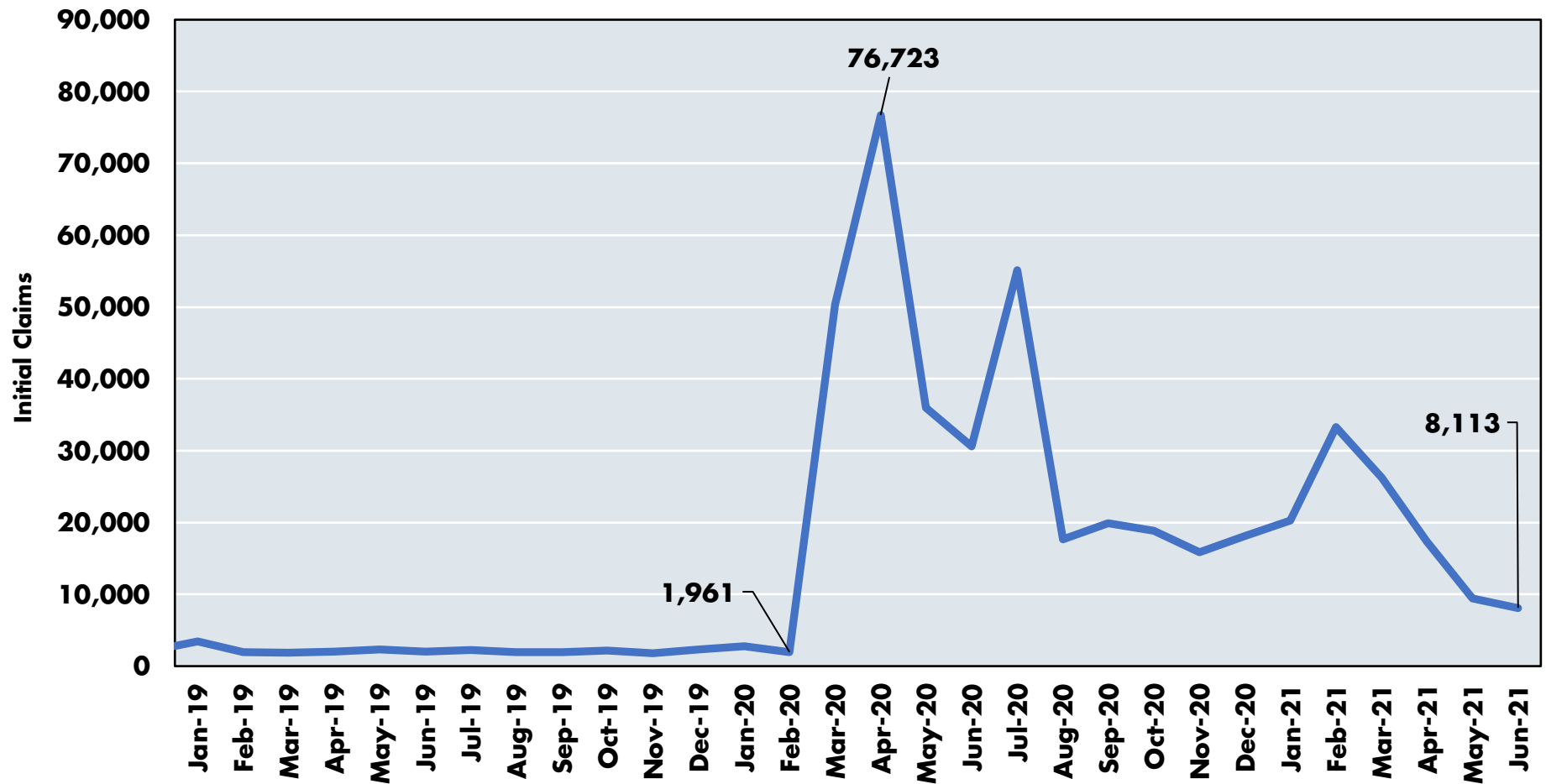
**AVERAGE MONTHLY INITIAL UNEMPLOYMENT CLAIMS:
HAMPTON ROADS, 2007-2020**



Sources: Virginia Employment Commission and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are not seasonally adjusted and do not include PUA and PEUC claims.

GRAPH 8

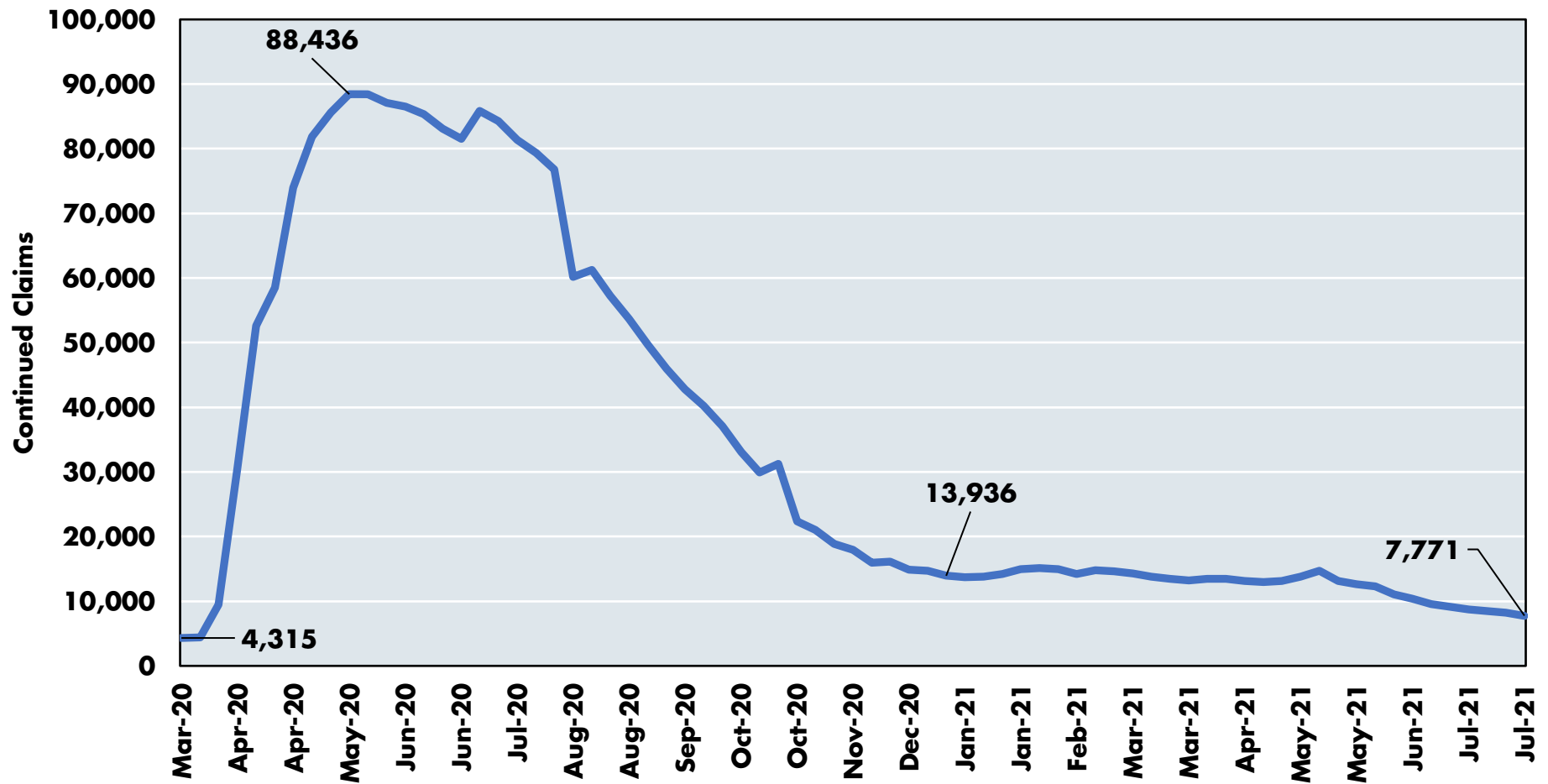
MONTHLY INITIAL UNEMPLOYMENT CLAIMS:
HAMPTON ROADS, JANUARY 2019-JUNE 2021



Sources: Virginia Employment Commission and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are not seasonally adjusted and do not include PUA and PEUC claims.

GRAPH 9

CONTINUED UNEMPLOYMENT CLAIMS:
HAMPTON ROADS, WEEK ENDING MARCH 14, 2020-JULY 31, 2021



Sources: Virginia Employment Commission and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are not seasonally adjusted and do not include PUA and PEUC claims.

Will The Lost Jobs Come Back?

In January 2020, there were a record 804,500 jobs in Hampton Roads (Graph 10). Prospects for the region were improving: defense spending was projected to increase, travel and tourism looked forward to another banner year and global trade volumes were expected to recover from the effects of ill-conceived trade conflicts with China and Europe. Three months later, however, employers had cut 1 in 10 jobs in the region as the COVID-19 pandemic continued to extract its economic toll.

Thankfully, the region did not remain at the nadir of job losses for long, but the climb back to the prepandemic peak has been arduous and is not yet complete. By October 2020, almost 65,000 of the lost jobs had returned, but progress has been slow in 2021. From January to June 2021, the region shed jobs while job growth accelerated at the national level. The erosion in payrolls finally halted in June 2020, but the region still remains 42,100 jobs below the peak observed in January 2020.

To understand why, we can gain perspective by diving into the numbers. We ask: Which sectors have grown since 2019 and which have shrunk? We compare the number of jobs from each sector in Hampton Roads to the same month in 2019; otherwise, we might bias our conclusions given the significant declines in nonfarm payrolls in the first half of 2020.

While there were 33,000 fewer jobs in June 2021 than in June 2019, 84.4% (28,100) of the job losses were concentrated in three sectors: leisure and hospitality, education and health services, and local government (Graph 11).

Two of the three sectors, leisure and hospitality and education and health services, should ameliorate the losses in 2021. As domestic travel increases, demand for hotels, restaurants, bars and other leisure and hospitality services will rise. We should observe increased hiring in education and health services

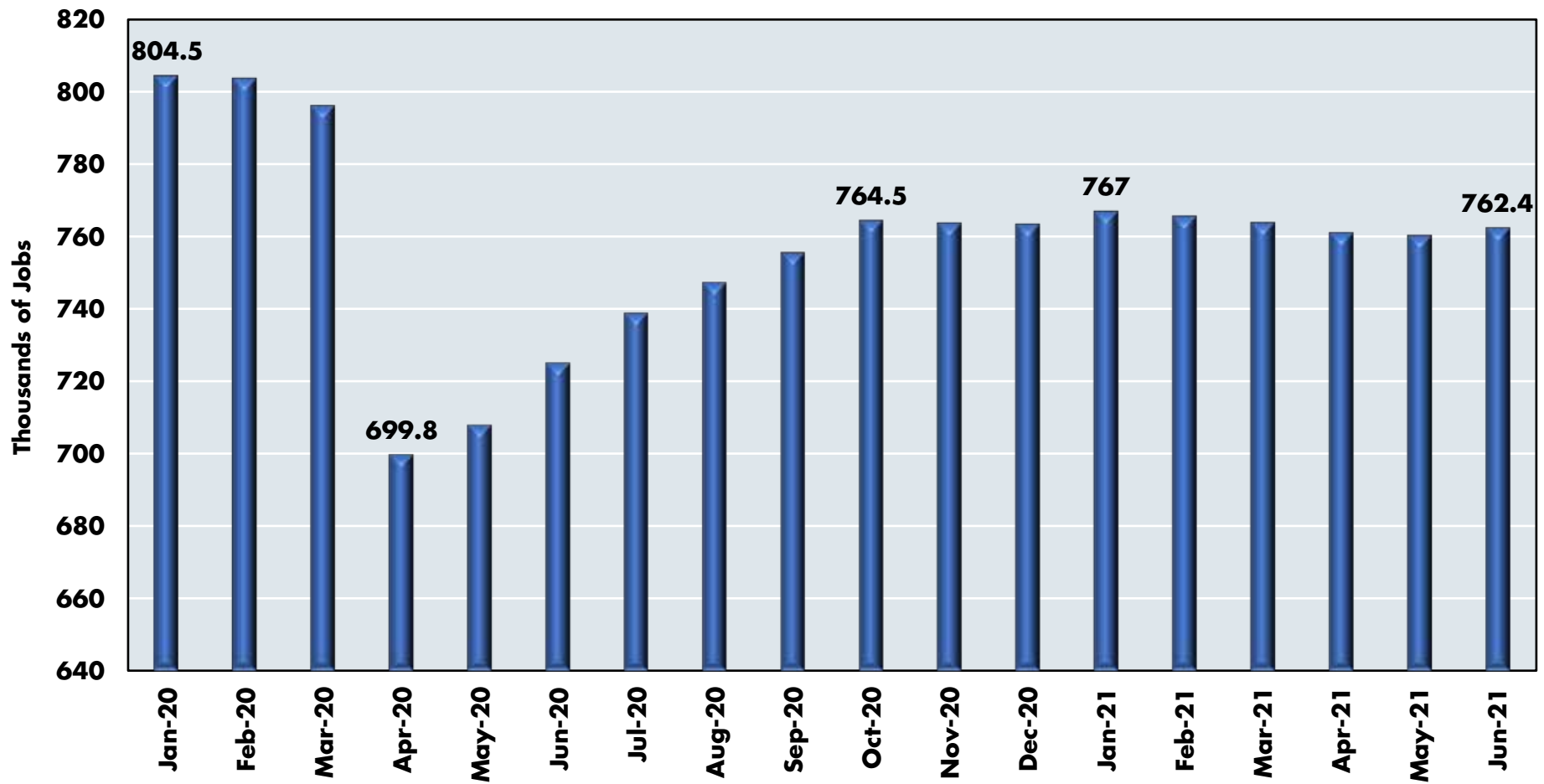
in the second half of 2021 as schools reopen fully and hospitals return to the normal pattern of elective surgeries. While the delta variant may require masking in public schools and hospitals, limiting outbreaks is key to a sustained economic recovery. Local government payrolls may lag other sectors due to the nature of the public budget cycle. Cities and counties typically hold budget meetings in winter and spring and start the new budget year on July 1. There is a lag between improving economic conditions, tax revenues and government hiring.

The open question is whether Hampton Roads will better its record from the previous economic expansion. From February 2010, which represents the trough in nonfarm payrolls following the Great Recession, to the end of the expansion in February 2020, the United States increased nonfarm payrolls by 17.6% (Graph 12). Over the same period, nonfarm payrolls in Hampton Roads increased by 9.5%. At the lowest point of the COVID-19 recession, the U.S. had shed almost all the jobs created over the previous economic expansion. For Hampton Roads, the experience was more traumatic. The region not only shed all the jobs gained over the previous decade, but it bottomed out with 5% fewer jobs than at the worst point following the Great Recession.

It seems that Hampton Roads is playing the same, sad song. While job growth accelerated at the national level, the region (again) fell behind. The Hampton Roads economy may pick up speed in the coming months as travel and tourism and defense spending increase, but the question remains: Have we addressed the causes of our relatively tepid growth in the previous economic expansion, or have we grown increasingly reliant and complacent, ignoring the real possibility that the largess of the federal government could one day come to an end?

GRAPH 10

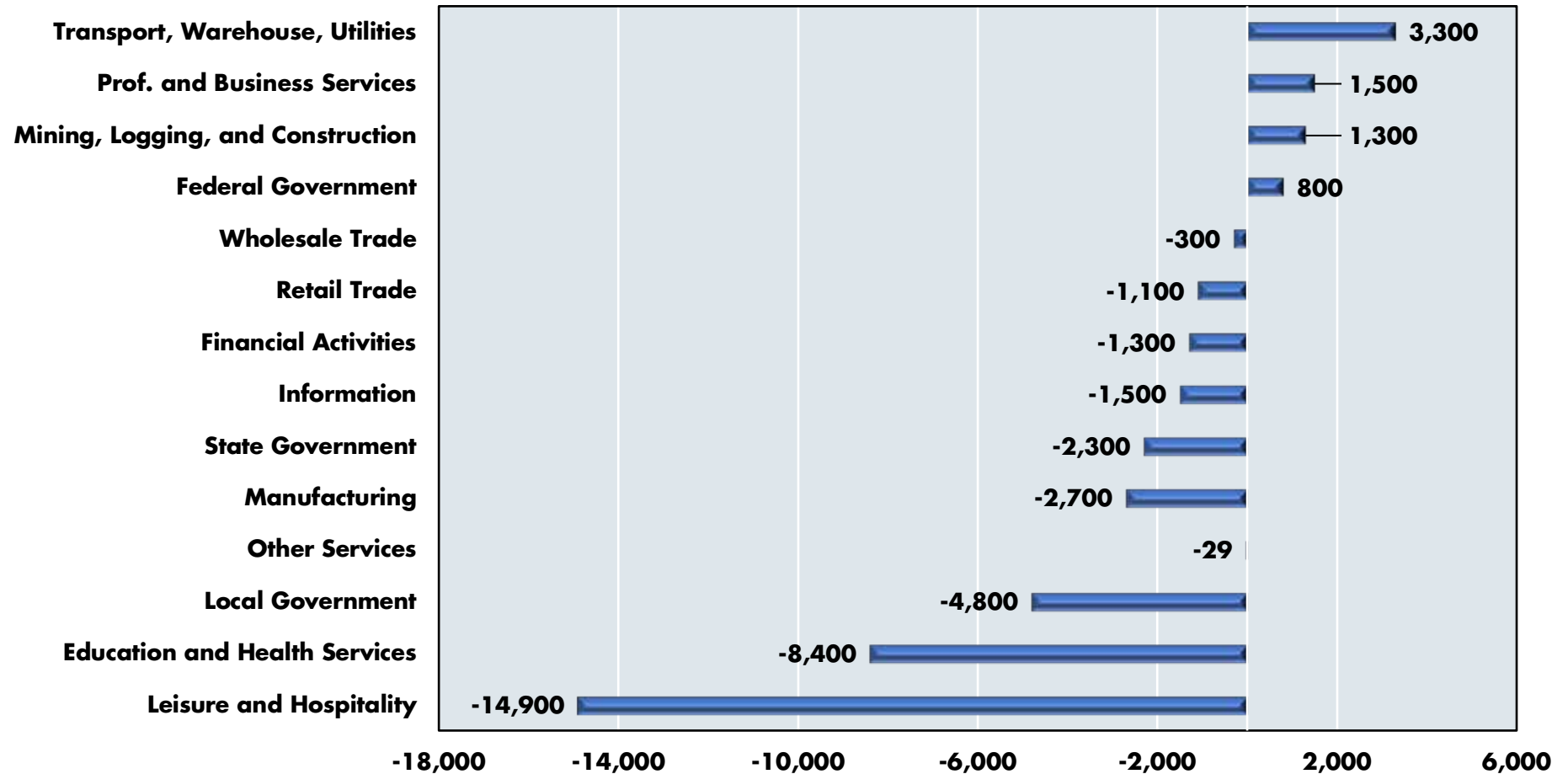
NONFARM PAYROLLS (JOBS) IN HAMPTON ROADS:
JANUARY 2020-JUNE 2021



Sources: Bureau of Labor Statistics and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are seasonally adjusted.

GRAPH 11

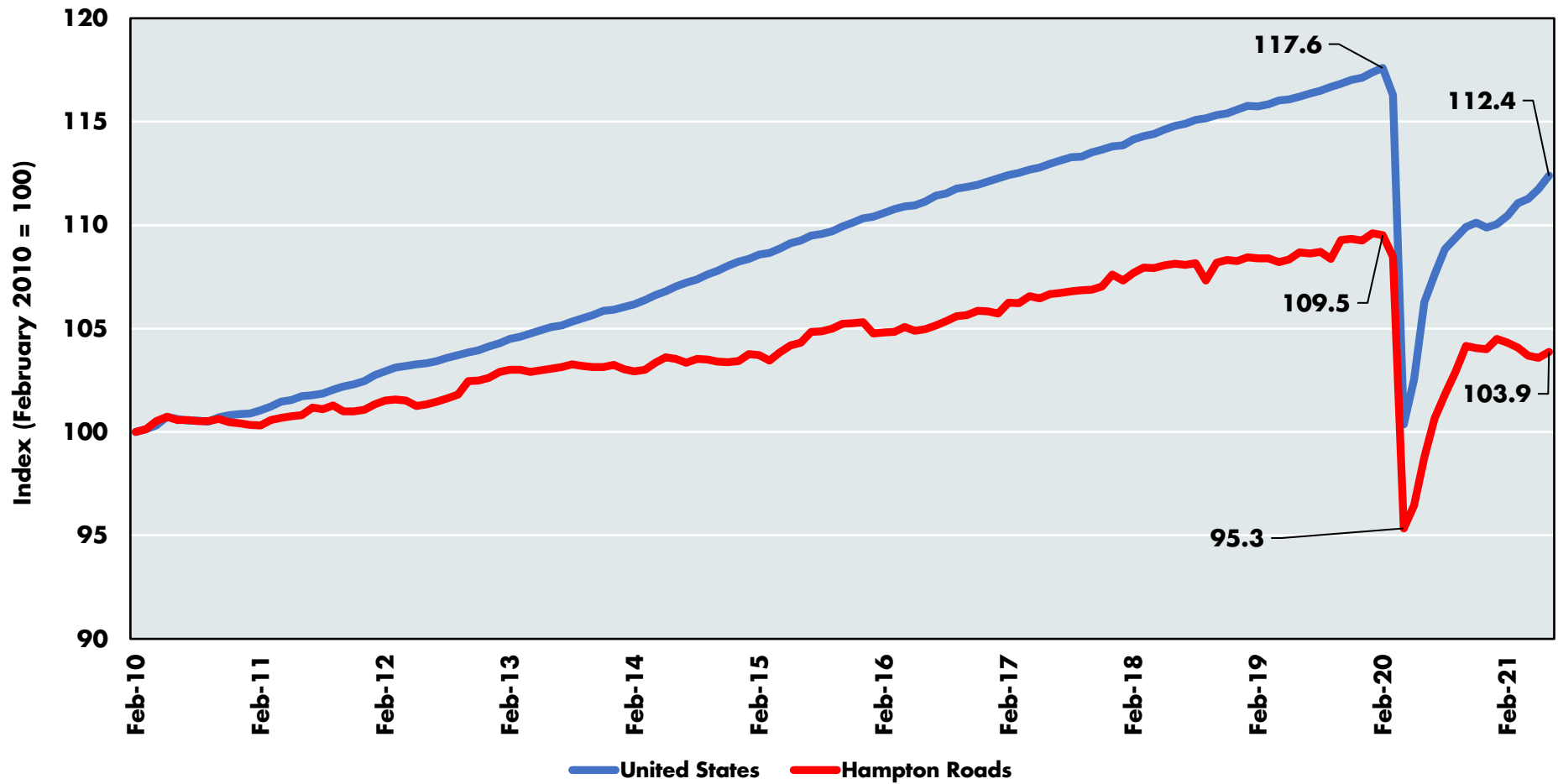
CHANGE IN NONFARM PAYROLLS (JOBS) IN HAMPTON ROADS:
JUNE 2019-JUNE 2021



Sources: Bureau of Labor Statistics and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are nonseasonally adjusted.

GRAPH 12

CUMULATIVE GROWTH IN NONFARM PAYROLLS (JOBS):
HAMPTON ROADS, FEBRUARY 2010-JUNE 2021



Sources: U.S. Bureau of Labor Statistics and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are seasonally adjusted. The trough in nonfarm payrolls following the Great Recession was February 2010.

Can Hampton Roads Rely On Defense Spending?

In an age when investors jump into “meme stocks” like GameStop and AMC or invest in cryptocurrencies like Bitcoin and Dogecoin, the idiom that one should not put all their eggs in one basket continues to apply. While we may read about the lucky investor who can now retire thanks to a fortuitous investment (gamble) in GameStop, we cannot forget that there are two sides to every trade. When fortunes turn, those who bet their life savings on an unlikely stock or cleverly named cryptocurrency can suddenly find themselves adrift.

The Department of Defense (DOD) has fueled the Hampton Roads economy for decades. As illustrated in Graph 13, from 2000 to 2008, DOD spending in the region increased by almost 73%. It should be no surprise that economic activity flourished during this period. When the Budget Control Act of 2011 and subsequent modifications moderated the growth in defense spending, however, our economy faltered. In the latter half of the last decade, Congress lifted and finally eliminated the discretionary spending caps that constrained the DOD base budget. Concurrently, direct DOD spending in the region increased, powering economic activity and job growth.

We estimate that direct DOD spending in Hampton Roads will reach almost \$25 billion in 2021. If one includes the ripple effects of this spending, 4 of every 10 dollars spent in Hampton Roads can be traced back to the DOD. It should be no surprise that defense spending is one of the pillars (if not the central pillar) of the regional economy.

President Joe Biden proposed a base DOD budget of \$715 billion for FY 2022, a 1.6% increase from FY 2021 (Graph 14).⁴ In inflation-adjusted terms, this represents a real decline in the DOD base budget, and that assumes this modest nominal increase makes it past opposition from some in the president’s own party in Congress.

⁴ We note that the DOD now presents the base budget as the combination of what used to be the base budget and the overseas contingency operations (OCO) budgets.

The Office of Management and Budget (OMB) projects the DOD budget will grow at (or more likely below) the rate of inflation for the next five years. After several years of increasing budgets, the base budget is flat in real terms, and it is likely that future direct spending in Hampton Roads will remain near FY 2022 levels as a result.

Even the relatively modest increases in the DOD budget in the coming years could well be constrained by the unbridled spending habits of Congress and the president. The last time the federal government ran a surplus was FY 2000, and that was quickly undone by tax cuts in 2001 and 2003, as well as the fiscal impact of wars in Iraq and Afghanistan (Graph 15). After the fiscal response to the Great Recession, budget discipline (to some extent) and economic growth reduced the deficit to \$442 billion in FY 2015. By FY 2019, the deficit had reached \$984 billion as the Tax Cuts and Jobs Act of 2017 reduced revenue growth, and the discretionary spending caps were abandoned. The fiscal response to the COVID-19 pandemic was relatively swift and large in magnitude and likely staved off an ever-greater economic shock. However, the deficit rocketed to \$3.1 trillion in FY 2020. While the federal deficit may also approach \$3 trillion in FY 2021, the passage of a large infrastructure bill and proposed increases in nondefense discretionary spending would certainly yield higher deficits in the future.

While we cannot say for certain when markets will demand higher rates of return for U.S. treasuries, we do know that the federal debt exceeded 100% of U.S. gross domestic product in FY 2020. Even if we exclude holdings of the Federal Reserve, the federal government owes the public \$17 trillion. By mid-decade, this debt will certainly top \$20 trillion. At some point, the butcher’s bill will come due, and when it does, the federal government will find itself having to raise taxes and cut expenditures. The DOD, as the largest discretionary program in the federal government, is an obvious target in such a scenario.

GRAPH 13

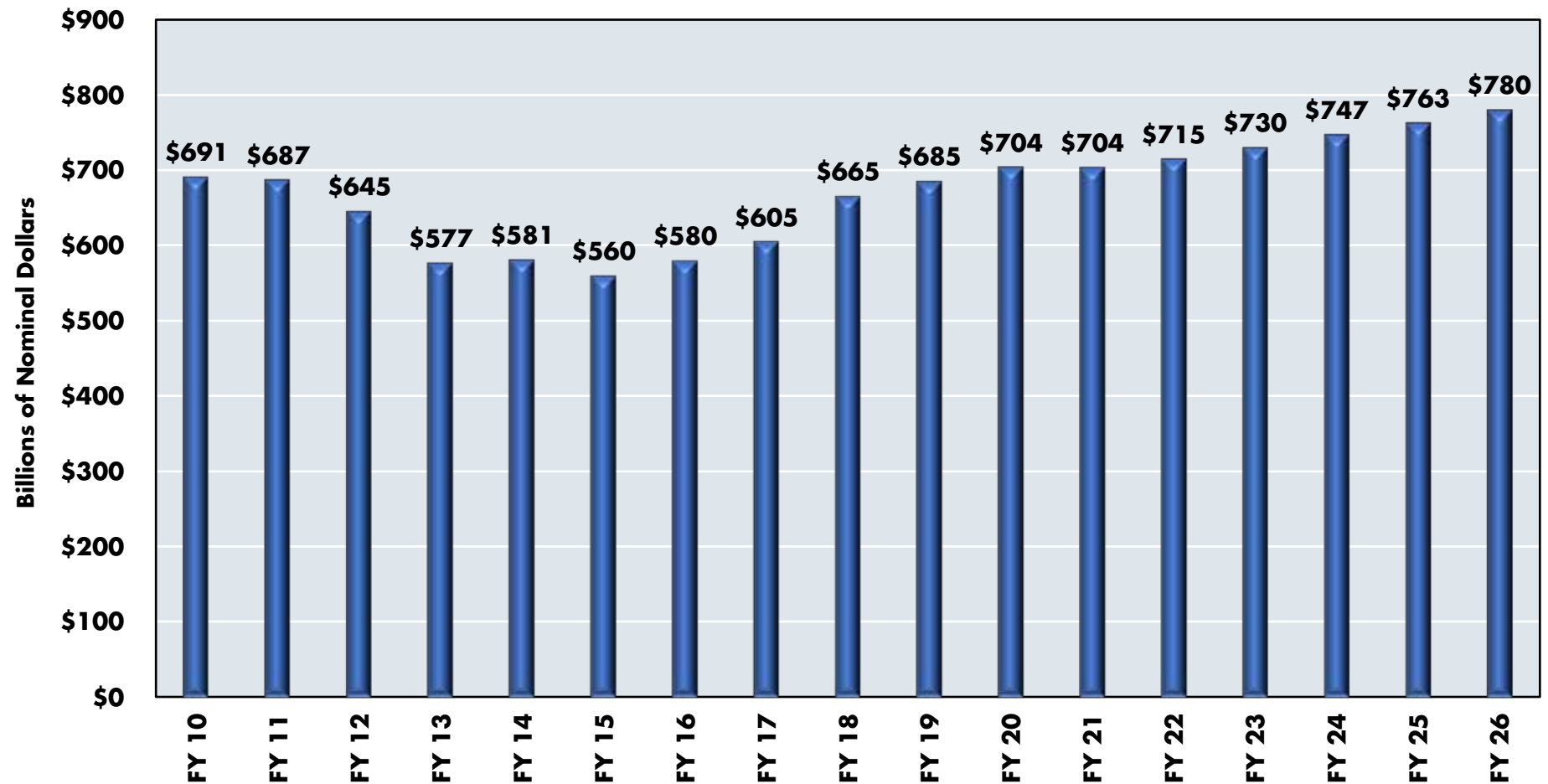
ESTIMATED DIRECT DEPARTMENT OF DEFENSE SPENDING IN HAMPTON ROADS,
2000-2021



Sources: Department of Defense and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Includes federal civilian and military personnel and procurement. Data for 2020 and 2021 are estimates. Last updated on Dec. 19, 2020. Procurement data updated on May 18, 2021.

GRAPH 14

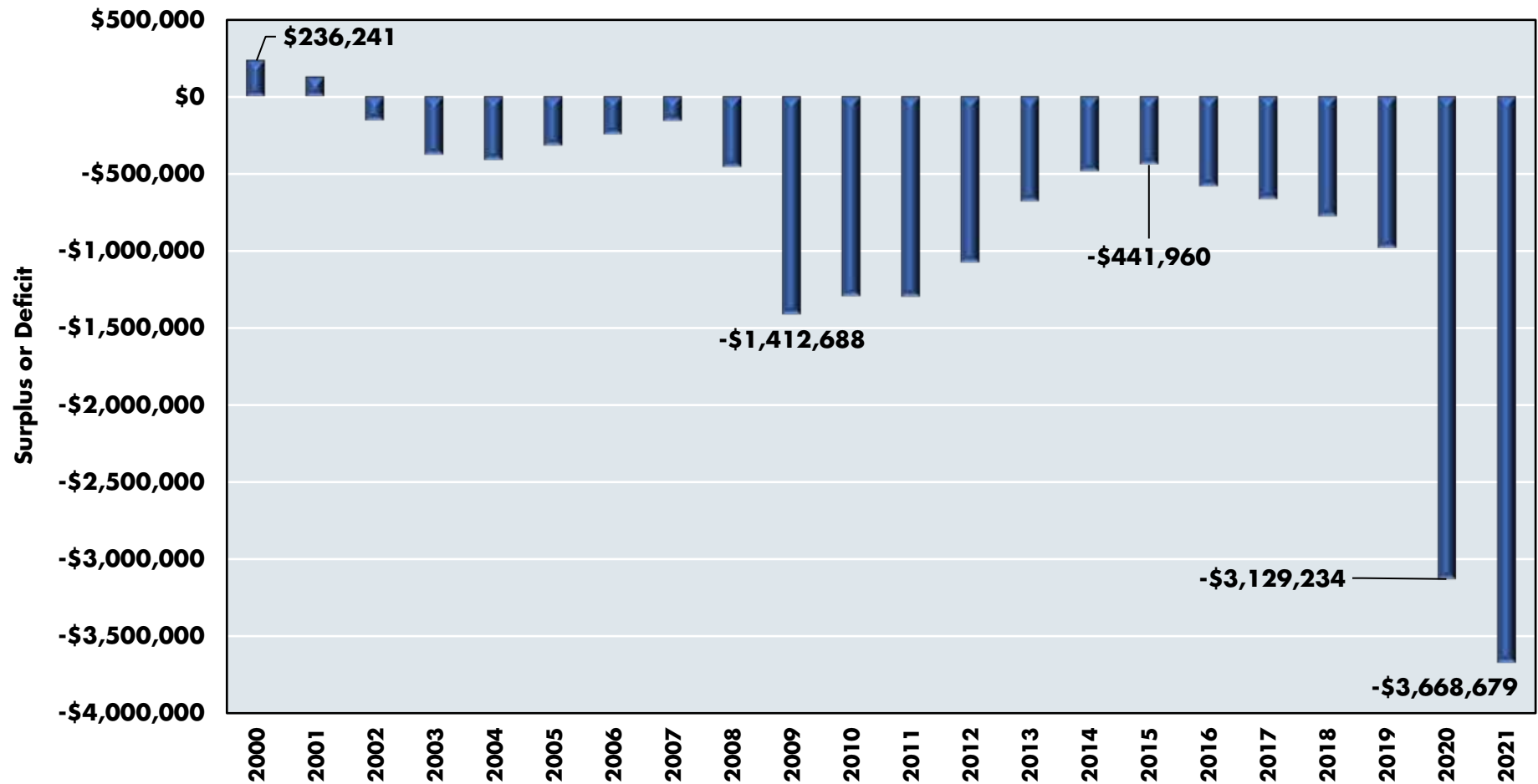
**DEPARTMENT OF DEFENSE DISCRETIONARY BUDGET AUTHORITY,
FISCAL YEAR 2010-FISCAL YEAR 2026***



Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University; Office of Management and Budget FY 2022 Presidential Budget (Table 20-1 Policy); and Office of the Secretary of Defense (Comptroller) Department of Defense Fiscal Year 2022 Budget Request (May 2021). The FY 2022 budget presentation includes overseas contingency operations (OCO) in the DOD base budget. For backwards comparison, we present the DOD base as the sum of base funding and OCO funding. Does not include emergency budget authority. *FY 2022 to FY 2026 data are projections.

GRAPH 15

FEDERAL BUDGET SURPLUS OR DEFICIT IN MILLIONS OF NOMINAL DOLLARS,
FISCAL YEAR 2000-FISCAL YEAR 2021



Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University, and Office of Management and Budget FY 2022 Presidential Budget (Table 1.1 – Summary of Receipts, Outlays, and Surpluses or Deficits: 1789 - 2026). Estimated deficit for FY 2021.

Cybersecurity And Budgets: Two Immediate Challenges

Even if the Department of Defense budget remains constant in real terms, there are strategic challenges that, if left unaddressed, will lead to unacceptable levels of risk. The ransomware infection of Colonial Pipeline on May 7, 2021, illustrated the vulnerability of critical infrastructure to cyberattack. The U.S. military is increasingly reliant on networked systems to achieve battlefield superiority – networks that may be vulnerable to intrusion and attack. Even if the military networks are secure, if hackers were to attack civilian firms that supply the DOD, could the U.S. military be rendered impotent and find itself unable to fight protracted battles? Without aggressive investments in offensive and defensive cyber capabilities, the nation and its armed forces will remain vulnerable to cyberattack.

A more immediate challenge that hits closer to home is the rising cost of weapons systems. The Congressional Research Service noted that the estimated procurement costs of the Ford-class carriers remain an area of concern. Relative to the procurement costs of the FY 2008 budget, the estimated procurement costs of nuclear aircraft carriers CVN 78, CVN 79 and CVN 80 have grown 27%, 29.8% and 15.8%, respectively.⁵ Even if the carriers represent a significant leap in capabilities, can the U.S. Navy afford to put these multibillion-dollar assets at risk in the South China Sea or Persian Gulf? Or will it have to surround these carriers with an increasing number of other ships and submarines to lower vulnerability?

The Navy is not the only military service with programs that have run over schedule and budget. For the Air Force, the F-35 program's lifecycle program cost is likely to exceed \$1.7 trillion.⁶ Also, the Air Force's KC-46 tanker is restricted in the operations it can perform, has cost Boeing \$5 billion in unanticipated fixes and was characterized as a \$226 million "lemon" by Rep. Rob Wittman, R-Virginia, in a June 2021 Armed Services Committee hearing.⁷

5 Congressional Research Service, "Navy Ford (CVN-78) Class Aircraft Carrier Program: Background and Issues for Congress," June 7, 2021.

6 <https://www.stripes.com/news/us/pentagon-reportedly-estimates-that-the-f-35-budget-plan-is-running-10-billion-short-through-2025-1.644700>.

7 <https://www.defensenews.com/air/2021/06/17/more-cost-overruns-are-coming-down-the-line-for-boeing-as-the-kc-46-program-logs-another-two-technical-deficiencies/>.

Cost and schedule overruns impact current and future capabilities. To pay for modernization efforts, the Marine Corps is planning to eliminate tanks, nine helicopter squadrons, three infantry battalions and three military police battalions, among others. The Army has come to a similar realization that it can either increase end strength or modernize the force, but not both.

In its FY 2022 budget proposal, the Air Force proposed cutting 200 aircraft from the current fleet to redirect resources to research and development.⁸

The Battlefield Is Changing: Can The DOD Respond?

U.S. forces have long enjoyed air superiority on the battlefield. Air superiority not only allows soldiers to maneuver without fear of reprisal, but it also provides them the security to build large bases and operate sophisticated supply chains, as well as the luxury of planning when and where to strike the enemy. The Gulf War of 1991 illustrated how air superiority and the ability to maneuver ground forces in secret can create significant tactical advantage. While Iraqi forces hunkered down in Kuwait anticipating an amphibious invasion, the coalition forces used airpower to help ground forces "swing around" Iraqi defense in Kuwait (see photo on page 28).

The 2nd Armored Cavalry Regiment (2nd ACR) provided the punch to the campaign against Iraqi forces. During an 82-hour span, the 2nd ACR moved 120 miles and engaged elements of five different Iraqi divisions. At the Battle of 73 Easting on Feb. 26, 1991, the 2nd ACR fought alongside the 1st Infantry Division's (1st ID) two leading brigades against elements of the Iraqi 12th Armored Division and the Tawakalna Division of the Iraqi Republican Guard. Even though the U.S. forces were outnumbered, the 2nd ACR and 1st ID destroyed 160 tanks, 180 personnel carriers, 12 artillery pieces and more than 80 wheeled vehicles, effectively wiping out several Iraqi brigades.

8 <https://www.msn.com/en-us/news/us/the-commandant-of-the-marine-corps-is-charging-into-the-future-but-some-arent-ready-for-change/ar-AAmpBsS>.



M-1A1 ABRAMS FROM THE 3RD ARMORED DIVISION: OPERATION DESERT STORM, 1991.
U.S. NATIONAL ARCHIVES

The Battle of 73 Easting may well have been the last time that U.S. forces fight a major tank-on-tank battle. The Gulf War demonstrated the foolishness of engaging the U.S. military in force-on-force combat. While the U.S. continued to wield advanced weaponry on the battlefields of Iraq and Afghanistan into this century, the enemy had learned that direct engagement was an unwise, if not deadly, decision. During these conflicts, our forces found themselves engaged in a low-intensity conflict where the enemy often used cheap improvised explosive devices (IEDs) to counter the technological advantages of the U.S. military.

A seismic shift is now underway on the modern battlefield. In the fall of 2020, Armenia and Azerbaijan engaged in an armed conflict over the territory of Nagorno-Karabakh. What differentiated this conflict was Azerbaijan's heavy use of drones against Armenian forces (see photo below). The Azerbaijanis procured drones from Israel and Turkey and also converted older manned aircraft to unmanned aircraft. This drone-centric strategy included the use of "kamikaze drones," which dove into targets with an explosive load. These drone strikes inflicted serious losses among Armenian tanks, artillery,

air defense systems and military personnel. The widespread use of drones allowed Azerbaijan to attack Armenia's command and control and supply elements, which were positioned behind the front lines. Armenian forces found themselves unable to resupply, limited in maneuver and exposed to attacks on a constant basis. Azerbaijani forces secured a decisive victory, in part due to the widespread use of unmanned aircraft.

The list of countries and nonstate actors using drones continues to grow, increasing the threat to U.S. forces around the globe. The Iranian Revolutionary Guard aptly demonstrated this potential threat when it claimed it had overflown the USS Nimitz with an unmanned aircraft as it passed through the Strait of Hormuz in 2020 (see photo on page 29).⁹ It's not much of a leap to envision a future where the battlefield is dominated by unmanned aircraft and vehicles, and large manned platforms represent targets of opportunity.



AZERBAIJAN DRONE STRIKE ON AN ARMENIAN TANK. AZERBAIJAN MINISTRY OF DEFENSE, SEPTEMBER 2020. [HTTPS://WWW.YOUTUBE.COM/WATCH?V=0Y7IUN8UQ-U](https://www.youtube.com/watch?v=0Y7IUN8UQ-U)

⁹ <https://www.express.co.uk/news/world/1426268/World-War-3-fears-iran-drone-footage-aircraft-carrier-US-warship-video-vn>.



IRANIAN REVOLUTIONARY GUARD DRONE PHOTO OF THE USS NIMITZ, JULY 2020. [HTTPS://WWW.THEGUARDIAN.COM/WORLD/2020/SEP/23/IRAN-DRONE-US-AIRCRAFT-CARRIER-REPORT](https://www.theguardian.com/world/2020/sep/23/iran-drone-us-aircraft-carrier-report)

The U.S. military is facing asymmetries in warfare and cost structure. Tanks and armored personnel carriers require long supply chains and are vulnerable to IEDs and drone attacks. The F-35 costs \$36,000 an hour to operate and requires sophisticated supply chains, as well as large air bases. The Navy's carriers are increasingly expensive to procure, test and, eventually, operate at sea. The Air Force's MQ-9 Reaper drone is more capable than the Turkish Bayraktar TB2 (used by an increasing number of countries) but is also estimated to be six times more expensive than the Turkish drone.

While history generally does not repeat, when it comes to weapons systems, the current U.S. warfare strategy echoes that of battleship-centric countries after World War I. Once considered crucial to naval power, battleships were soon outdated due to the rise of naval aviation. Innovation diminished the utility of these large warships; the last one commissioned by the United States was the USS Missouri in 1944. By 1960, the last battleship ever built, the HMS Vanguard, was sold for scrap.

Hampton Roads has long built and maintained large ships and submarines, platforms that are increasingly vulnerable to the cybersecurity and drone revolutions on the modern battlefield. As costs rise, the DOD is faced with the choice of maintaining current weapons systems or investing in modernization efforts. Currently, many of our "new" weapons programs are evolutions of existing platforms: a newer carrier, submarine, fighter aircraft, bomber or wheeled vehicle.

We are at an inflection point in military affairs. Unmanned combat aircraft will be followed by unmanned ships and submarines. The Turkish Bayraktar TB2 can loiter above the battlefield for 27 hours without refueling and at a fraction of the cost of a manned aircraft. The DOD, at some point, will have to pivot toward newer weapons systems that are cheaper, quicker to build and more autonomous. When this happens, our military services will need fewer soldiers, sailors, airmen and Marines. Instead of an aircraft carrier with 5,000 sailors, imagine a drone cargo carrier with hundreds of unmanned (and expendable) aircraft and only hundreds of sailors. Hampton Roads would not fare well in such a transition.

Change is coming. It may not be today or tomorrow, but within years the force structure of the U.S. military will need to adapt to the advances in technology or have change forced upon it on a future battlefield. The question for us in Hampton Roads is whether we will realize early enough that diversification of the economic base is no longer a luxury but a necessity for the continued vitality of the region.

Home Is Where The Heart Is (If You Can Afford It)

Five years ago, the tale of the Hampton Roads real estate market was spun around the lasting impact of the Great Recession. Foreclosures continued to retard growth in single-family home prices, and while sales of previously owned homes were increasing, there was nostalgia for the “good years” prior to the recession. The onset of the pandemic brought a measure of worry, but this was quickly set aside as sales and valuations continued to increase in 2020. Now, with 2021 drawing to a close, the losses of the Great Recession have been cast aside as the housing market continues to surge to new heights.

Graph 16 illustrates the seasonal nature of the Hampton Roads housing market and the transitory impact of the COVID-19 economic shock. Sales of existing single-family homes increased from 2,810 in July 2019 to 3,175 in July 2020, a jump of 13%. In 2021, sales continued to bound upward, with the number of homes sold rising by 30.6% from April 2020 to April 2021, 38.2% from May 2020 to May 2021 and 28.9% from June 2020 to June 2021. There were numerous reports of sellers receiving multiple offers above the asking price and entering into sales contracts within days of listing their homes.

There are, as economists are fond of saying, two sides of a market. Low interest rates, coupled with a K-shaped economic shock that left salaried workers largely unaffected, meant that demand for single-family homes continued to rise during a global pandemic. On the other hand, the supply side of the housing market contracted as the inventory of homes for sale fell precipitously in 2020 and into 2021 (Graph 17). The inventory of existing homes declined by more than half (53.5%) between June 2019 and June 2021. Falling inventories were largely due to brisk sales relative to new listings coming on the market. With demand increasing and supply falling, there was only one direction for median housing prices to go, and that was up.

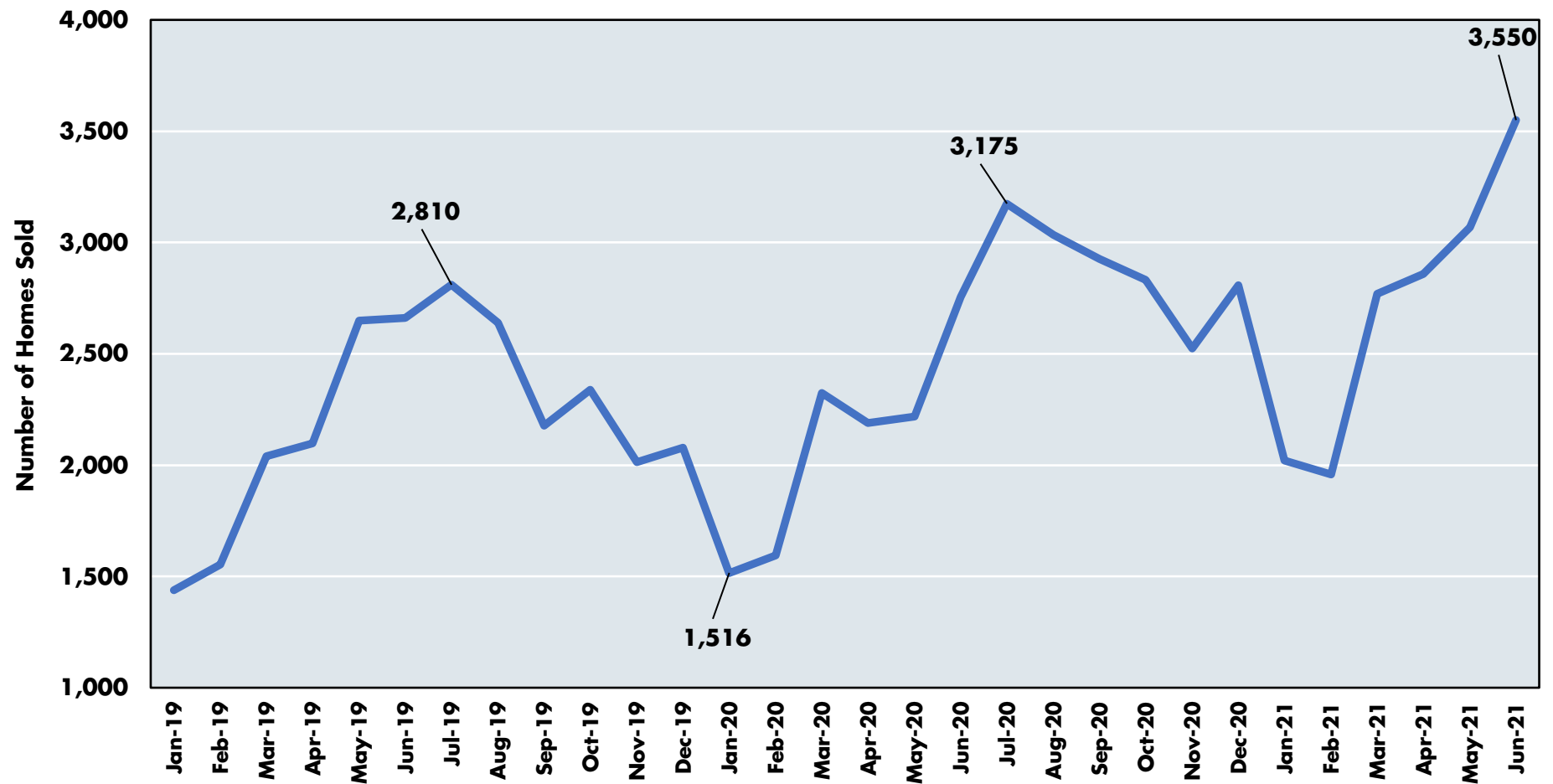
As shown in Graph 18, the median sales price climbed from \$237,300 (June 2018) to \$245,000 (June 2019) to \$254,900 (June 2020) to \$289,900 (June 2021). We remind the reader that Hampton Roads was just emerging from the trough of the pandemic shock in May 2020, yet the real estate market barely seemed to notice the economic turmoil. The first half of 2021 was a seller’s market, with prices climbing through the spring and into summer.

While the real estate market has been, to borrow a term from ESPN, “en fuego” for the last three years, we must also avoid recency bias. We need only return to 2007, when real estate and equities were a “sure thing” and one could “never lose.” Rising inflation and deficits will likely lead to increasing interest rates sooner rather than later. As capital becomes more expensive, the market for homes will cool and the rapid gains of recent times will retreat into memory. It may be time to be more, rather than less, cautious about how the real estate market will perform over the coming 24 months.



GRAPH 16

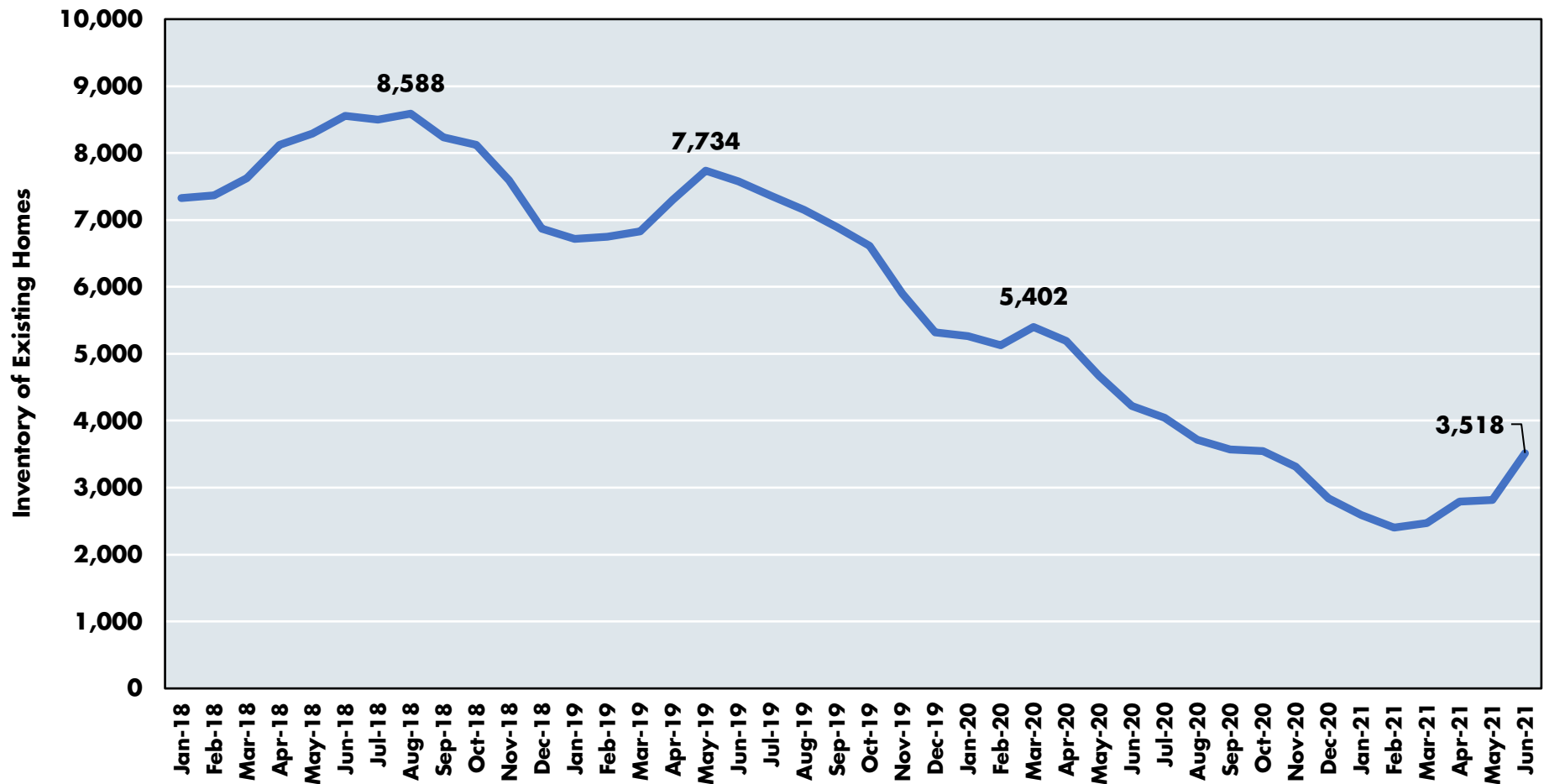
**NUMBER OF EXISTING SINGLE-FAMILY HOMES SOLD:
HAMPTON ROADS, JANUARY 2019-JUNE 2021**



Sources: Real Estate Information Network and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are not seasonally adjusted.

GRAPH 17

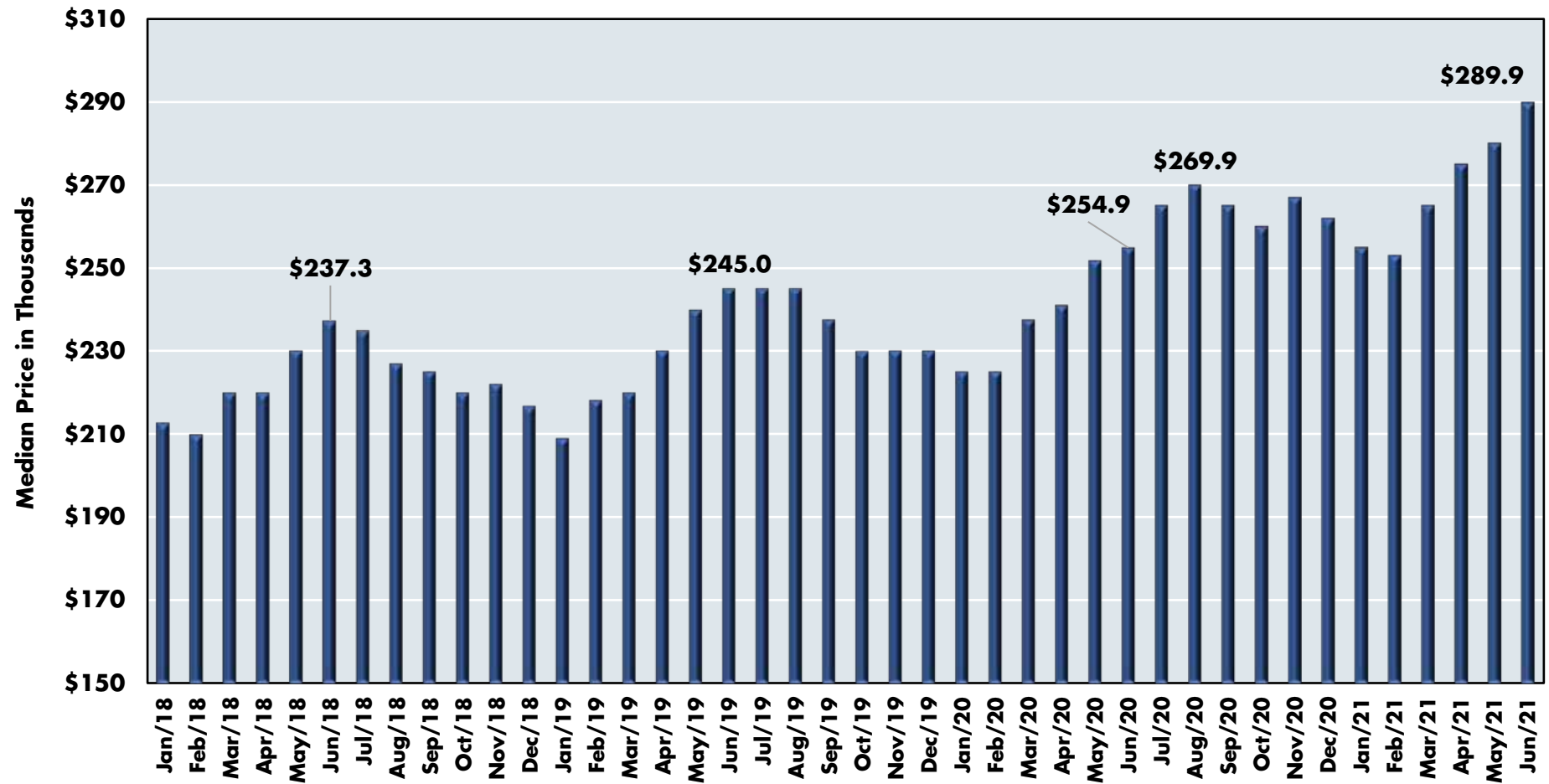
INVENTORY OF EXISTING SINGLE-FAMILY RESIDENTIAL HOMES:
HAMPTON ROADS, JANUARY 2018-JUNE 2021



Sources: Real Estate Information Network and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are not seasonally adjusted.

GRAPH 18

**MEDIAN PRICE OF EXISTING SINGLE-FAMILY HOMES SOLD:
HAMPTON ROADS, JANUARY 2018-JUNE 2021**



Sources: Real Estate Information Network and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are not seasonally adjusted.

The Port: Fair Winds But Troubled Seas

The Port of Virginia's performance over the last decade illustrates the importance of effective management even as the Port struggled to retain market share. A return to profitability and increasing levels of cargo traffic boded well for the Port prior to the pandemic. The Port was not without challenges, however, as the Trump administration's ill-advised trade conflicts undermined trade with China and Europe. At the start of 2020, even with these challenges, the Port could look forward to another year of growth.

By May 2020, however, traffic at the Port of Virginia had plummeted, with loaded 20-foot equivalent container units (TEUs) falling 23% from May 2019 (Graph 19). Yet, the Port proved markedly resilient. By September 2020, loaded TEU traffic had eclipsed 2019 levels, and approximately 24,000 more TEUs crossed through the Port in December 2020 than December 2019. Loaded TEU flows through the Port continued to increase in 2021, and it set a record for total loaded TEUs in May 2021. Empty TEUs (which are, as the name suggests, empty) also set a record in May 2021, as these containers were shipped from the Port to other locations.

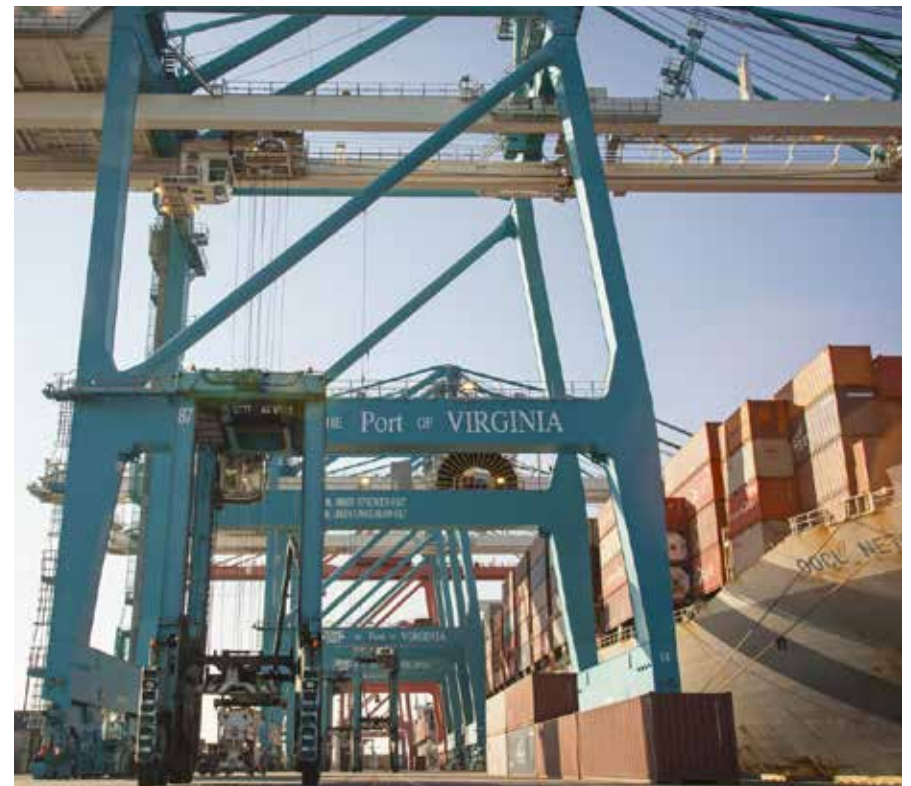
Import and export loaded TEU flows have increased in 2021 (Graph 20). Compared to May 2019, loaded TEU export traffic in May 2021 increased by 13.2%. Loaded TEU import flows, on the other hand, increased by 21.2% from May 2019 to May 2021. The sustained increases in imports are another signal of the ongoing economic recovery in the United States, as American consumers' demand for imported goods continues to increase.

Graph 21 displays the share of total loaded TEUs for four major East Coast ports from 2006 to 2021. Two phenomena are readily observable: the rise of the Port of Savannah and the relative decline of the Port of New York/New Jersey. As for the Port of Virginia, its market share in 2020 was the same as it was in 2011; the Port's market share has varied somewhat year to year, but it has not managed to grab a larger share of the market over time.

This is the challenge the Port must address in the coming years, since its competitors are not standing still.

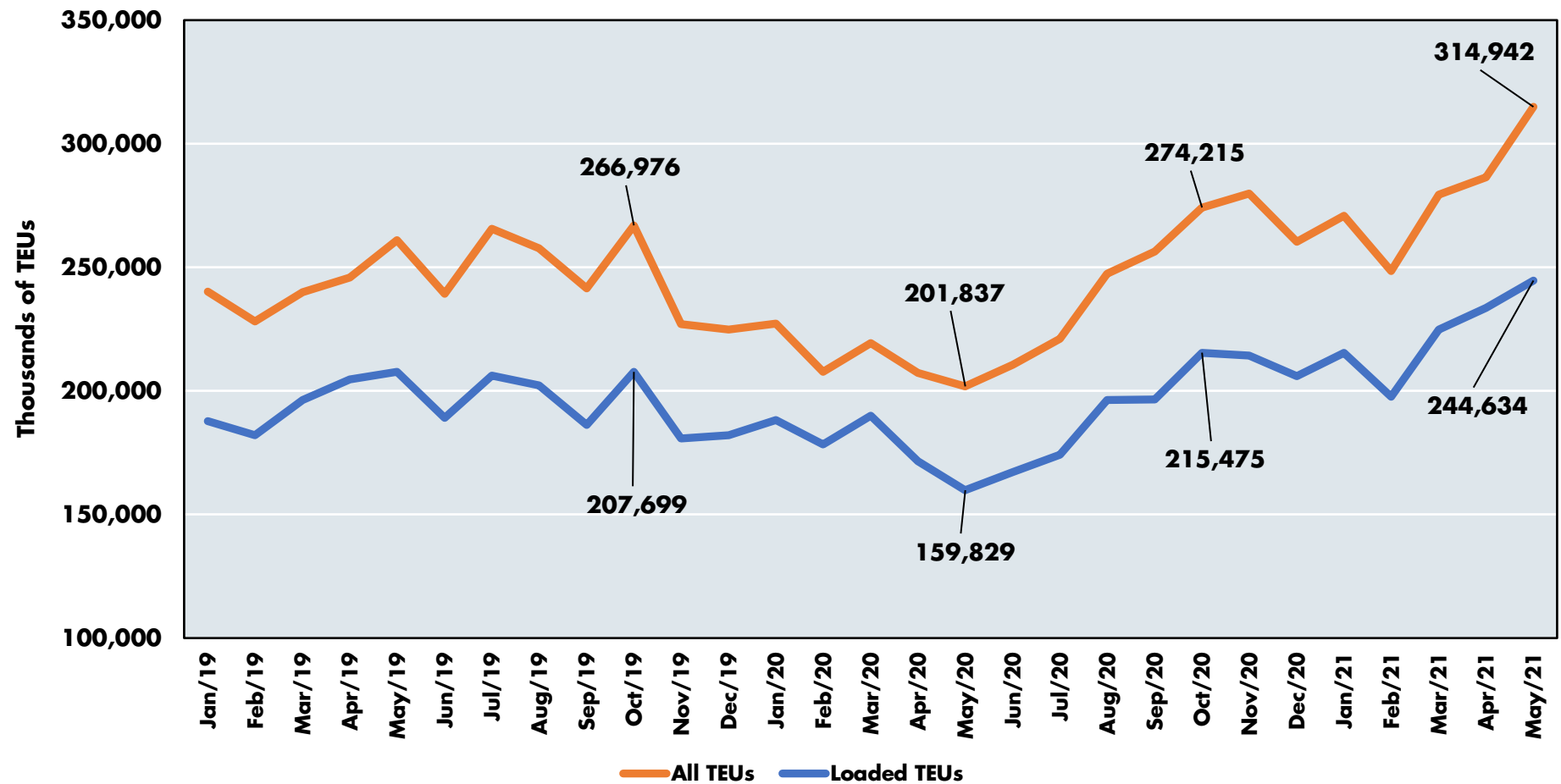
To its credit, the Port of Virginia has invested in facilities and technology to handle more cargo. The Commonwealth and the federal government are putting money into dredging the port channel to accommodate more traffic. These efforts are indeed laudable. Improving the infrastructure in and surrounding the Port is crucial to attracting cargo traffic.

Undoubtedly, the Port of Virginia provides fuel for the region's economic engine. The challenge now facing the Port is to ward off the rise of competitors and to gain and sustain market share. What is beyond the Port's control is whether economic activity in Virginia and surrounding states will be sufficiently robust to enable it to achieve this goal.



GRAPH 19

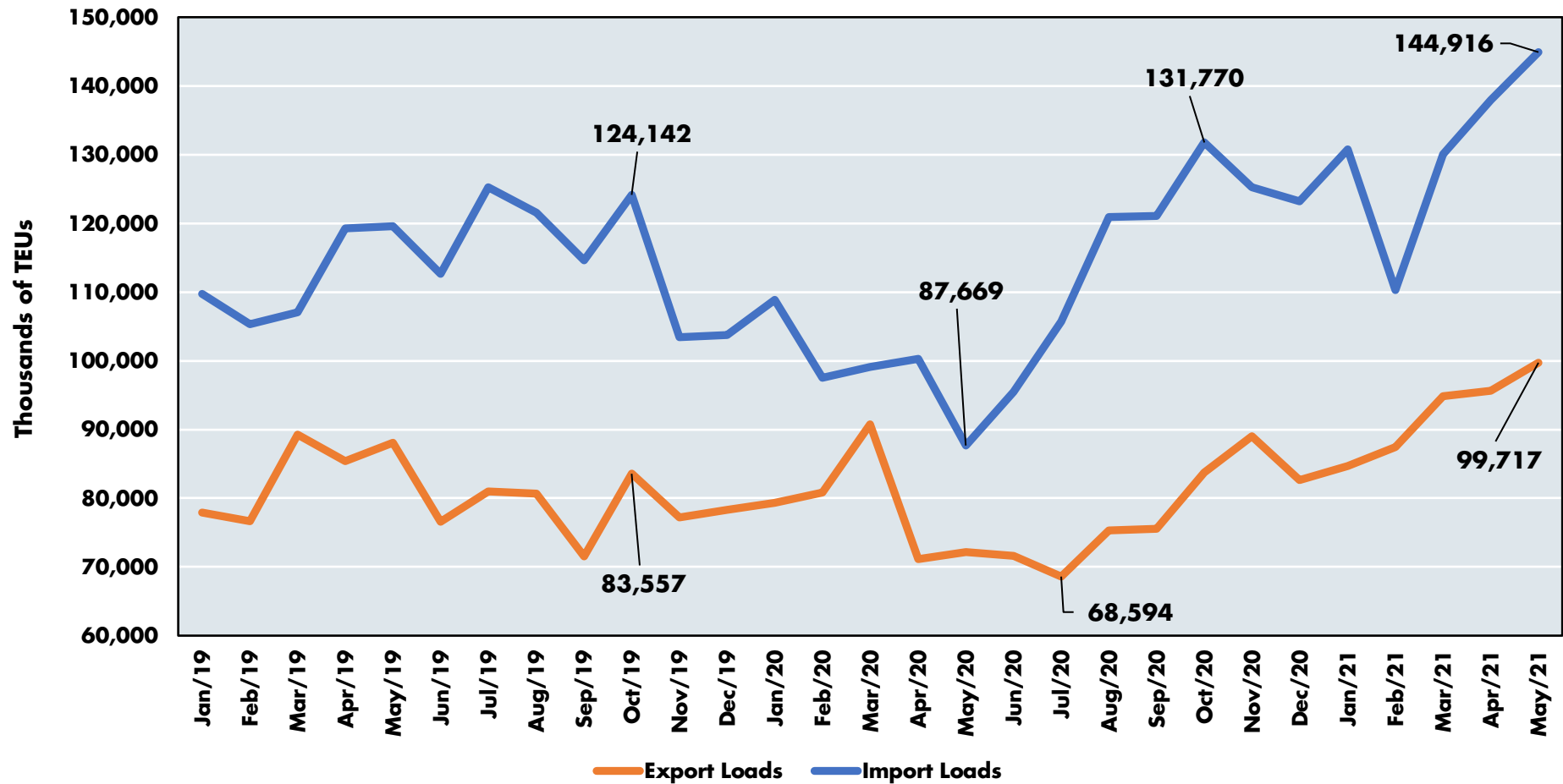
TOTAL AND LOADED 20-FOOT EQUIVALENT CONTAINER UNITS (TEUS):
PORT OF VIRGINIA, JANUARY 2019-MAY 2021



Sources: Virginia Port Authority and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are not seasonally adjusted.

GRAPH 20

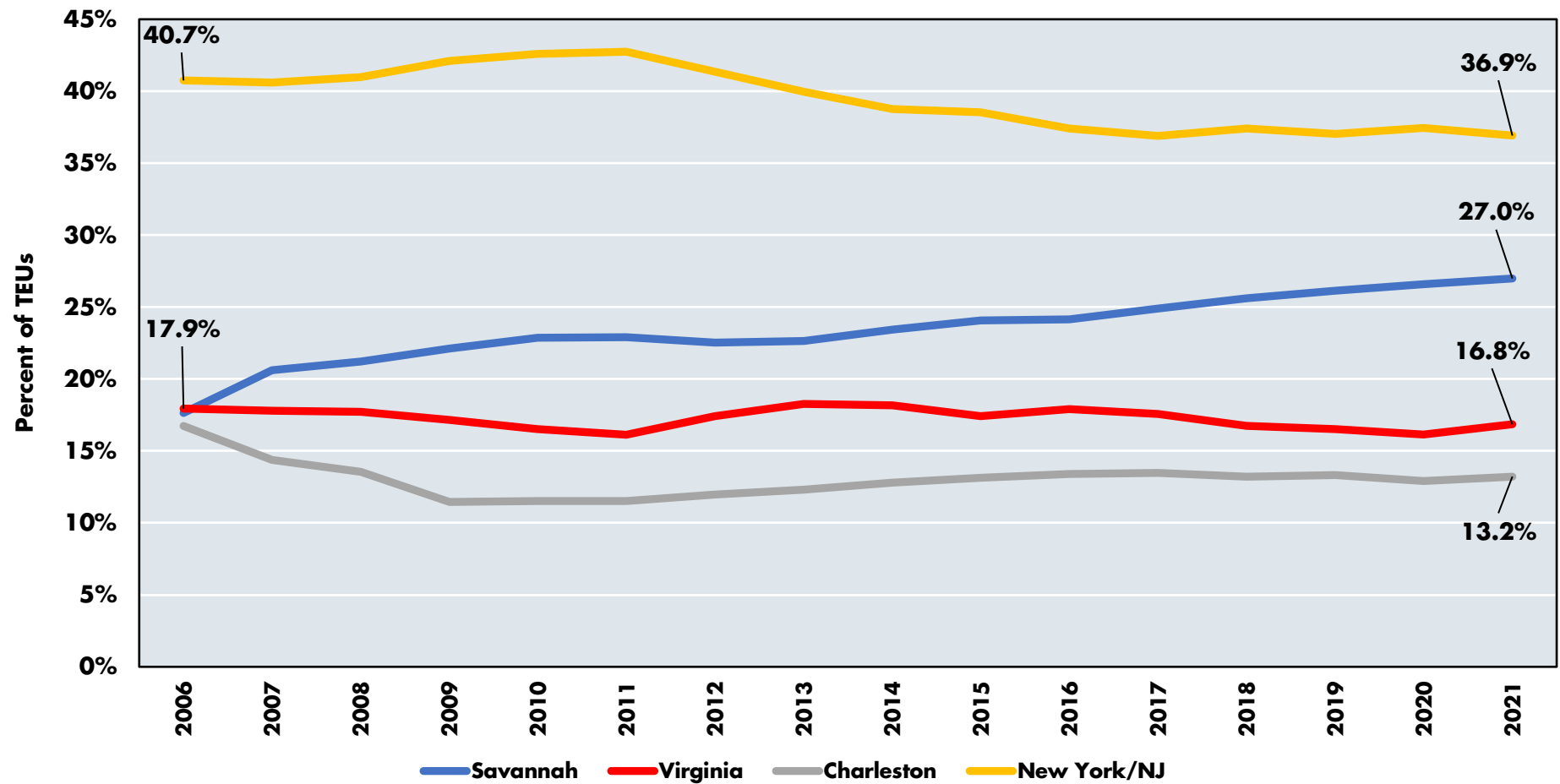
EXPORT AND IMPORT LOADED 20-FOOT EQUIVALENT CONTAINER UNITS (TEUS):
PORT OF VIRGINIA, JANUARY 2019-MAY 2021



Sources: Virginia Port Authority and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are not seasonally adjusted.

GRAPH 21

SHARE OF TOTAL LOADED TEUS FOR SELECTED EAST COAST PORTS,*
2006-2021



Sources: American Association of Port Authorities, port websites and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Market shares are based on TEUs for Baltimore, Boston, Charleston, Virginia, New York/ New Jersey and Savannah. *Data for 2021 are through April 2021.

A Recession For Some, A Recovery For Others

Much of the economic news in 2021 has been good. Retail sales are up, employers are hiring, unemployment rolls are declining and trade volumes are up. Inflation remains a concern, given the trillions of dollars of fiscal and monetary stimulus pumped into the national economy over the past 18 months. America may be on the road to recovery from the COVID-19 pandemic, but for some, the economic shock continues to linger.

Graph 22 illustrates that the shock in 2020 was concentrated among hourly workers. While average employment for salaried workers dipped nationally by approximately 500,000 from 2019 to 2020, hourly employment declined by 9 million Americans. Among salaried workers, male employment declined by about 500,000 (1.5%) while female employment slipped by approximately 100,000 (0.4%). For salaried workers, the pandemic, in general, created a bit of mild economic turbulence.

National data reveal the economic damage wrought on hourly workers. One in 10 hourly workers lost employment in 2020; male employment fell by 4.1 million (10%) and female employment dropped by 4.9 million (11.8%). While salaried workers encountered only mild economic turbulence in 2020, hourly workers found themselves on a plane with pilots suffering from food poisoning, an engine on fire and all nearby airports unavailable due to heavy fog. This economic trauma may help explain why workers quit their jobs at record rates in early summer 2021.

Who was affected by the economic shock is more than an academic question. It has implications for both those who will experience income and wealth gains during the recovery and those who will face continued economic hardship. Diving into the data, we unearth two observations, one surprising and one familiar. Our first observation is that while the number of Asian Americans in the labor force declined by 1.4% from February 2020 to June 2021, Asian American employment fell by 4.7% (Graph 23). The decline in employment

among Asian American workers was similar to that for Blacks, whites and Hispanics, but it was relatively larger when compared to the decline in the labor force. Two factors appeared to contribute to this ahistorical rise in unemployment. First, many Asian American workers were more likely to be employed by businesses engaged in person-to-person services (restaurants, bars, small stores) that experienced the greatest shock from the pandemic.¹⁰ Second, unemployed Asian American workers were more likely to be among the ranks of the long-term unemployed (27 weeks of unemployment or longer). A third (and perhaps not entirely surprising) observation is that even though Black and white workers left the labor force at roughly the same rate, Black employment fell more than white employment.

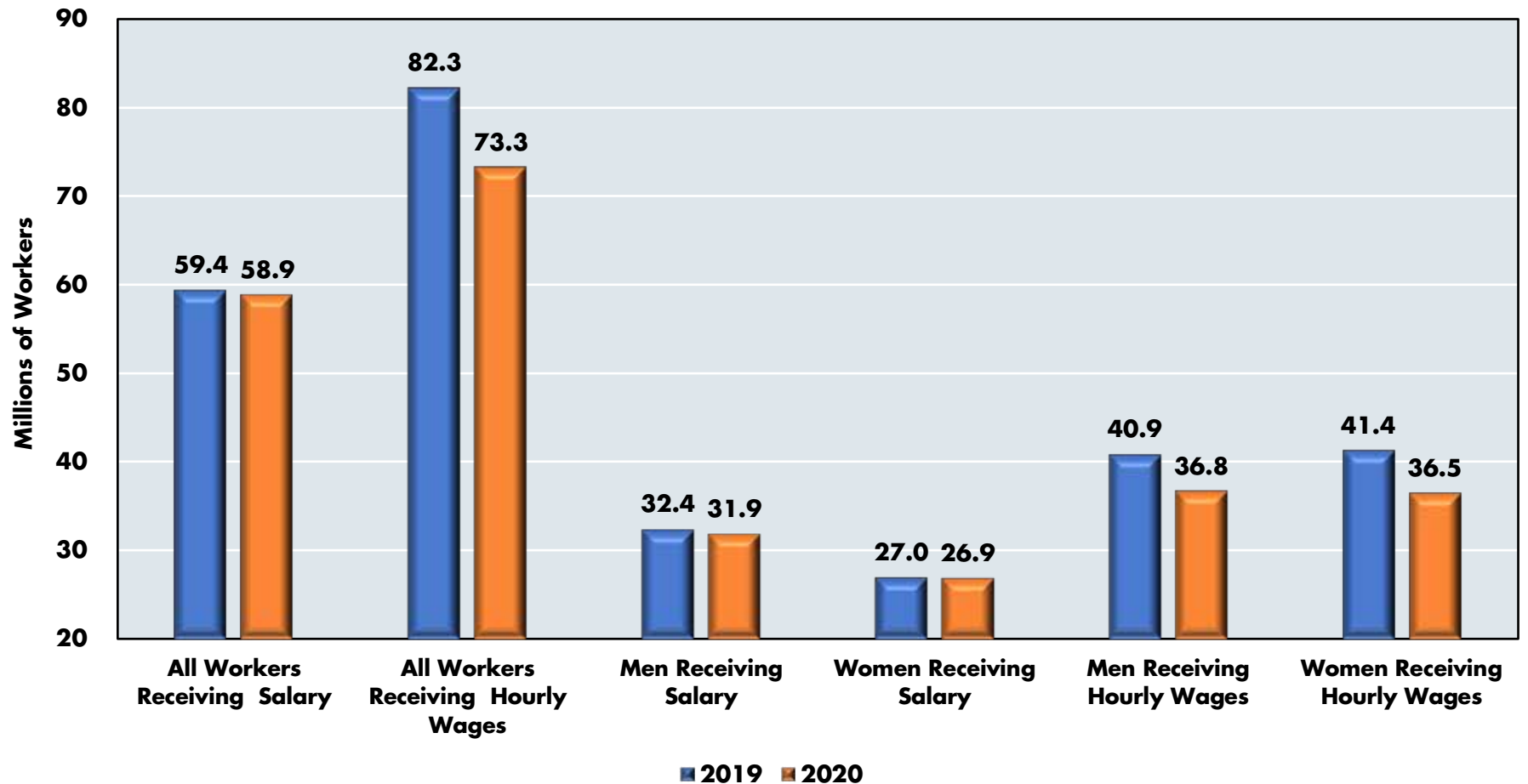
Graph 24 provides data on the change in the labor force and employment by race and gender. The number of white men in the labor force declined by 2.3% from February 2020 to June 2021. Over the same period, the number of Black men in the labor force increased by 1.4%. However, employment dropped by 4.8% and 2.9% for white and Black men, respectively. For women, the declines were more pronounced. The number of Black and white women in the labor force declined by 3.5% and 2.6%, respectively, over the same period. While employment of white women declined by 4.8% from February 2020 to June 2021, Black women's employment dropped by 7.2%.

Even when the pandemic recedes in the rearview mirror, there will be lasting economic damage. For hourly workers, especially those in the leisure and hospitality, education and public health, and local government sectors, the last 18 months have not been kind. For some of these employees, scant savings have been depleted, housing has been lost and remote schooling has left many minority children further behind their peers. The challenge will be to remember those who suffered the most even as the good times roll on for many of us.

¹⁰ <https://www.marketwatch.com/story/asian-american-businesses-are-dealing-with-two-viruses-reeling-from-racist-incidents-many-are-hurting-financially-during-covid-19-11613610159>.

GRAPH 22

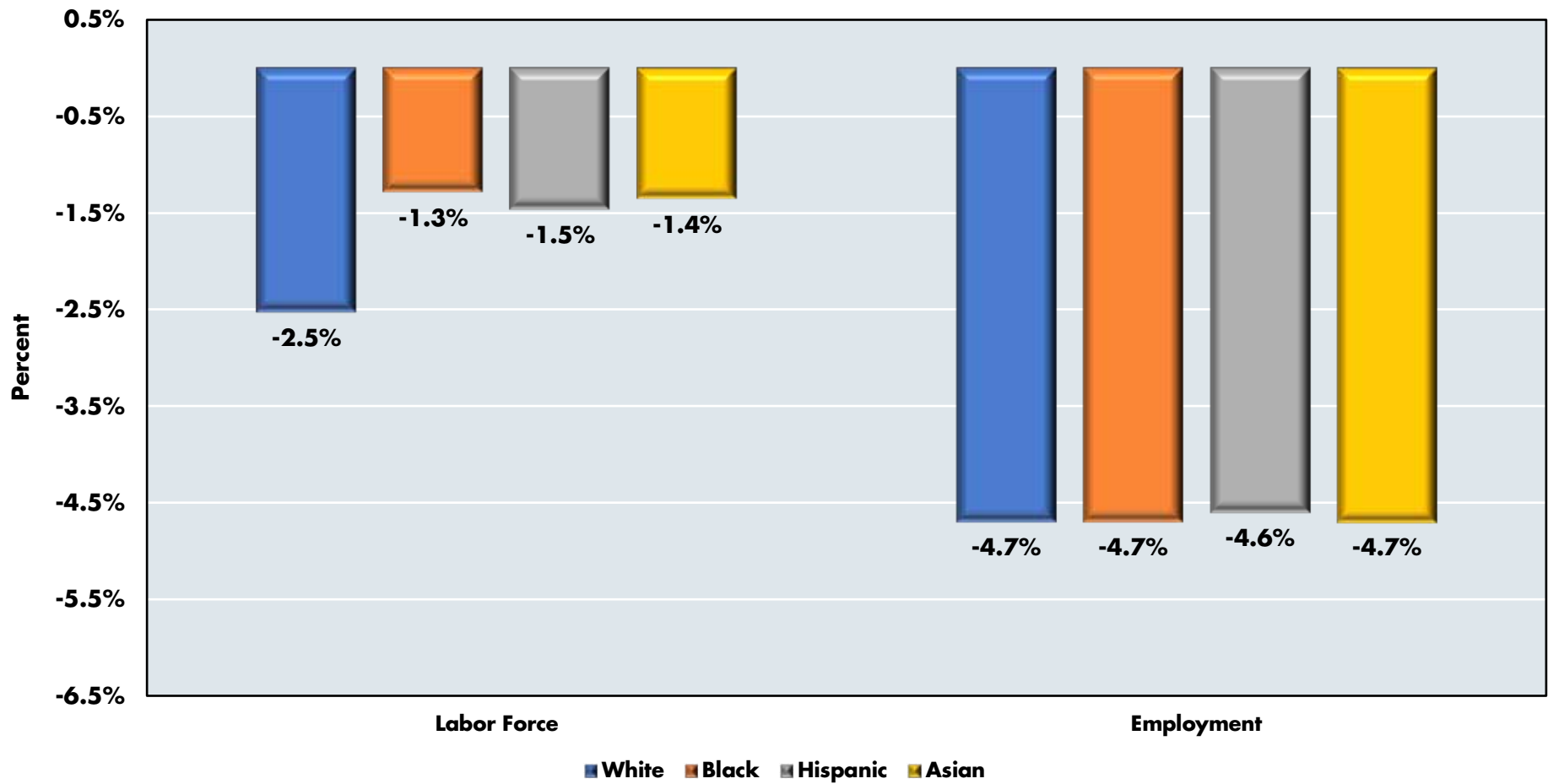
WAGE AND SALARIED WORKERS:
UNITED STATES, 2019 AND 2020



Sources: U.S. Bureau of Labor Statistics and the Dragas Center for Economic Analysis and Policy, Old Dominion University

GRAPH 23

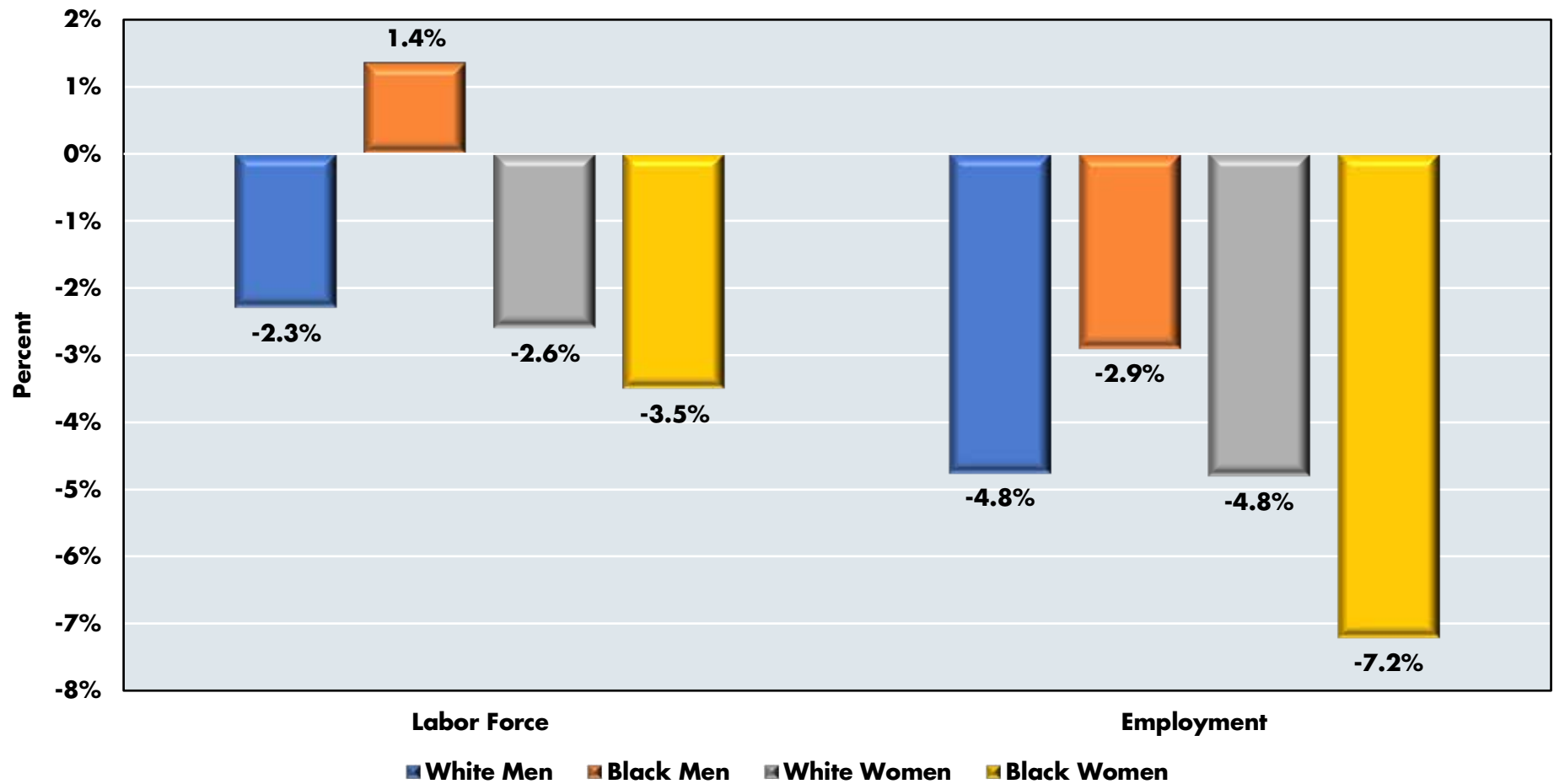
CHANGE IN CIVILIAN LABOR FORCE AND EMPLOYMENT BY RACE:
UNITED STATES, FEBRUARY 2020-JUNE 2021



Sources: Bureau of Labor Statistics and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are seasonally adjusted.

GRAPH 24

CHANGE IN CIVILIAN LABOR FORCE AND EMPLOYMENT BY SELECTED RACE AND GENDER:
UNITED STATES, FEBRUARY 2020-JUNE 2021



Sources: Bureau of Labor Statistics and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Data are seasonally adjusted.

Final Thoughts

Over the past 18 months, Hampton Roads residents have experienced school closures, widespread job loss, restrictions on social activities and, more recently, some semblance of a return to normality. The COVID-19 pandemic and economic shock exposed the impact of disinformation on our social discourse, politics and public health. Now, as economic activity picks up, we can look forward to a brighter future if we decide to work together to diversify the regional economy, combat those who would undermine our efforts to improve public health and leverage our existing strengths to remind the nation of our engineering mettle, scientific prowess and efforts to lead in renewable energy.

A return to the prepandemic status quo is both attractive and dangerous. Hampton Roads will undoubtedly continue to play a vital role in the nation's defense. However, we have seen over the last decade how dependence on decisions in Washington, D.C., can sink even the best efforts to promote regional economic development.

It is time to move beyond quiet discussions of the "D" word: that is, diversification of the region's economic base. We can be an asset to the national defense and work to seek additional sources of economic vitality. However, we must escape the pull of inertia and history. Too often, talk of reform has ebbed as budgetary conditions have improved in Congress. Now, as we emerge from a historic economic shock, is the time to be bold.

One effort to encourage conversations on diversification has appeared in the form of the 757 Recovery and Resilience Action Framework, self-described as "a game plan created by and for the 757's business community to help accelerate the region's economic recovery from the COVID-19 pandemic." We applaud the private and public discussions on how to not only recover from the pandemic's economic shock, but also how to foster coordination and cooperation among the cities and counties in Hampton Roads. If there is one lesson of the pandemic, it is that we are all in this together.

A focus on key industries (renewable energy, advanced manufacturing, cybersecurity, health services) is important. The question is whether this effort will survive as economic growth accelerates and the immediate need for crisis response fades. Cynics will note that the dustbin of history in Hampton Roads is littered with attempts to improve collaboration among its cities and counties. To paraphrase Ronald Reagan, we will trust the region's leaders to keep pushing forward, but will also objectively verify whether their efforts bear fruit over time.

One recommendation for enhancing our economic outlook is to encourage the region's high-quality medical institutions to foster the development of an "education-medical" center. Hampton Roads is fortunate to be home to Eastern Virginia Medical School (EVMS) and several institutions of higher education. EVMS and Old Dominion University bring in approximately \$100 million in federally funded research annually; to put this in context, that's about 10% of the federal research funding awarded to Johns Hopkins University each year. Merely wishing that we could double or triple our federal research funds will bear no fruit. We must realize that an education-medical complex is only possible if all the major players agree to set aside their parochial interests and come together. This effort will be a heavy lift, but in its favor is the fact that Sentara Healthcare brings financial resources and know-how to the table to complement the capabilities of EVMS and ODU. We believe that an education-medical center built around Sentara-EVMS-ODU and other higher education institutions is not only necessary, but also central to the region's growth.

We need only look north to Richmond to see how the battle over the merger of Medical College of Virginia and Richmond Professional Institute to form Virginia Commonwealth University (VCU) played out. There was such opposition to this merger that the General Assembly stipulated the Medical College of Virginia would retain its name in perpetuity. Today, VCU is the Richmond area's only Level 1 trauma center. Newsweek recently ranked VCU third best among all Virginia hospitals and in the Top 100 of all U.S. hospitals.

VCU's efforts in creating an education-medical center are illustrated in its ability to attract research funding. VCU reached \$310 million in sponsored research funding in FY 2019, of which \$90 million came from the National Institutes of Health. Building an education-medical center in Hampton Roads will not take place overnight, but, unlike other gambles to spur growth, it is more likely to lead to higher-paying jobs and economic expansion in the long term.

Another recommendation (which has been made before but is worth repeating) is to consolidate public services across the cities and counties of Hampton Roads. How many library systems, fire departments, and police and sheriff departments are necessary for a region of 1.7 million people? Each local system requires an administrative support structure. As Parkinson's law notes, "work expands so as to fill the time available for its completion," and the numerous, duplicative administrative structures in our region are no exception. If a trip to the General Assembly is needed to obtain the appropriate legal authorities, taxpayers would surely be supportive of such an effort to lower costs and increase efficiency.

None of these proposals is easy. If they were, they would already be undertaken. They will require time, consensus and concerted effort. In 2020, the COVID-19 pandemic spurred many discussions and calls for action. Now, as we approach 2022, we must avoid the sense that we have done enough, that we have endured, and that is sufficient. Benjamin E. Mays, who is credited with laying the intellectual foundations of the civil rights movement in this country, aptly observed: "The tragedy of life is often not in our failure, but rather in our complacency; not in our doing too much, but rather in our doing too little; not in our living above our ability, but rather in our living below our capacities."

Now is the time for Hampton Roads to strive to do too much, rather than too little. Yes, there is a chance we may fail, but if we do not resolve to be bold, our only success will be measured by the degree of our timidity.

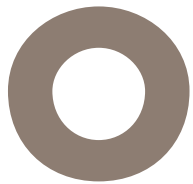


Bounce Back? The Pandemic and Tourism in Hampton Roads



BOUNCE BACK? THE PANDEMIC AND TOURISM IN HAMPTON ROADS

It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair.
– Charles Dickens, “A Tale of Two Cities”



ver the last 24 months, the Hampton Roads tourism industry has set several records. In 2019, traditional hoteliers reported a record \$892 million in revenue. Monthly Airbnb revenue in the region reached \$17 million in August 2019. Tens of thousands of visitors flocked to events such as Something in the Water, the Virginia International Tattoo and the North American Sand Soccer Championships, among others. Occupancy, revenue and revenue per available room (RevPAR) were all on the rise in early 2020, and a sense of optimism infused the industry.

Within months, more records were set, although these records were not ones to be announced with fanfare. Monthly hotel revenue in Hampton Roads declined by an astonishing 76.6%, from \$78.1 million in April 2019 to \$18.3 million in April 2020. In Williamsburg, monthly hotel revenue disappeared almost completely. Williamsburg hotels generated \$18.1 million in revenue in April 2019, but a year later, revenue fell precipitously to \$846,743, a collapse of 95.3%. Reported occupancy rates fell below 40% in many of the region’s cities, domestic and international travel plummeted to record lows and layoffs rocketed upward. Optimism, unlike hotel rooms, was in short supply.

Now, in the second half of 2021, we find ourselves in a markedly different environment. Heightened consumer and business expectations have increased interest in domestic travel and tourism. Hotels in Hampton Roads have fared well in this recovery compared to the nation. While hotel revenue in the region for June 2021 was 10% higher compared to the same month in 2019, nationally, hotel revenue was down by 12%. The region’s tourism recovery has been relatively strong and thus far sustained.

As with other sectors of the regional economy, the COVID-19 pandemic continues to linger over prospects for an even more robust recovery. The rise

in infections, hospitalizations and deaths among the unvaccinated compared to the fully vaccinated underscores the question of whether employers should require vaccinations for employees working in the tourism sector. Difficulties in attracting and retaining talent will also likely persist in the coming months, and it is unknown whether international workers will return in large numbers in 2022. Yet, even with these headwinds, prospects for the coming year are continuing to improve barring another virulent COVID-19 variant or unexpected economic shock.

In this chapter, we explore the impact of the COVID-19 pandemic on the Hampton Roads tourism industry. We delve into how traditional hoteliers were affected and compare their performance with that of short-term renters (Airbnb, VRBO and others). While the pace of recovery has not been uniform, hotels and short-term rentals outperformed the overall economy in Hampton Roads in the first half of 2021.

Years To Remember: 2019 And 2020

2019 and 2020 were years for the history books when it comes to the Hampton Roads tourism industry, albeit for dramatically different reasons. In 2019, hotel revenue set a new record. It was the year that saw the debut of Something in the Water, a music festival that garnered national attention, and a period when a number of traditional hotels continued to move upscale. Conversely, 2020 was a year many in the hotel industry would like to forget, marked by record declines in revenue, occupancy and staffing.

Graph 1 presents the shares of each of the Hampton Roads hotel markets in 2019. Virginia Beach claimed the greatest share of hotel revenue (38.3%), followed by Williamsburg (19.2%). The other markets each comprised roughly 14% of the regional market.

Graph 2 displays nominal and real (inflation-adjusted) hotel revenue for Hampton Roads from 2000 to 2020. Nominal hotel revenue had climbed from the post-Great Recession low of \$658 million in 2013 to \$892 million in 2019. In 2020, nominal and real revenues both fell by more than 33%. The level of nominal revenue reverted to a level not seen since 2002, while real revenue declined to a point not observed this century.

While the declines in hotel revenue, rooms rented and revenue per available room (RevPAR) were broad-based in Hampton Roads, Virginia and the United States, most of the markets in our region fared better than the state or nation in 2020. Hotel revenue declined by almost half in the Commonwealth and the U.S., but most markets in Hampton Roads observed declines of 30% or less (Graph 3). Exceptions were the Norfolk-Portsmouth market, where revenue declined by 32.7%, and the Williamsburg market, where it dropped an astounding 64%.

The annual data mask the collapse of hotel revenue in Williamsburg during the depths of the pandemic's economic shock. In August 2019, monthly hotel revenue peaked at \$21.5 million (Graph 4). With the onset of the pandemic, monthly revenue declined to \$7.5 million (February 2020), \$4.7 million

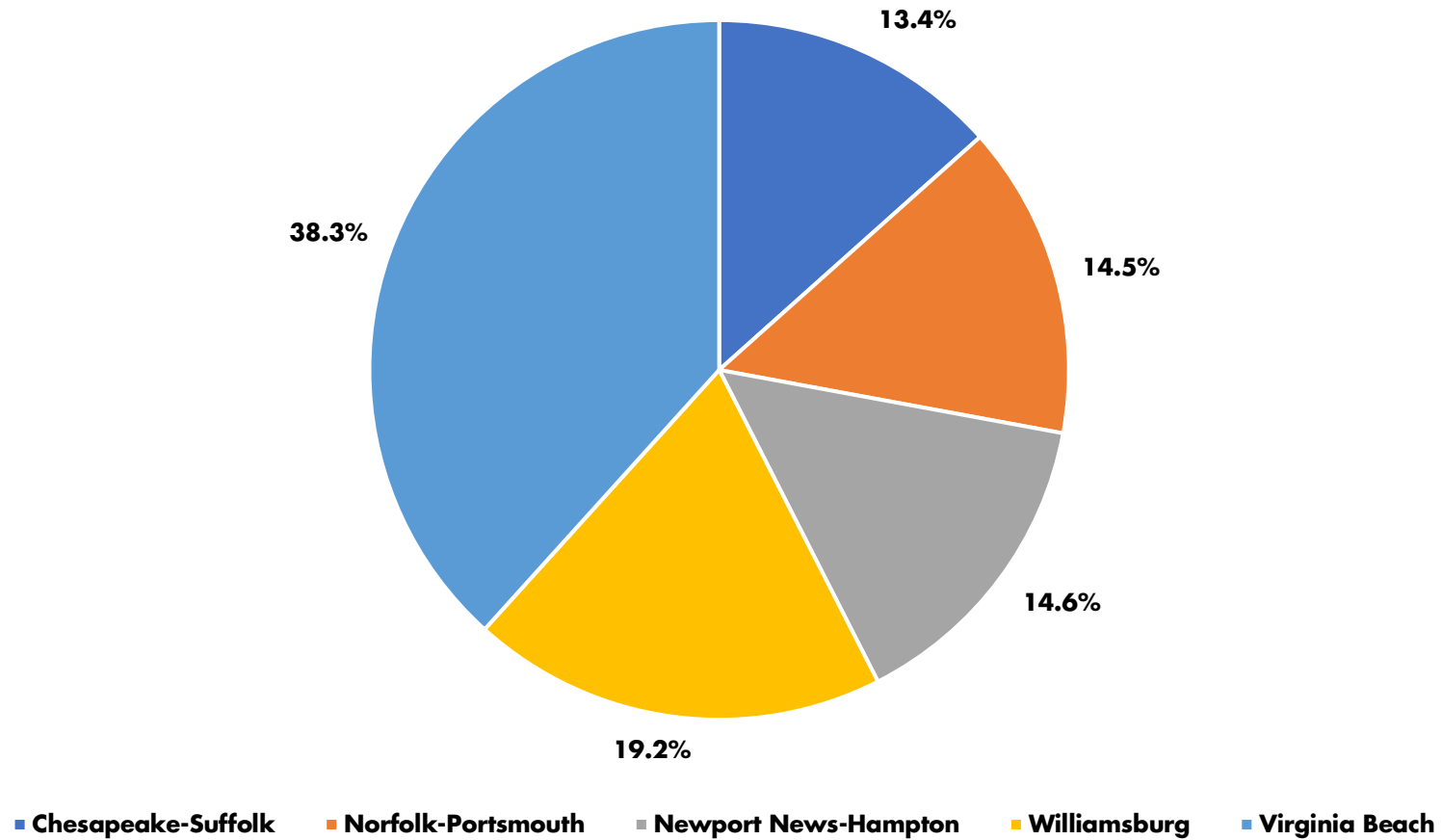
(March 2020) and \$846,423 (April 2020). In the span of only three months, hotel revenue in the Williamsburg market declined 88.8%. While revenue has increased from the low of April 2020, it remains well below 2019 levels. In June 2021, monthly hotel revenue reached \$17.7 million. While this was a 514% increase from June 2020, it hides the fact that June 2021 revenue was 6% lower than in June 2019.

Why did many of the markets in Hampton Roads fare relatively better in 2020 than Virginia and the United States, and why did Williamsburg fare significantly worse? In the case of Williamsburg, the number of hotel rooms rented fell by more than 50% and, in some months, occupancy rates dropped below 20% (Graph 5). The declines in revenue occurred primarily because hoteliers had to lower prices in the face of slumping demand; higher-end hotels were more severely impacted. Compared to other markets, the Hampton Roads hotel industry relies more on leisure and transient guests and is not as dependent on large events, such as conventions, conferences, concerts and the like.

RevPAR is a key measure of performance in the hotel industry, as it represents both the demand (revenue) and supply (available rooms) sides of the market. As shown in Graph 6, RevPAR declined by almost 35% from 2019 to 2020 in Hampton Roads. It must be pointed out that the actual decline in RevPAR was likely higher, since some hotels either significantly reduced the supply of rooms or closed temporarily during the depths of the pandemic. In any case, in 2020, Hampton Roads hotels earned about a third less than they did in 2019.

We would be remiss if we did not point out the large and negative influence of the Williamsburg market on this measure. RevPAR in Williamsburg declined an astonishing 60.6% from 2019 to 2020. Simply put, the COVID-19 pandemic had a devastating impact on the city's hotel industry. Major attractions, like Busch Gardens and Water Country USA, were closed due to the pandemic. With Colonial Williamsburg already experiencing a downturn in visits prior to the pandemic, this latest economic shock is likely to reverberate throughout Hampton Roads for years to come.

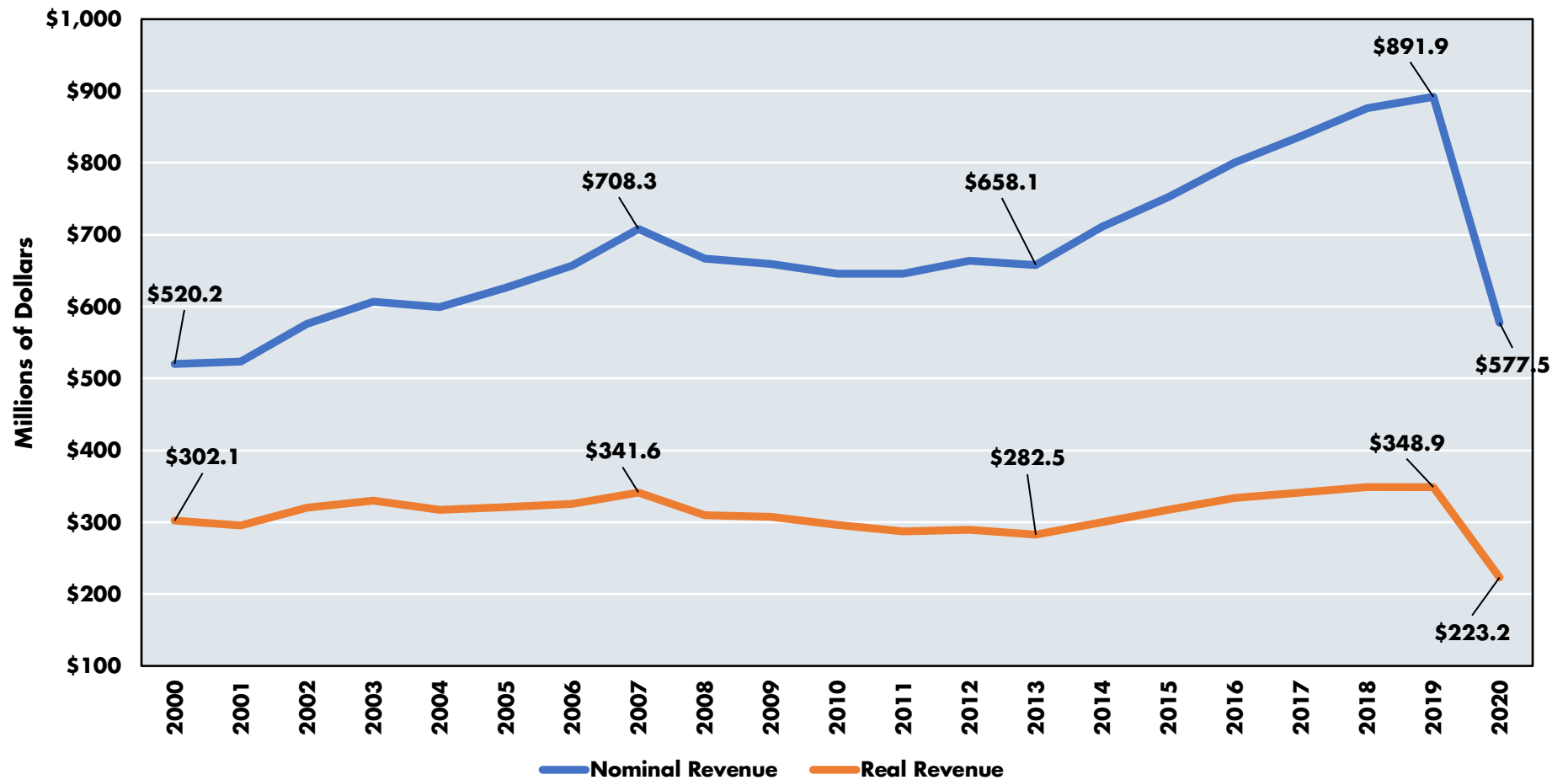
GRAPH 1
ESTIMATED SHARES OF HOTEL ROOM REVENUE:
HAMPTON ROADS, 2019



Sources: STR Trend Report, January 2021, and the Dragas Center for Economic Analysis and Policy, Old Dominion University

GRAPH 2

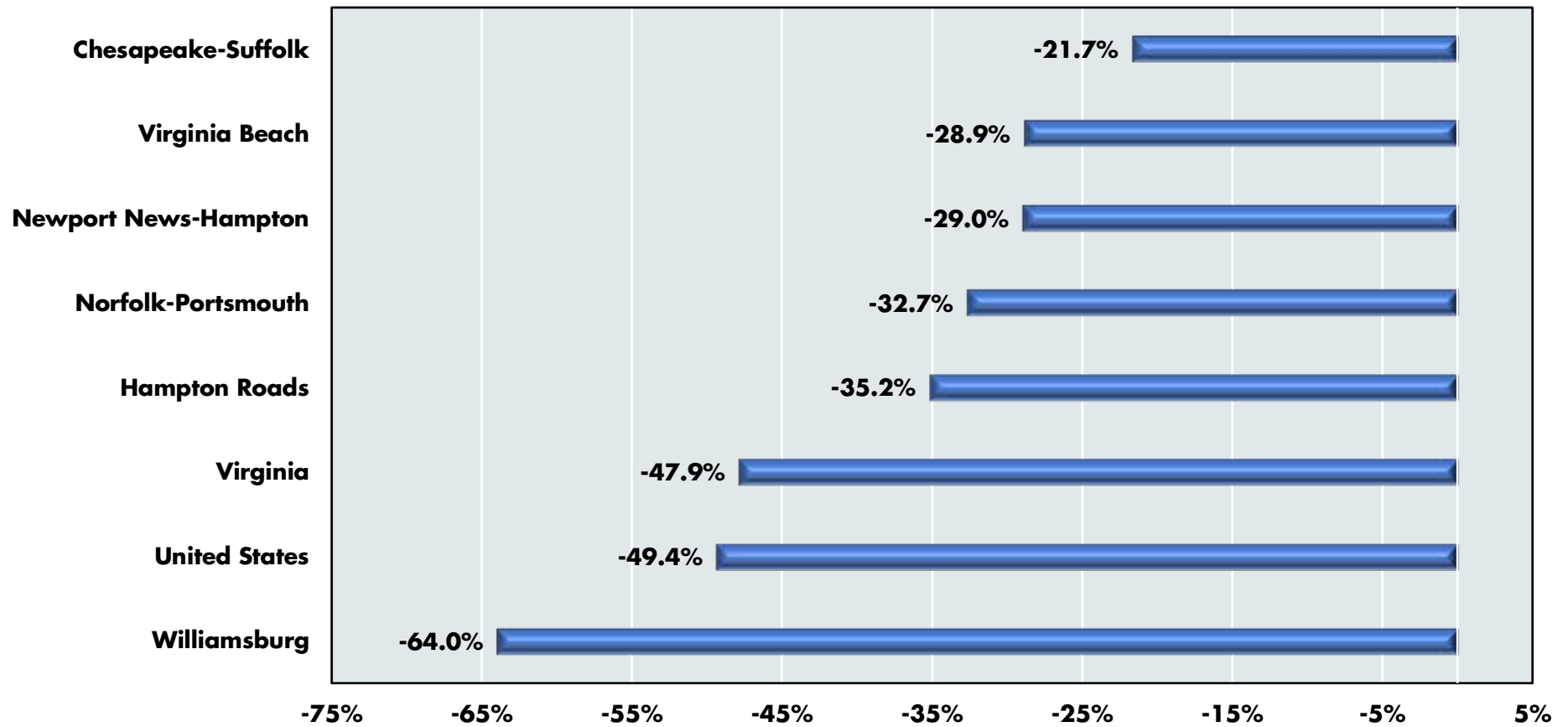
NOMINAL AND REAL HOTEL REVENUE:
HAMPTON ROADS, 2000-2020



Sources: STR Trend Reports, January 2017 and January 2021; Bureau of Labor Statistics; and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Base year for the consumer price index is 1982.

GRAPH 3

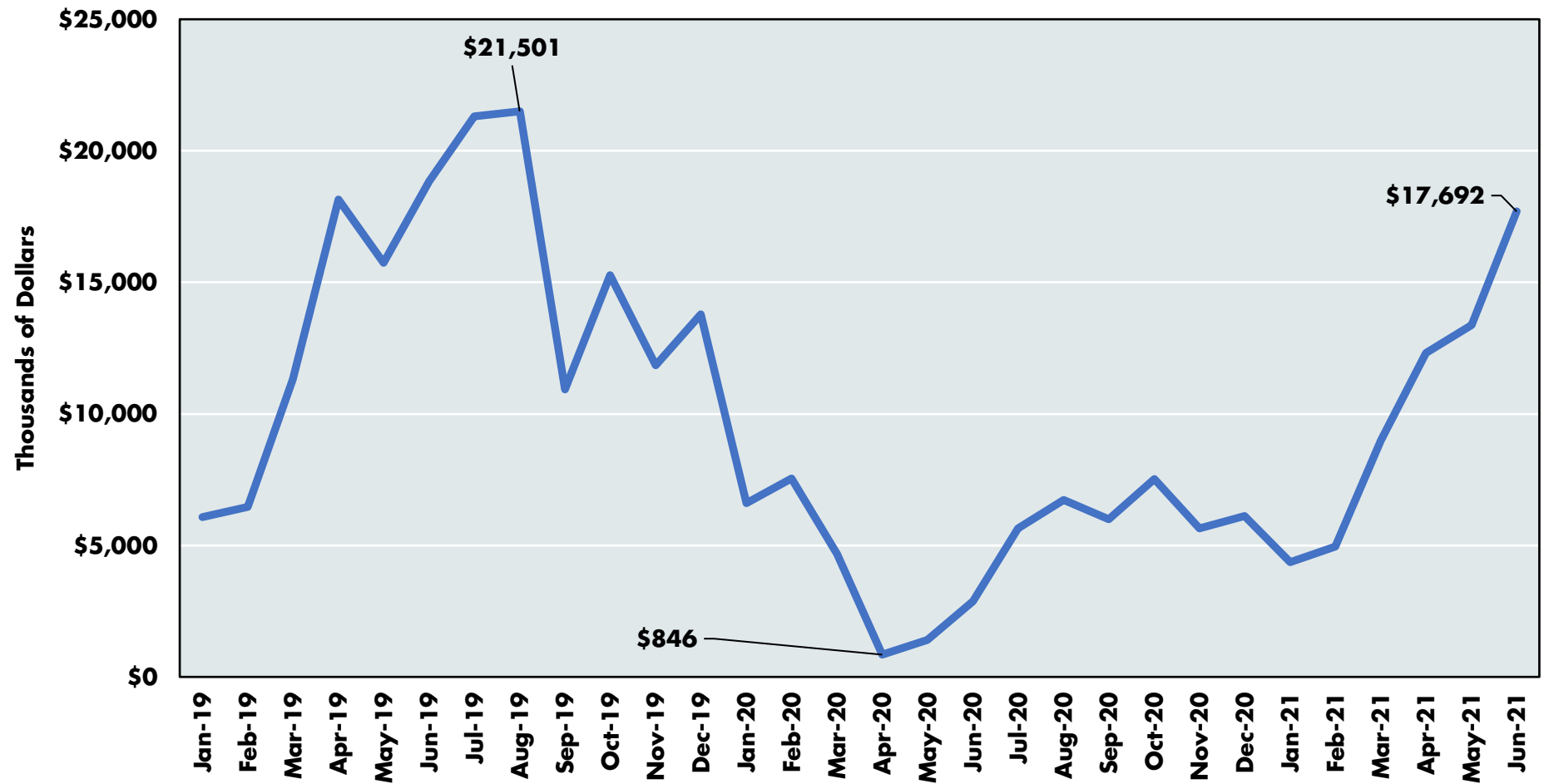
**PERCENTAGE CHANGE IN HOTEL REVENUE IN SELECTED MARKETS:
HAMPTON ROADS, VIRGINIA AND THE UNITED STATES, 2019-2020**



Sources: STR Trend Report, January 2021, and the Dragas Center for Economic Analysis and Policy, Old Dominion University. The Williamsburg market includes Williamsburg and James City County.

GRAPH 4

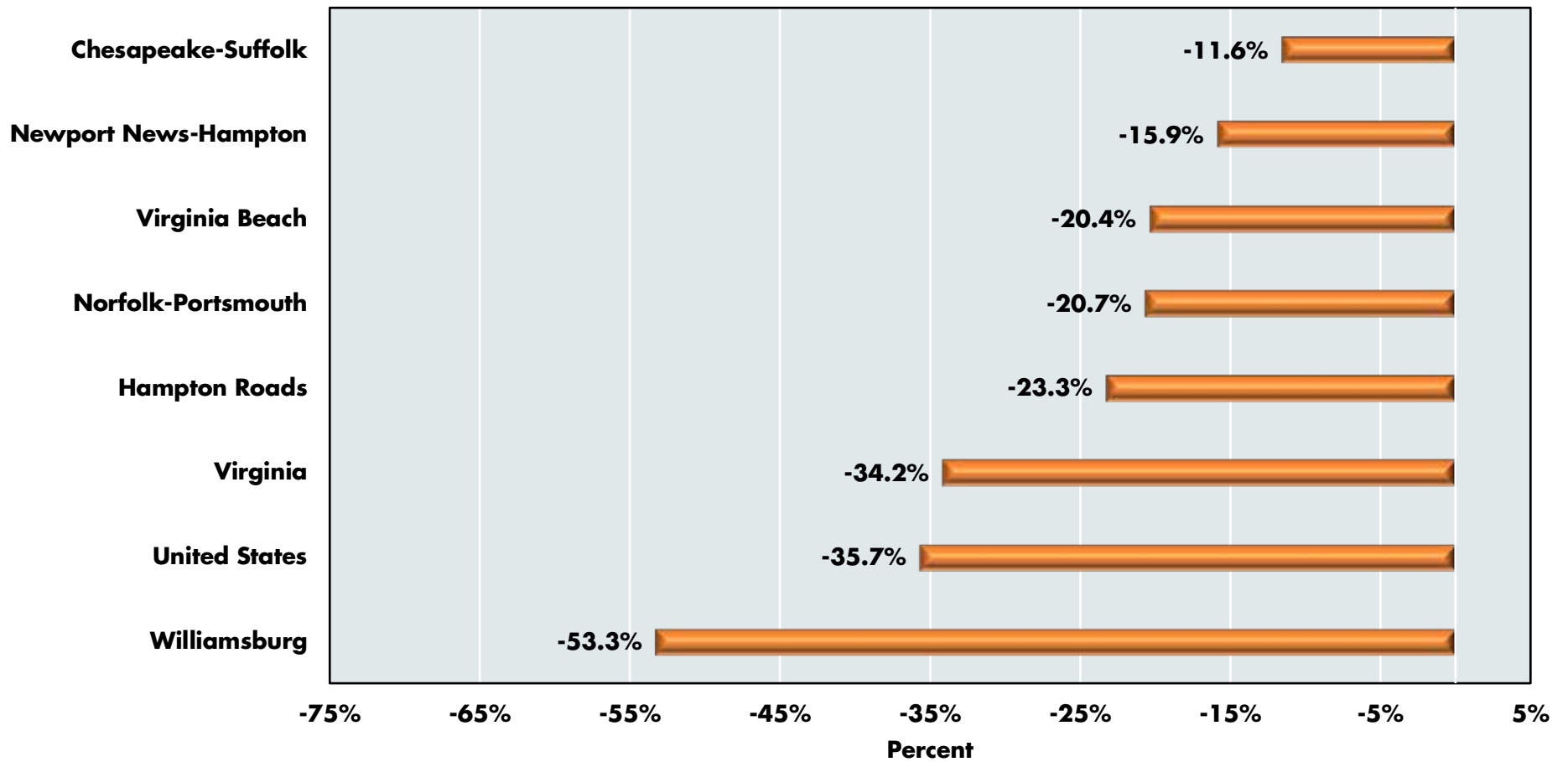
NOMINAL MONTHLY HOTEL REVENUE:
WILLIAMSBURG MARKET, JANUARY 2019-JUNE 2021



Sources: STR Trend Report, January 2021; STR monthly reports; and the Dragas Center for Economic Analysis and Policy, Old Dominion University. The Williamsburg market includes Williamsburg and James City County.

GRAPH 5

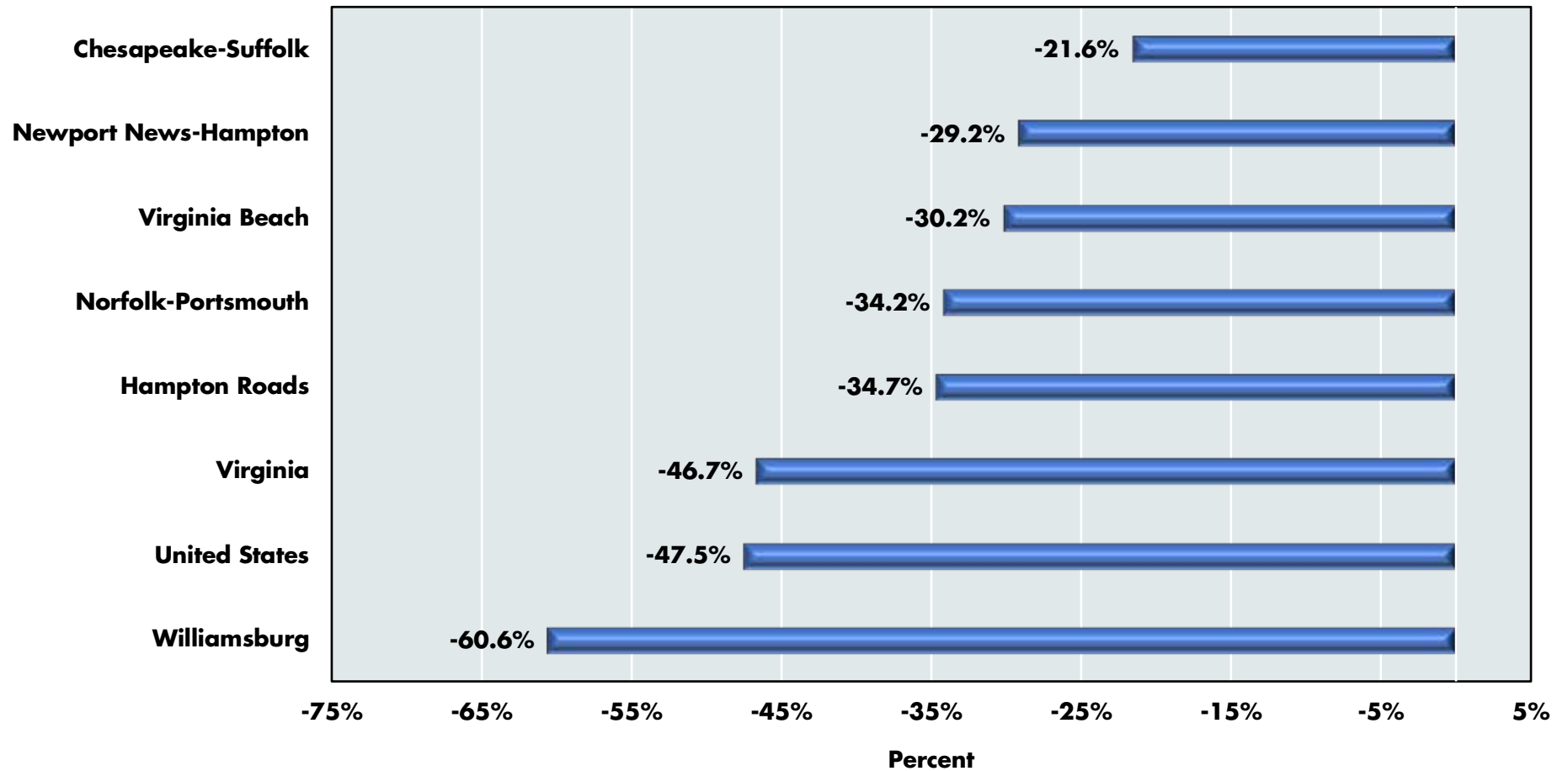
**PERCENTAGE CHANGE IN HOTEL ROOMS RENTED IN SELECTED MARKETS:
HAMPTON ROADS, VIRGINIA AND THE UNITED STATES, 2019-2020**



Sources: STR Trend Report, January 2021, and the Dragas Center for Economic Analysis and Policy, Old Dominion University. The Williamsburg market includes Williamsburg and James City County.

GRAPH 6

**PERCENTAGE CHANGE IN REVENUE PER AVAILABLE ROOM IN SELECTED MARKETS:
HAMPTON ROADS, VIRGINIA AND THE UNITED STATES, 2019-2020**



Sources: STR Trend Report, January 2021, and the Dragas Center for Economic Analysis and Policy, Old Dominion University. The Williamsburg market includes Williamsburg and James City County.

2021: A Recovery Coming Into Sight

Hoteliers in Hampton Roads fared better (mostly) than their counterparts elsewhere in the United States and experienced a more robust recovery through early summer 2021. Graph 7 highlights the percentage change in monthly hotel revenue for selected months from 2019 to 2021. We chose 2019 as the basis of comparison, as the shock in 2020 would bias our conclusions about the recovery progress. While hotel revenue was still 33% below 2019 levels in June 2021 among the nation's top 25 hotel markets, monthly revenue was up 10% in Hampton Roads compared to the same month in 2019.

By the summer of 2021, conditions had improved markedly at the local level in Hampton Roads. Graph 8 displays the percentage change in RevPAR for the region's markets. While RevPAR through June 2021 was down by more than 30% for the United States and Virginia, it was down by only 2.1% for Hampton Roads. The Williamsburg market was starting to rebound but still down 15.3% when compared to 2019, Newport News-Hampton was down by 12.2% and Norfolk-Portsmouth was down by nearly 10%. On the other hand, RevPAR in the Virginia Beach market was 7.3% higher than for the same time period in 2019. In the Chesapeake-Suffolk market, RevPAR increased by 5% through June 2021.

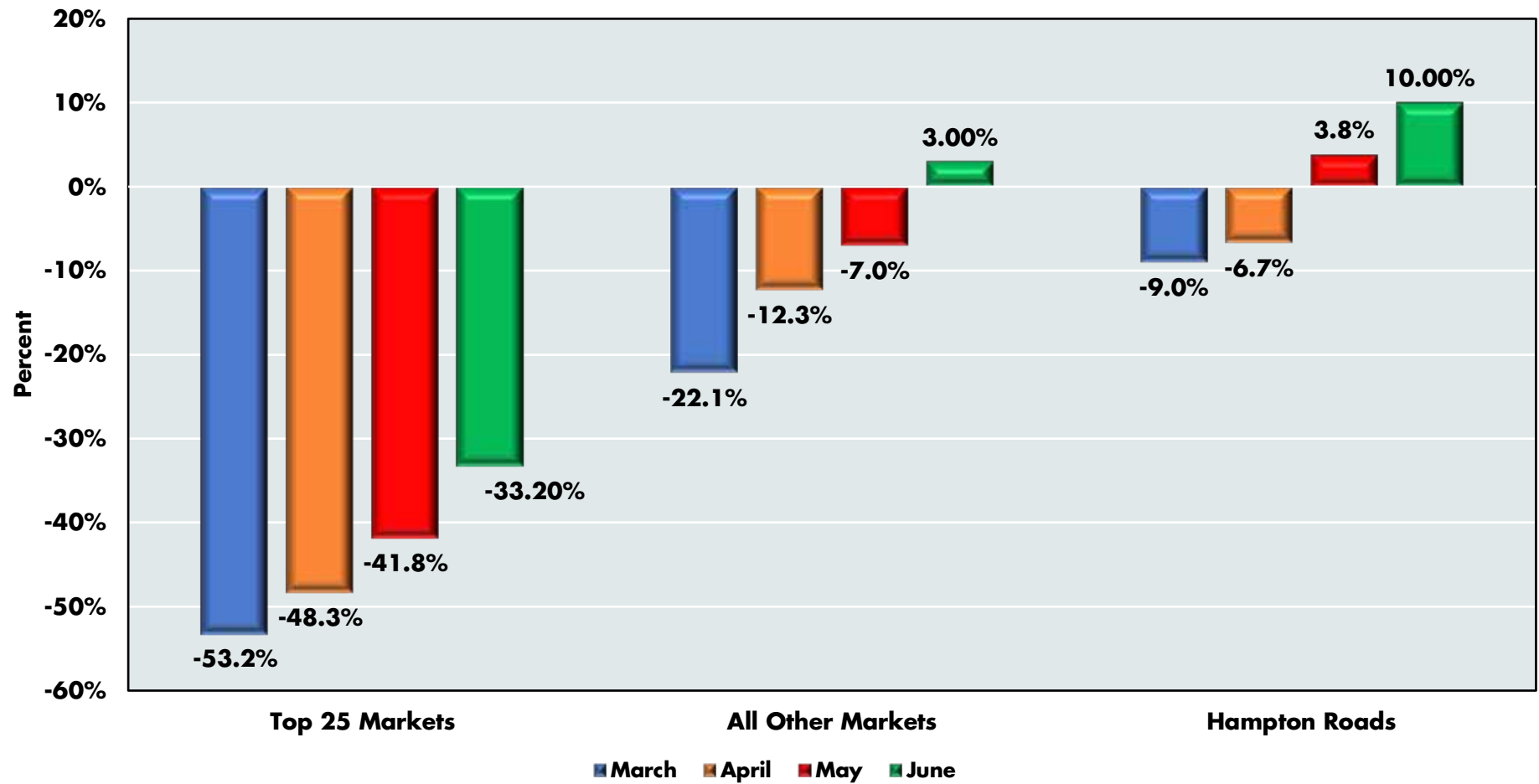
The Hampton Roads hotel industry recovered faster from the COVID-19 pandemic than almost any other market in the United States. While regional economic performance lagged that of Virginia and the nation in the first half of 2021, the regional hotel industry proved markedly resilient in most Hampton Roads cities. This recovery is even more striking considering the numerous reports of staffing challenges in the industry.

The rapid recovery in the Virginia Beach and Chesapeake-Suffolk markets bodes well for Hampton Roads. Most of the other markets in the region should fully recover by the summer of 2022 (if not earlier). The obvious concern is the Williamsburg market. The overall performance of this market may have more to do with structural issues within Colonial Williamsburg than recovery from the COVID-19 economic shock. If so, Williamsburg may face a longer recovery period than the rest of Hampton Roads.



GRAPH 7

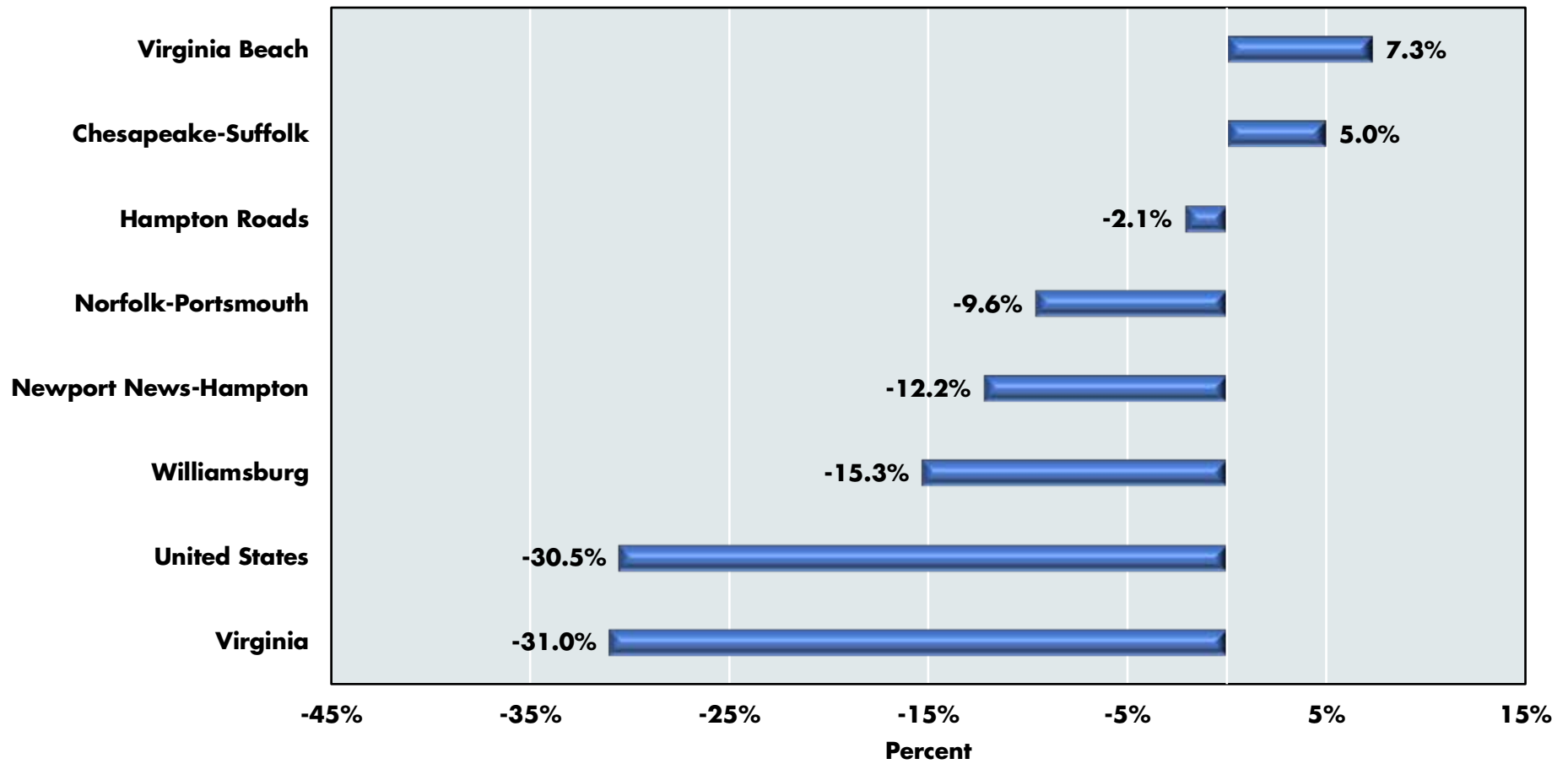
PERCENTAGE CHANGE IN MONTHLY HOTEL REVENUE:
HAMPTON ROADS, TOP 25 MARKETS AND ALL OTHER MARKETS, 2019-2021



Sources: STR monthly trend reports and the Dragas Center for Economic Analysis and Policy, Old Dominion University

GRAPH 8

**PERCENTAGE CHANGE IN REVENUE PER AVAILABLE ROOM IN SELECTED MARKETS:
HAMPTON ROADS, VIRGINIA AND THE UNITED STATES, YTD JUNE 2019-YTD JUNE 2021**



Sources: STR monthly trend reports and the Dragas Center for Economic Analysis and Policy, Old Dominion University. The Williamsburg market includes Williamsburg and James City County.

Airbnb Navigates Its Way Through The Pandemic

The rise of Airbnb from its humble beginnings is a remarkable story. Starting in 2008 with the rental of an air mattress in San Francisco, Airbnb has become one of the largest (if not the largest) short-term rental companies in terms of listings, funding and name recognition. It continues to expand its business model, offering “experiences” (hosted tours) and an increasing number of connections to travel websites. To track Airbnb business in Hampton Roads, we use data from AirDNA (a private company not associated with Airbnb) to examine listings, revenue and occupancy of Airbnb-hosted properties.¹

Graph 9 illustrates the meteoric rise of Airbnb in Hampton Roads. In October 2014, the first month for which data are available, monthly Airbnb revenue in the region was approximately \$61,000. By July 2016, peak monthly revenue reached \$2.16 million. In October 2018, peak monthly revenue had jumped to \$13 million, and another monthly record was set in July 2019, with monthly revenue of \$16.7 million. Airbnb revenue in July 2020 set yet another record, coinciding with the “reopening” of the regional economy.

Graph 10 presents the shares of each of the markets in Hampton Roads for 2019. Virginia Beach dominated Airbnb listings and revenue in the region, accounting for 66.1% of revenue in 2019. Williamsburg (14.6%) and Norfolk-Portsmouth (12.3%) were the next largest markets in the region. Newport News-Hampton (5%) and Chesapeake-Suffolk (2%) had relatively few Airbnb listings and low revenue in 2019.

Virginia Beach, accounting for approximately 6 of every 10 dollars in 2019 Airbnb revenue, has been the focal point of short-term rentals in Hampton Roads. Graph 11 provides insight into monthly Airbnb revenue from Virginia Beach listings, January 2019 to May 2021. Revenues in 2020 were approximately \$8.1 million less than in 2019. However, these losses were not spread evenly throughout the year. Revenue for the peak vacation months (May through September) was essentially the same – \$36.9 million in 2019 and

\$35.8 million in 2020. Off-peak revenue, however, was lower, and this trend continued into 2021. Comparing the first five months of the year for Airbnb in Virginia Beach, revenue was \$23.7 million, \$17.4 million and \$10.5 million in 2019, 2020 and 2021, respectively. If there is a modicum of good news, it is that the percentage decline in revenue relative to 2019 steadily decreased by the spring of 2021.

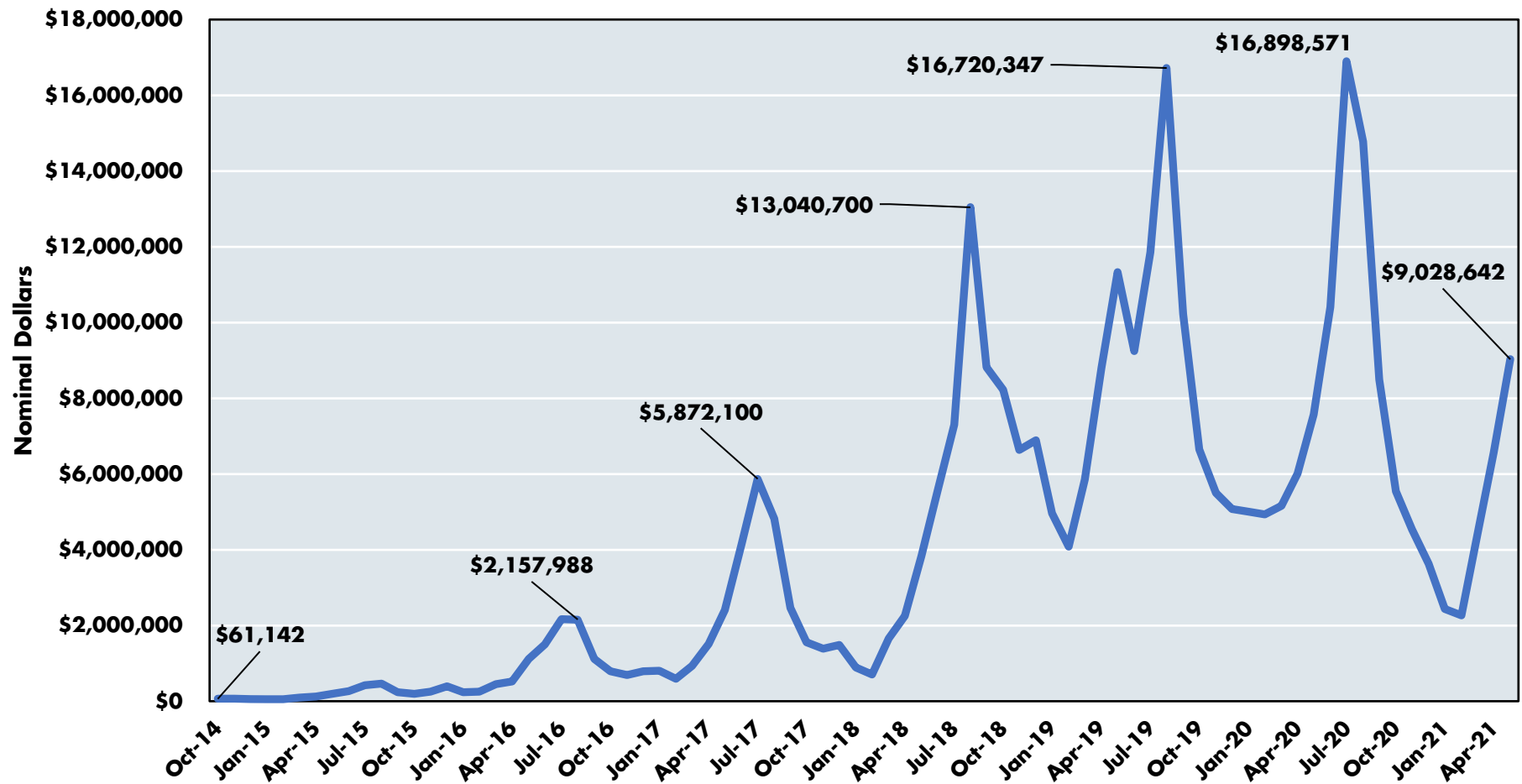
While the COVID-19 economic shock to the traditional hotel industry in Hampton Roads led to double-digit declines in occupancy, revenue and RevPAR, the impact on the short-term rental industry was decidedly less pronounced. Annual Airbnb revenue in the region fell from \$100.3 million in 2019 to \$92.9 million in 2020. This 7.4% decline paled in comparison to the 35.2% decline in hotel revenue across the region.

Airbnb experienced a rough start in 2021, however. Monthly revenue for January was down approximately 50% when compared to 2019. The short-term rental market has recovered, but not as quickly as that for traditional hotels in the region. By May 2021, monthly Airbnb revenue was only 20% lower than for the same month in 2019. If all goes well, the short-term rental industry should be back on track by the spring of 2022.

¹ Airbnb does not provide open access to its data. We rely on data from AirDNA, which tracks the performance of listings and predicts whether or not properties are booked. For more information, see www.airdna.co/methodology.

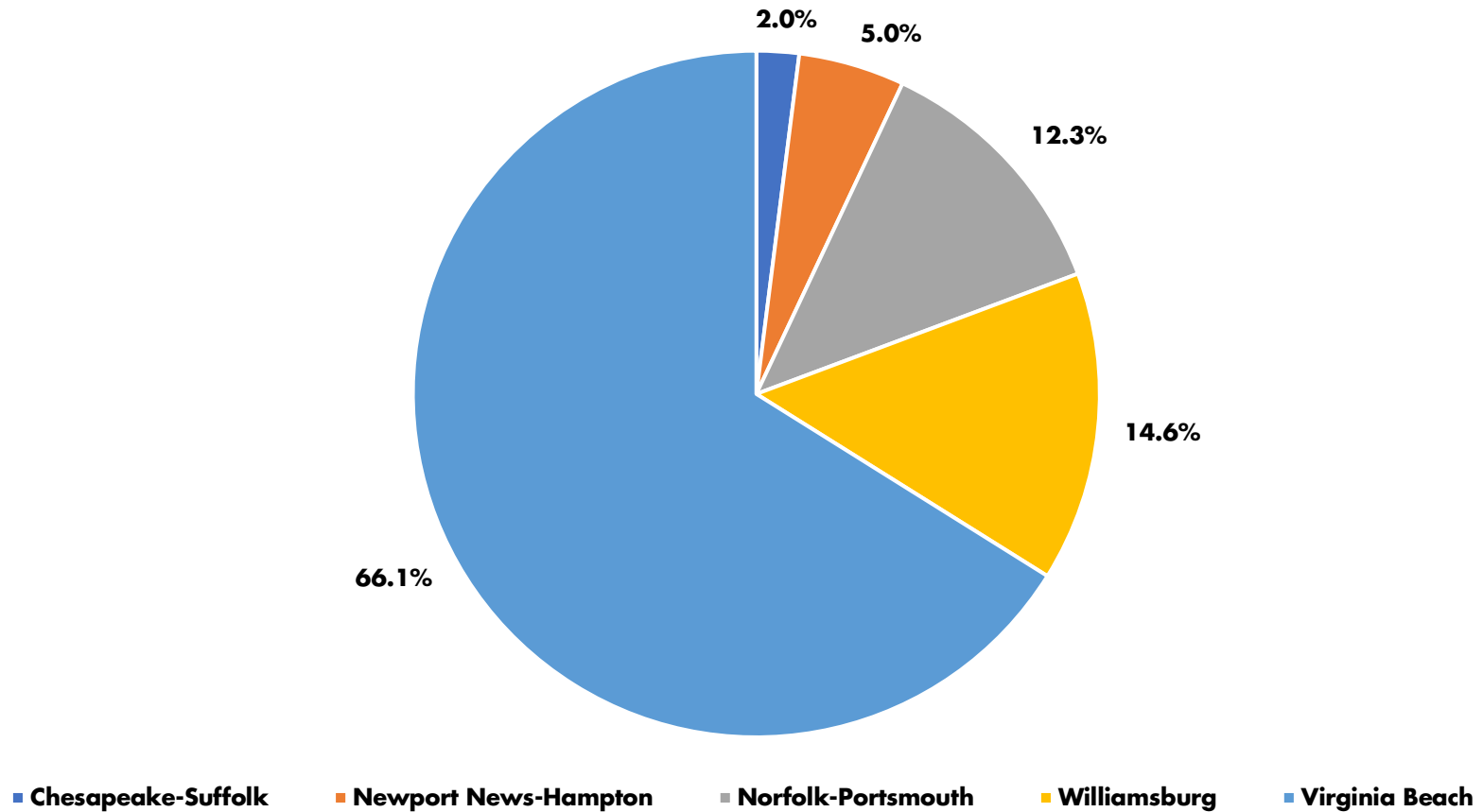
GRAPH 9

AIRBNB REVENUE IN HAMPTON ROADS,
OCTOBER 2014-MAY 2021



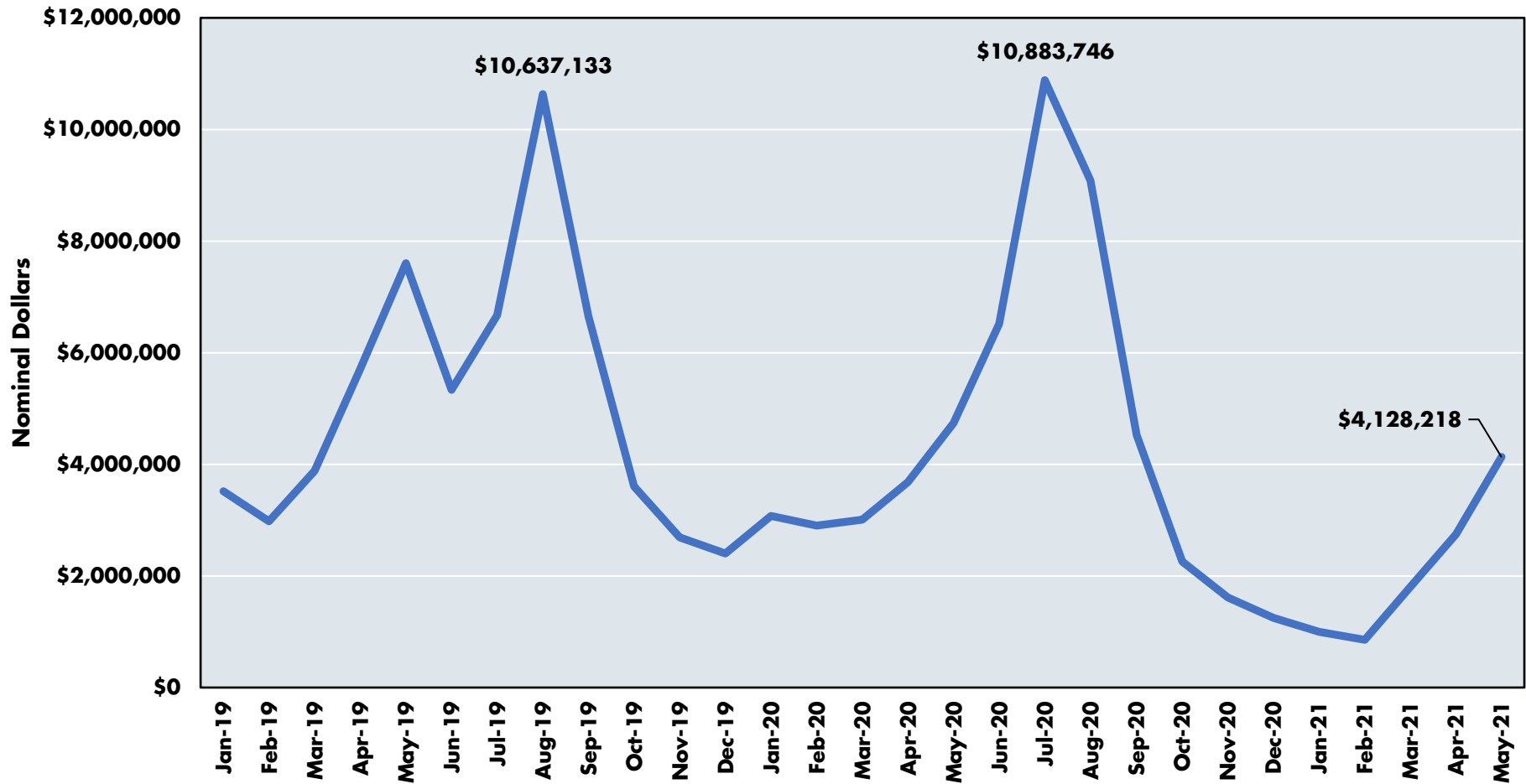
Sources: AirDNA (2021) and the Dragas Center for Economic Analysis and Policy, Old Dominion University

GRAPH 10
ESTIMATED SHARES OF AIRBNB REVENUE:
HAMPTON ROADS, 2019



Sources: AirDNA data, June 2021, and the Dragas Center for Economic Analysis and Policy, Old Dominion University

GRAPH 11
AIRBNB REVENUE:
VIRGINIA BEACH, JANUARY 2019-MAY 2021



Sources: AirDNA data, June 2021, and the Dragas Center for Economic Analysis and Policy, Old Dominion University

Risk, Comfort And Airbnb

Recent research suggests that tourists' risk perceptions increased significantly during the pandemic. Tourists, hotel staff and short-term hosts all expressed concern about the possibility of contracting the coronavirus. It should have been no surprise when hotels and short-term rental companies announced new cleaning protocols and other measures to mitigate the risk of transmission.² These measures, however, imposed additional costs at the same time reservations and revenue were under significant pressure. Short-term rental hosts noted that, unlike traditional hoteliers, they were unlikely to qualify for government aid, and some short-term hosts left the industry.³ As listings and revenues declined worldwide, Airbnb laid off 1,900 of its 7,500 employees.⁴

Yet, in Hampton Roads, the percentage decline in Airbnb revenue for 2020 was markedly less than that experienced by the traditional hotel sector. What factors might explain why Airbnb outperformed its more established competitors in our region as well as other areas of the country?

One possible explanation is that, unlike traditional hotels, Airbnb listings offered more opportunities for social distancing. Also, over time, the trend in Airbnb listings has shifted toward multiroom, entire-place properties. Airbnb no longer should be thought of primarily in terms of empty nesters renting spare rooms in the back of the house. Despite the decline in revenue last year, the Hampton Roads share of Airbnb revenue originating from entire-place properties increased from 90.5% in 2019 to 92.8% in 2020. During the pandemic, if someone was going to travel, they were likely more comfortable in having an entire property to themselves than staying in a traditional hotel.

Another explanation for Airbnb's relative success is that Hampton Roads likely benefited from the near shutdown of international travel and the significant reduction in domestic tourism. Instead of traveling to other parts of the country or internationally, those who did take vacations found themselves traveling to their "backyard." Strong defense spending in the region also may have helped offset some of the losses from domestic and international tourism.

² <https://www.emerald.com/insight/content/doi/10.1108/JTF-02-2020-0014/full/html>.

³ <https://www.sciencedirect.com/science/article/pii/S0278431920302152#bib0250>.

⁴ <https://news.airbnb.com/a-message-from-co-founder-and-ceo-brian-chesky/>.

Yet another factor to be considered is that Airbnb supply is sensitive to market conditions. Unlike traditional hoteliers, Airbnb property owners can bring their properties on market (or take them off market) with little notice. During the pandemic, highly desirable properties that commanded a premium were more likely to remain listed, while less-desirable properties that may have been listed previously for large events fell by the wayside. Knowing this, higher-end property owners may have been able to command a premium for their rentals during the pandemic, unlike hoteliers, who had to reduce room rates in the face of slumping demand.

Final Thoughts

The tourism industry is one of the three pillars of the Hampton Roads economy. As evidenced by the shock to the hotel industry, COVID-19 clearly was responsible for fewer people visiting and spending money in our region. The leisure and hospitality sector accounted for the largest number of layoffs in Hampton Roads in 2020, and while demand has increased in 2021, some of the region's markets still face an uphill climb. Inoculations have contributed to a measure of economic resurgence, but overcoming vaccine hesitancy and resistance among the unvaccinated adult population is key to a sustained recovery.

Surprisingly, amid the pandemic, Airbnb properties fared relatively well in Hampton Roads. Explanations abound as to why Airbnb revenues did not decline as much as those in the traditional hotel sector, or at the same pace seen in other U.S. metropolitan areas. Perhaps the simplest explanation is best: Airbnb listings in Hampton Roads offered a respite to those traveling during the pandemic. Whether these properties were safer than traditional hotels is a matter of debate. What cannot be debated is the performance of these short-term rental properties in 2020. Now, with the traditional hotel sector on the rebound, the question is whether the short-term rental sector will lag as vaccinations increase and consumer confidence grows. Time will tell.

Earn While You Learn: The Apprentice School at Newport News Shipbuilding



EARN WHILE YOU LEARN: THE APPRENTICE SCHOOL AT NEWPORT NEWS SHIPBUILDING

Young people learn through observation, imitation, trial and error, and reiteration; in other words, through force of experience. Though professionalism and care are expected, perfection is not. Adult mentors hold the discipline for the apprentice, sequencing and controlling task demands to keep them on the constructive side of difficulty. They direct apprentices' attention, demonstrate and sometimes collaborate.

– Robert Halpern, “The Means to Grow Up: Reinventing Apprenticeship as a Developmental Support in Adolescence”

Publications like Forbes and The Wall Street Journal increasingly highlight a conundrum facing companies and the education system in the United States. Firms are complaining that they have plenty of job openings, but the education system is failing to train students in the skills needed to fill them. Hampton Roads, like other regions, suffers from this “skill mismatch” – the divergence between the skills students are taught and employers’ needs in the job market. According to a recent report,¹ firms in Hampton Roads are struggling to find entry-level and middle-skill employees in key growth sectors, such as advanced manufacturing. Other positions that are difficult to fill locally include trades, such as technician, mechatronics/repair technician, welder, shipbuilder, pipefitter and machinist, along with warehouse and packing personnel. These jobs are not only high paying, but also critical to the economic vitality of the region.

Several recent presidential administrations have pushed to solve this problem by increasing the number of apprenticeships. An age-old practice, apprenticeships allow individuals to earn a paycheck while receiving supervised training and work-based learning in conjunction with academic instruction. Indeed, apprentices are both student-employees and employee-students. The apprenticeship model has been a mainstream route to career success in many European countries; however, it has struggled to gain a foothold in the United States.

There is a lot to like about apprenticeships. They provide benefits to both employers and workers. Workers experience a smoother transition from school to career, compared to most school-based preparation. Furthermore, apprenticeships can

¹ “Hampton Roads Talent Alignment Strategy Initiative: Supply and Demand Gap Analysis,” (2019), commissioned by the Hampton Roads Community Foundation in partnership with the Hampton Roads Workforce Council.

provide a lucrative path to meaningful work for those who complete them. The average starting salary for an apprentice who completes a program in this country is \$72,000, which is 35% higher than the median wage in Hampton Roads. Also, apprentices tend not to struggle with student loan debt, unlike many traditional college graduates. For the apprentice, earning an income while learning an occupational skill confers a sense of pride and identity, along with the confidence in knowing their investment and effort will pay off. Employers benefit by gaining loyal, skilled employees. According to the U.S. Department of Labor, employers retain 92% of employees who have completed an apprenticeship.

As it turns out, Hampton Roads is home to the gold standard for the apprenticeship model in this country: Newport News Shipbuilding’s (NNS) Apprentice School. Founded in 1919, The Apprentice School has trained more

than 10,000 apprentices and evolved into a full-service academic institution. In 2020, the State Council of Higher Education for Virginia granted approval for The Apprentice School to award academic degrees, and the school now offers associate degrees in several applied sciences disciplines. Today, over 700 apprentices are enrolled. They spend two days a week in academic classes, with their remaining time in on-the-job training, learning leadership skills and a trade such as electrician or machinist. Apprentices earn while they learn, making almost \$18 per hour when they start and up to \$30 per hour by the completion of their program. The \$18 hourly wage is \$6 per hour higher than the median hourly wage in Hampton Roads. Further, they receive a myriad of other benefits, including health and life insurance, a 401(k) savings plan and paid leave. In this chapter, we look at the apprenticeship model and delve into the unique aspects of the NNS Apprentice School that have made it so successful.

The Apprenticeship Model

A BRIEF LOOK AT APPRENTICESHIPS THROUGH HISTORY

The master-apprentice relationship dates back to the 18th century B.C. in Egypt and Babylon. Nearly 4,000 years ago, these ancient civilizations understood the need for skilled craftsmen and codified rules that required artisans to teach their skills to the next generation. Over the course of the Roman Empire, craftsmen went from primarily being slaves to forming independent professional organizations, or “collegia,” such as the trade guilds “collegia opificum.”

Craft guilds would become a hallmark of medieval Europe. The guild system, made up of masters, journeymen and apprentices, oversaw production quality and working conditions for each trade group in a town. Similar to modern-day apprenticeships, they involved a collaborative relationship between a skilled adult and a younger pupil. Apprentices developed skills through imitation and guided experimentation under the watchful eyes of a mentor. As Bert De Munck and Hugo Soly put it in a 2007 book they co-edited with Steven L. Kaplan,

apprentices “learned on the shop room floor.”² Apprentices would often train for up to seven years before graduating to journeymen and travel between towns to learn and teach new techniques.

Scholars point to the apprenticeship system as an important impetus to Europe’s rise in the Industrial Revolution. When this system worked well, it led to the transfer of information and knowledge. It resulted in innovation through thoughtful and well-trained artisans who advanced the frontiers of knowledge. Historians have attributed major advances in European craft production – in areas as diverse as shipbuilding, textiles, lens grinding, metalworking, printing, mining, clockmaking, millwrighting, carpentry, ceramics and painting, among others – to the apprenticeship system.³ European settlers also leveraged the apprenticeship system in Colonial America. In fact, several of our Founding Fathers, including George Washington (surveyor), Benjamin Franklin (printer) and Paul Revere (silversmith), trained as apprentices.

Despite having similar roots, the apprenticeship system that flourished in several European countries, including Austria, Switzerland and Germany, floundered in the United States. There are many reasons why. After World War II, the U.S. became obsessed with the idea that college was the primary pathway to the middle class and upward mobility. Furthermore, there was a strong desire to avoid creating curricula that grouped students based on perceived ability, IQ or achievement levels – known as “tracking” in education. There were also political complications that involved class, culture and unions. In contrast, after the fascist uprising following World War I, some European countries saw the need to connect their education system to the economy in order to ensure employment, especially for young men. To accomplish this, these countries introduced apprenticeships, job training and other programs.

THE CURRENT STATE OF AFFAIRS

Apprenticeship programs around the world today are as diverse as the countries that have them. In fact, in some European nations, they offer a mainstream route to career success. In Germany, Austria and Switzerland,

² Bert De Munck and Hugo Soly, “Learning on the Shop Floor in Historical Perspective,” in *Learning on the Shop Floor: Historical Perspectives on Apprenticeship*, Steven L. Kaplan, Bert De Munck and Hugo Soly, eds. (New York: Berghahn Books, 2007), 3-32.

³ David de la Croix, Matthias Doepke and Joel Mokyr, “Clans, Guilds, and Markets: Apprenticeship Institutions and Growth in the Preindustrial Economy,” *The Quarterly Journal of Economics* (2018), 133(1), 1-70.

50% to 70% of young people filter through the apprenticeship system. The apprenticeship models in these countries are often viewed as the gold standard for vocational learning.

For instance, many have praised the German system for the country's low youth unemployment rate; ability to maintain a vibrant, high-quality manufacturing sector; and role in helping it weather economic downturns. In Germany, the system that regulates vocational training emerged formally in 1969. However, its historical roots run deep. Over the years, arrangements between unions and management have reinforced the system through strict certification standards. The certifications cover more than 300 occupations that range from blue-collar trades to an increasing collection of white-collar professions, such as information technology and engineering. Young people start taking either the apprenticeship or academic track as early as fourth grade. The track ultimately chosen is based on discussions among the school, child and parents, and takes into consideration grades, abilities and aptitude. Upon completion of compulsory schooling, apprentices spend three to four days a week devoted to workplace learning and the remainder of the week in government-funded schools for academic learning. This model creates a smooth transition from school to work, one of the German system's major benefits. In 2017, apprentices accounted for 52.9% of students in Germany's dual-track education system. A total of 427,227 companies participated, amounting to 20% of all German employers.

Apprenticeships in the United States look more like a patchwork quilt of state and federal policies compared to the highly regulated model that is integrated into the fabric of the German education system. Both the Obama and Trump administrations tried to bolster apprenticeships, albeit in different ways. For instance, in 2014, President Obama hosted the first-ever White House Summit on American Apprenticeships and set a goal of doubling the number of apprentices over five years. To accomplish this, the administration made \$175 million in federal public-private partnership grants available to "increase apprenticeships in high-growth fields; align apprenticeships with further learning and career advancement opportunities; and take successful apprenticeship models to scale."⁴ In contrast, President Trump signed a 2019

executive order creating a new "industry-recognized" apprenticeship program outside of the Department of Labor. Groups such as trade associations, educational institutions, nonprofits or labor unions could become the entities that set the training and curriculum standards relevant to their industry. Despite this renewed interest, neither policy appears to have moved the needle on apprenticeships.

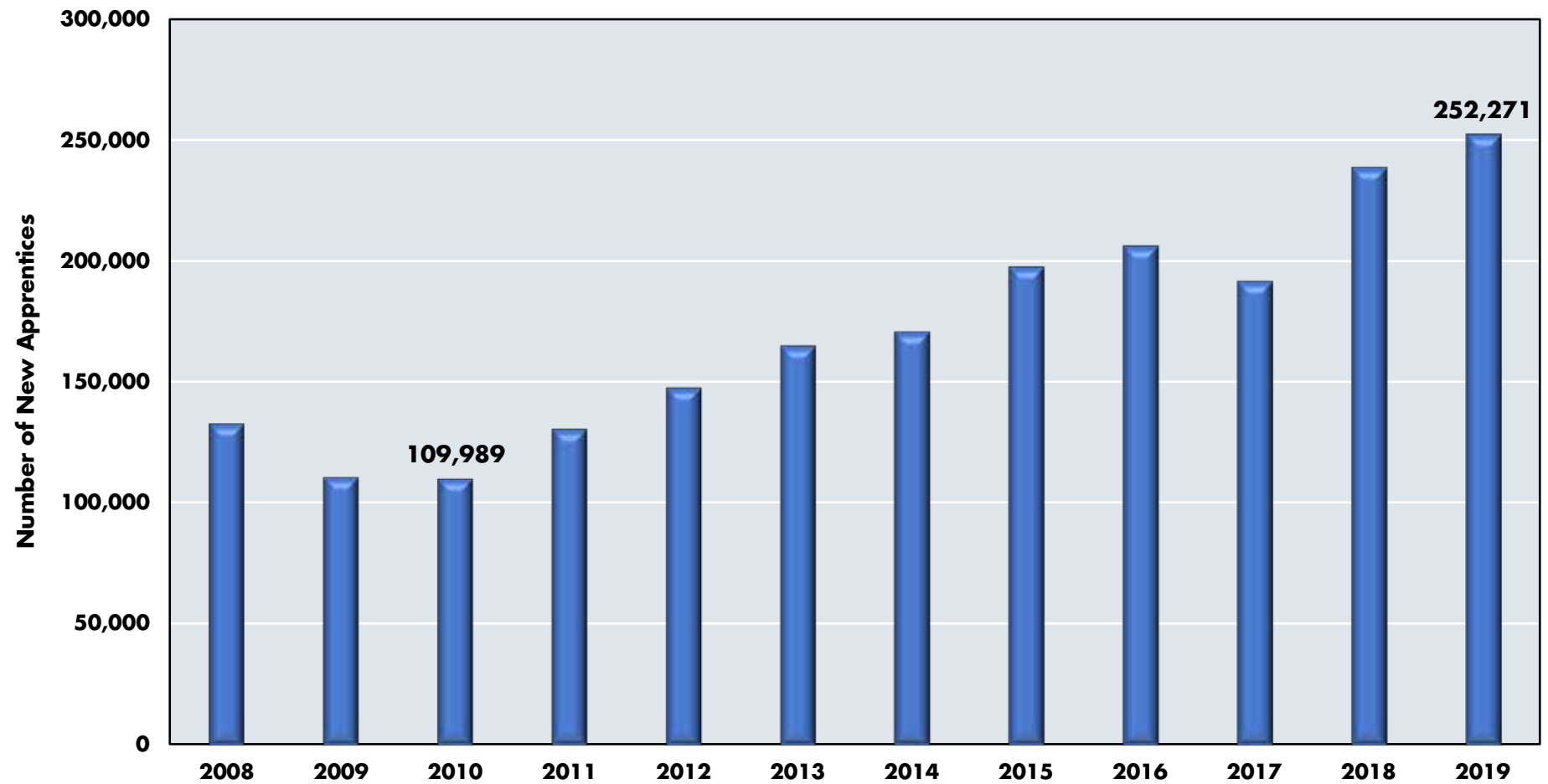
With the oscillating policies of the last two administrations, how have apprenticeships fared? Graph 1 includes data from the Department of Labor on the number of new apprentices starting each year, while Graph 2 displays the percentage of new apprentices for a cohort's entrance into the workforce. **The trajectory was clearly positive over the last decade. The total number of new student workers entering apprenticeships grew by 129% from 2010 to 2019. Furthermore, apprenticeships made up 5.7% of the average 20-24-age cohort, up from 2.6% a decade earlier. Despite the growth in the number of new apprentices, the number of active programs has fluctuated and was lower in 2019 than a decade earlier (Graph 3).**



⁴ <https://obamawhitehouse.archives.gov/blog/2014/07/14/first-ever-white-house-summit-american-apprenticeship-helping-american-workers-punch>.

GRAPH 1

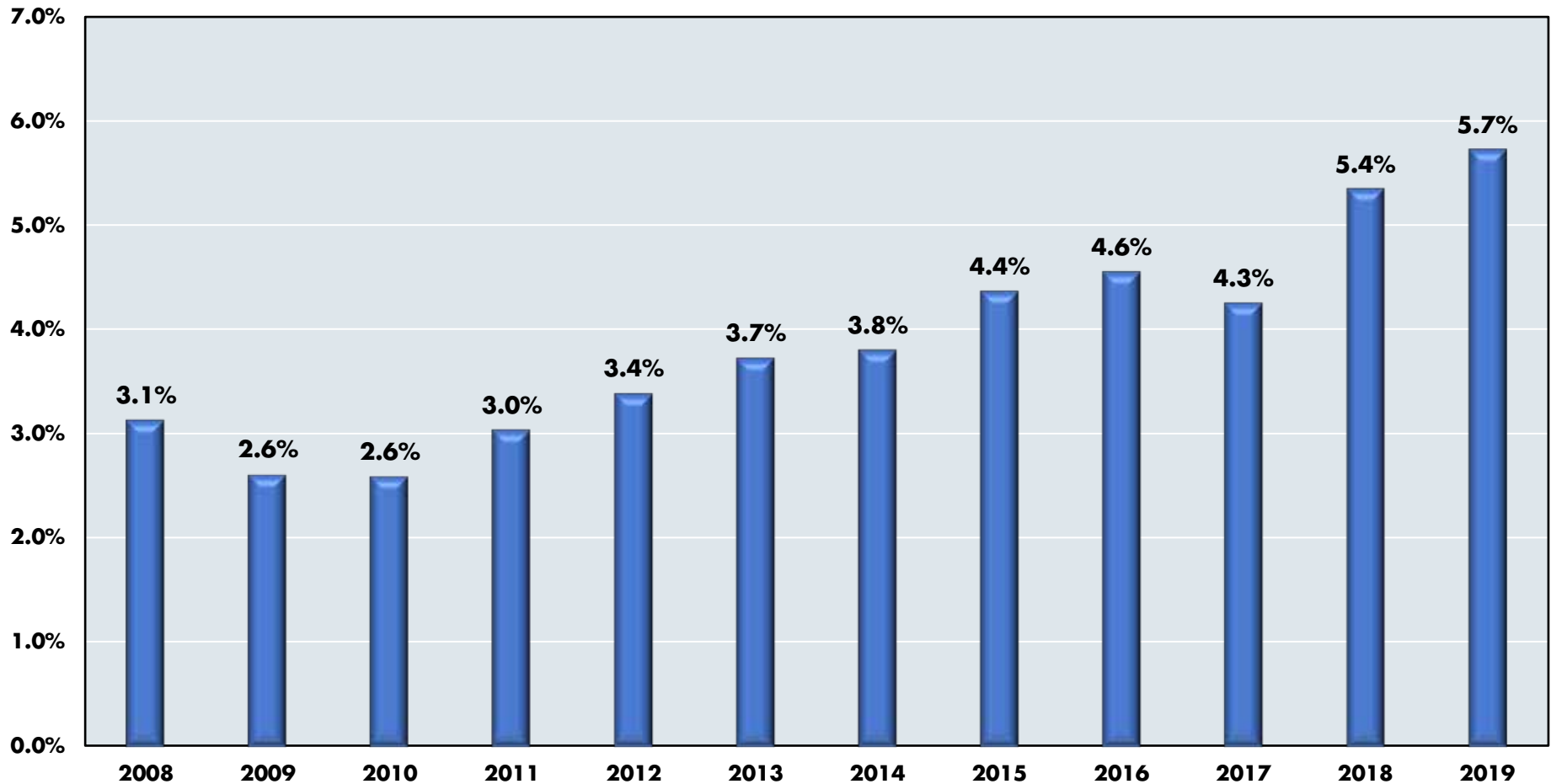
NEW APPRENTICES: UNITED STATES, 2008-2019



Source: Department of Labor

GRAPH 2

PERCENT OF A COHORT IN APPRENTICESHIPS: UNITED STATES, 2008-2019

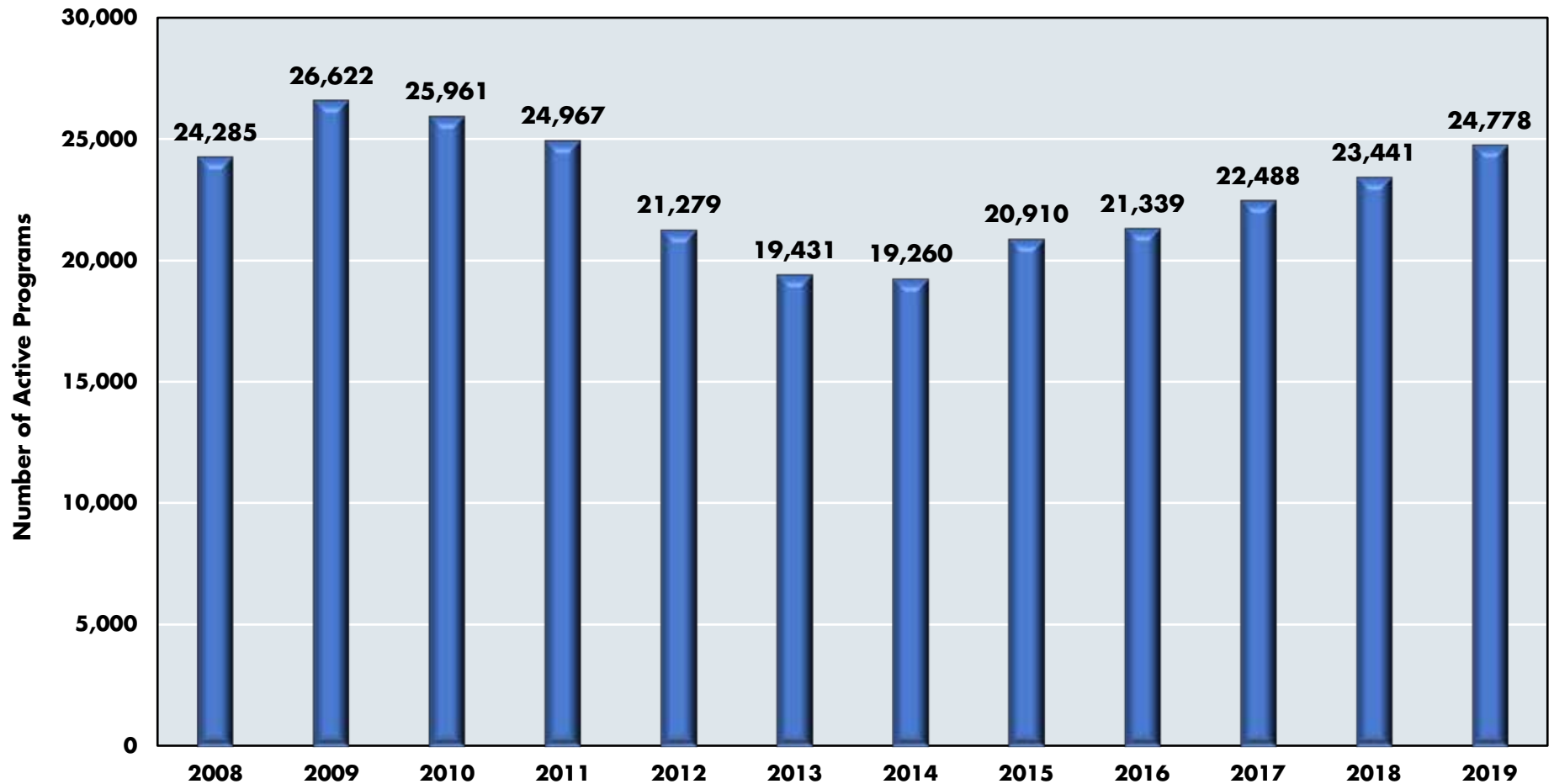


Sources: Department of Labor and U.S. Census Bureau

Note: Apprenticeship data are from the Labor Department and age breakdowns are from the Census Bureau's American Community Survey. In particular, according to the American Community Survey 5-year estimates, the number of 20-24-year-olds stood at 22,015,108 in 2019, or an average for each age of 4,403,021 people. Dividing the number of people entering apprenticeship programs in 2019 (252,271) by 4,403,021 equals about 5.7%. This approximates the size of a typical cohort entering the apprenticeship system.

GRAPH 3

ACTIVE APPRENTICESHIP PROGRAMS: UNITED STATES, 2008-2019



Source: Department of Labor

A Closer Look At The Newport News Shipbuilding Apprentice School

In 2019, The Apprentice School at Newport News Shipbuilding (NNS) celebrated its 100th birthday. Since its inception, it has employed, educated and trained more than 10,000 tradespeople and evolved from a small trade school with three faculty members into a full-service academic institution housed in an 85,000-square-foot cutting-edge facility. It also serves as part of NNS's "leadership factory," with 14 alumni rising to the vice president level. William R. "Pat" Phillips Jr., a 1954 pipe designer graduate, became the 14th president of NNS in 1992, the first Apprentice School graduate who became CEO and president of Newport News Shipbuilding. He retired in 1995, after 46 years with NNS.

As we delve deeper into The Apprentice School, we will look at several features that make it unique. But first, we start with a general overview, highlighting some distinctive features before moving on to the school's culture and its vision for the future.

OVERVIEW OF THE APPRENTICE SCHOOL

Similar to many higher education institutions, The Apprentice School offers athletics (six varsity teams in baseball, men's and women's basketball, football, golf and wrestling) and various student organizations as a complement to its academic instruction in the classroom. Recruiting takes place over a wide geographic area at both high schools and career fairs.

Peeling back the layers reveals several unique features in how the school operates. **First, starting cohorts are small, typically around 25 to 30 students each quarter. The number of apprentices ebbs and flows over time since enrollment depends on the employment needs at NNS.** Graph 4 gives a broad picture of enrollment and retention over the last decade. The total number enrolled has hovered around 800 annually. The number of terminations, an average of 80 per year, indicates

that advancing through the program isn't a cakewalk. Math is the most significant barrier to success on the academic side. Terminations due to math course failures, however, have been falling in recent years, owing to math remediation efforts and the introduction of night school.

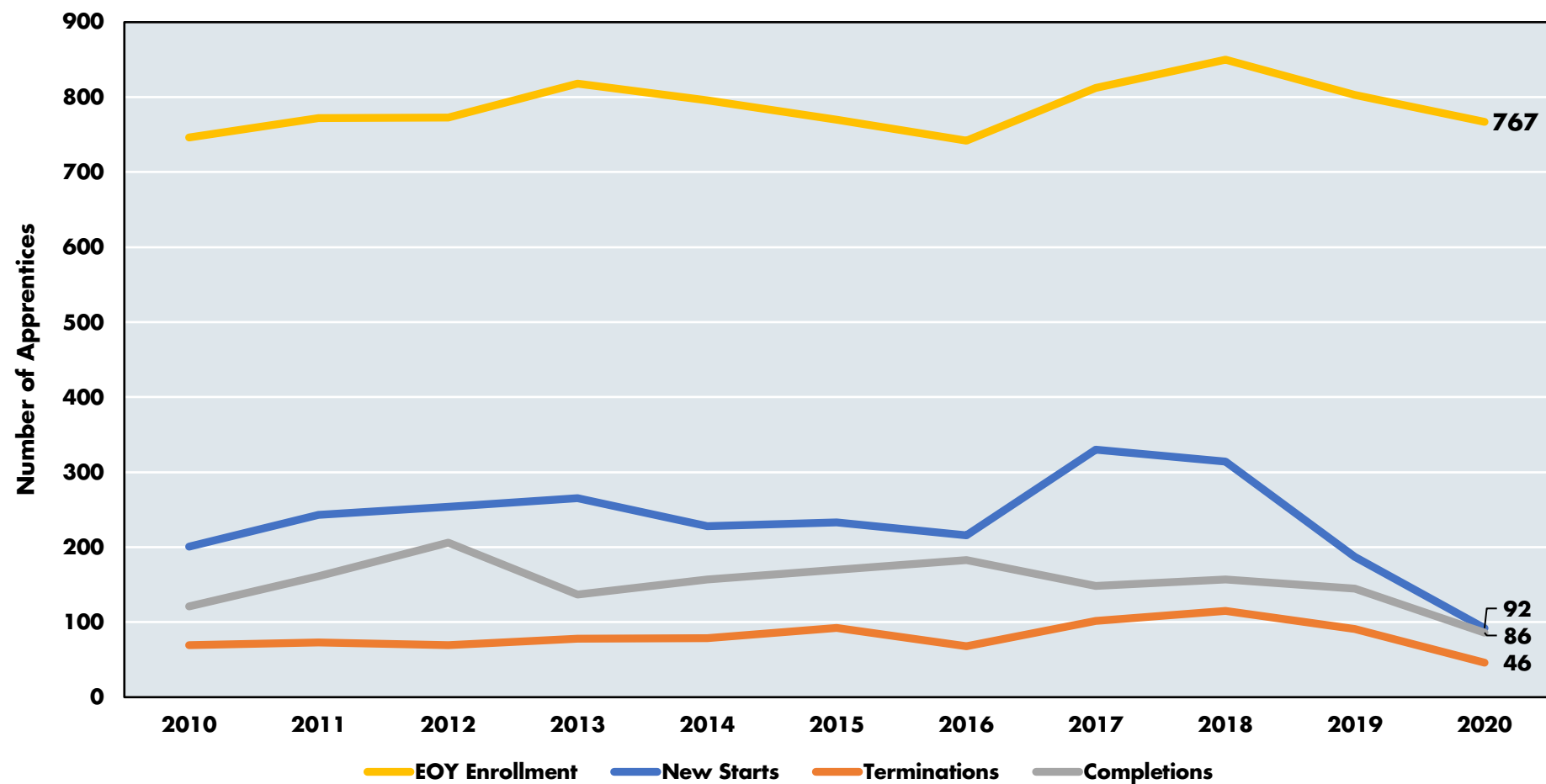
Second, the small cohort sizes also highlight another unique feature – small classes and close relationships with faculty.

Graph 5 shows the breakdown of faculty and staff in 2019. The Apprentice School has 71 craft and 15 academic instructors, creating a close-knit learning environment. The academic instructors all have graduate degrees in their field, while the craft instructors are all Apprentice School graduates themselves.

Third, admission to The Apprentice School is competitive – as competitive as the most elite Ivy League schools. The school receives upwards of 4,000 applications each year. Over the last decade, the largest number of new students to enroll each year was 330, while the low was 86, yielding acceptance rates between 2% and 8%. The varsity athletic teams account for around 55 of the open spots each year. To be considered for admission to The Apprentice School, applicants must be 18 or older and have a high school education. The admission process focuses on students with a hybrid of success in math and science courses as well as hands-on technical training experience. This tends to winnow down the applicant pool. Nonetheless, applicants with promise who are not admitted to The Apprentice School are encouraged to apply with NNS for general employment.

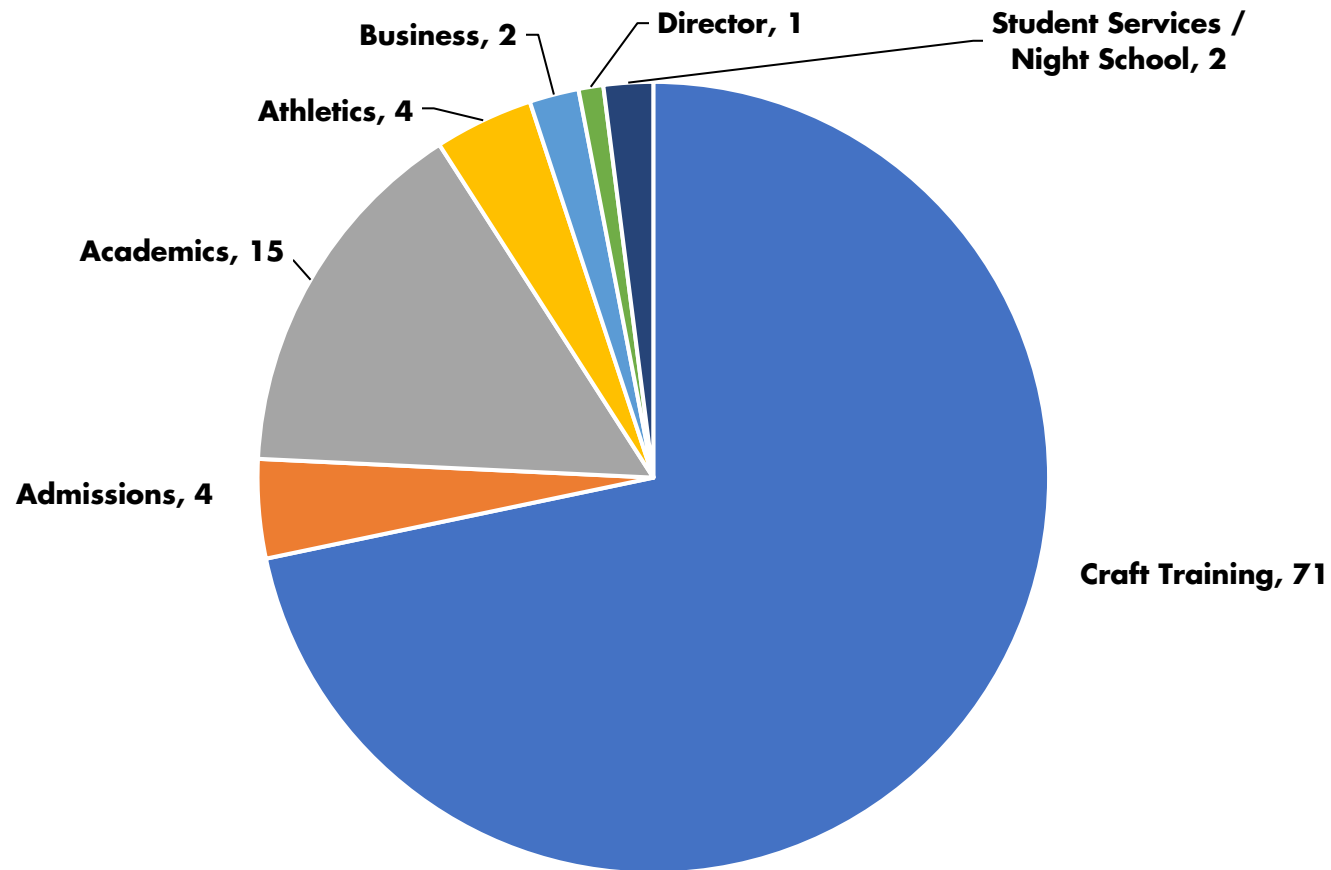
Similar to many community college student bodies, the average age of apprentices, 25, is older than that of typical undergraduates. This is due to many students entering the school after becoming unsatisfied with their early career trajectory. Graph 6 shows the student body makeup by race and gender. The Apprentice School student body reflects the demographics of many apprenticeship programs – primarily male (81%) and white (64%). However, those within the school note their continued efforts to diversify the student body. In 2020, 51 of the 767 (6.6%) students enrolled in The Apprentice School were veterans. Some even started out in the Navy on the waters near NNS and transitioned to school after separating from the military.

GRAPH 4
APPRENTICE SCHOOL ENROLLMENT AND RETENTION, 2010-2020



Source: The Apprentice School

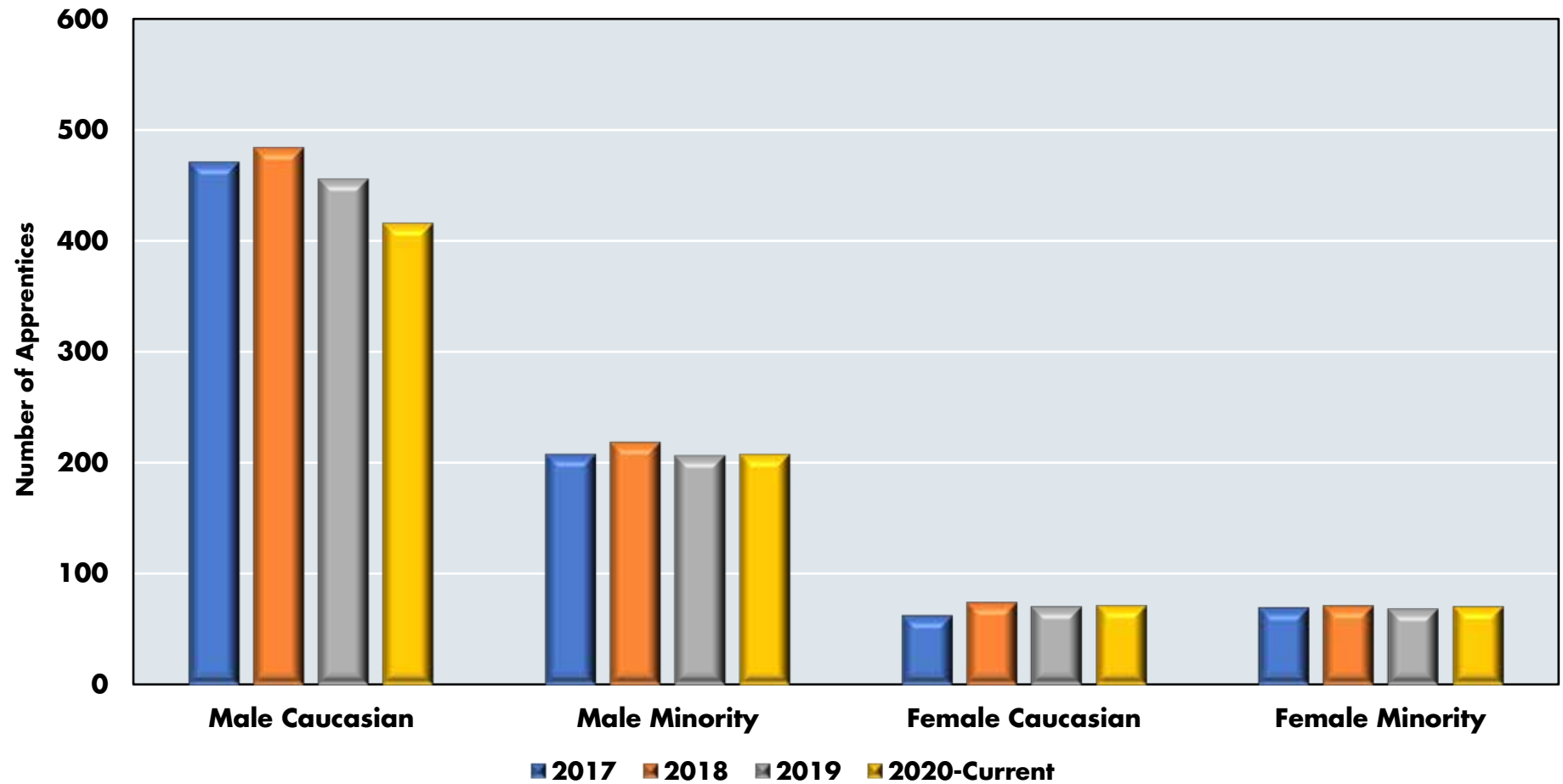
GRAPH 5
FACULTY AND STAFF AT THE APPRENTICE SCHOOL, 2019



Source: The Apprentice School

GRAPH 6

RACE AND GENDER OF STUDENTS ENROLLED AT THE APPRENTICE SCHOOL, 2017-2020



Source: The Apprentice School

Fourth, The Apprentice School seamlessly ties theory to practice and practice to theory. As a part of the school’s World Class Shipbuilder Curriculum (WCSC), students spend two days per week in the classroom, ultimately receiving approximately 1,000 hours of academic instruction (comparable to the requirements of many associate degree programs). This is coupled with 7,000 hours of hands-on training in various trades. As of April 2019, apprentices earn a Maritime Studies Certificate for completing the WCSC. Table 1 displays the academic portion of the training. Cynthia Lear, WCSC manager, highlights the practical applications of the classroom material and how it differs from that offered in traditional higher education:

“If you took a college geometry or trigonometry course you would be doing proofs, where ours is applied to what they are going to be seeing in the shipyard environment. So we make that relevant. A lot of our students are hands-on, so they need to know the relevancy of what they are learning in the classroom . . . when we start to look at and introduce mechanics and do statics and we look at forces on cranes,

things they are going to see in the shipyard. This helps solidify the content in the apprentice’s mind.

“In the Technical Mathematics II course, they are actually finding, for instance, volumes and surface areas of spherical tanks, which are shapes they would see in the shipyard. They may look at flow rates to see how long it takes to drain the tank or fill the tank using a certain-size pipe.”

Table 2 shows the range of trade disciplines offered at The Apprentice School. There are 19 shipbuilding disciplines with on-the-job training and mentoring. Apprentices who excel in the WCSC have the opportunity to pursue one of nine advanced fields. The advanced disciplines range from supply chain management apprentice to nuclear test technician. These disciplines couple on-the-job training with academic coursework in partnership with local higher education institutions. Apprentices can take classes at Thomas Nelson Community College toward an associate degree and at Old Dominion University for a bachelor’s degree in either engineering or modeling and simulation.

<div>TABLE 1</div> <div>WORLD-CLASS SHIPBUILDER CURRICULUM</div> <div>AT THE APPRENTICE SCHOOL</div>				
	Academic Terms			
Subject	1	2	3	4
Technical Mathematics	Technical Mathematics I (3)	Technical Mathematics II (3)		
Drafting, Engineering and Design		Drafting (3)		Mechanics (3)
Marine Engineering and Naval Architecture		Ship Construction I (2)	Ship Construction II (3)	
Physical Science			Physical Science I (3)	Physical Science II (4)
Technical Communications	Technical Communications I (3)		Safestart (2)	
Business Processes	Introduction to Computers (3)		Business Operations and Leadership (3)	Problem Solving (4)
Source: The Apprentice School Note: Credit hours are in parentheses.				

TABLE 2

TRADE DISCIPLINES AT THE APPRENTICE SCHOOL

Shipbuilding Disciplines

Coatings Specialist	Electrician	Heating and Air Conditioning Worker	Heavy Metal Fabricator
Insulator	Machinist	Maintenance Electrician	Maintenance Pipefitter
Millwright	Molder	Non-Destructive Tester	Outside Machinist
Patternmaker	Pipefitter	Rigger	Sheet Metal Worker
Shipfitter	Welder	Welding Equipment Repair	

Advanced Disciplines

Advanced Shipyard Operations	Cost Estimator	Metrology Technician	Marine Designer
Modeling and Simulation	Nuclear Test Technician	Production Planner	Marine Engineer
Supply Chain Management			

Source: The Apprentice School

APPRENTICE CULTURE

“What’s different here?” trade instructor and 1988 Apprentice School graduate Stan Best asked rhetorically during a discussion about The Apprentice School. “We have 100 years of history. We get to stand on [many] shoulders, and it is really our job not to ruin it.”

Latitia McCane, who came to The Apprentice School in 2018 as director of education after holding several community college leadership positions, also pointed to the importance of the school’s values in its overall success. Best and McCane are both referring to the culture and mindset that permeate the school. It’s a mindset of asking, “How I can help you?” – and one that values collaboration over competition, while also improving the bottom line.

School traditions transcend the age of the institution. One of them, says McCane, has to do with legacy. There are generations of families that send their children to train and learn there. It is not unheard of to have three generations of Apprentice School alumni working at NNS all at the same time. With that kind of legacy, one can easily see how loyalty runs deep.

This culture seems to be the driving force in the instructor-apprentice relationship. David Blunt, shipfitter craft instructor and 2008 graduate, commented, “My apprenticeship experience caused me to mature faster, put me in positions outside of my comfort zone and challenged me to make the best decisions possible. I have created lifelong bonds with other employees at The Apprentice School and throughout NNS who took me under their wing and showed me a multitude of ways to be successful while meeting customer demands.”⁵

Trade instructor Jacob Johnston, welder/non-destructive test inspector/craft instructor, class of 2006, notes: “Being a craft instructor allows me to train and pass on my knowledge to apprentices in Welding School and trade theory courses. The role also allows me to watch them grow as individuals and become successful in their trade and with the company. By developing trade and leadership skills in apprentices, we demonstrate our commitment to the company while continuing to help the school grow.”⁶

According to James Adkins, a Frontline FAST electrician apprentice, apprentices experience the benefits of collaboration firsthand – a departure

⁵ From the 2016 Apprentice School Annual Report.

⁶ From the 2016 Apprentice School Annual Report.

from the survival-of-the-fittest-style competition endemic in higher education. “Apprentices often collaborate through the sharing of ideas and previous experiences while working together on jobs,” he said. “This promotes growth among apprentices and helps the company save money by reducing man-hours spent on rework and downtime. This same collaboration helps to increase the quality of our product delivered to the U.S. Navy.”⁷

Retaining graduates is one of the key ways the culture cultivated at The Apprentice School helps the bottom line. Apprentices are compensated for their work in the trades as well as their time in the classroom. However, they do not have an obligation to stay with NNS after graduation. Nevertheless, 80% of Apprentice School graduates remain with the company for at least 10 years.

INNOVATION AND THE FUTURE OF THE APPRENTICE SCHOOL

Despite The Apprentice School’s long history and prominence at NNS, it is not resting on its laurels. Instead, it is pushing forward on several initiatives to help keep its future bright. For instance, the school has recently made strides in virtual delivery. The COVID-19 pandemic served to accelerate a process underway to bring academic training online. Furthermore, through two different grants, the school created a virtual technical training lab, dubbed the Innovation Room, for welding, machine tool technology and other disciplines. The aim is to take the Innovation Room to career fairs and give prospective students a hands-on feel for the apprentice training experience.

Since receiving approval last year to grant academic degrees, the school will soon be awarding Associate of Applied Science degrees in maritime technology in 26 disciplines, including maintenance electrician, marine designer, nuclear test technician, and modeling and simulation program analyst. Granting academic degrees is a significant move for the school as an educational institution and enhances its national reputation as a model apprenticeship program.

⁷ From the 2016 Apprentice School Annual Report.

Historically, The Apprentice School offered a hybrid program. Approximately 20% of apprentices qualified to earn an associate degree from Thomas Nelson Community College. Some of these students then transitioned to ODU to complete studies for a bachelor’s degree in engineering or modeling and simulation. However, the remaining 80% of the apprentices struggled to move into leadership positions that require at least an associate degree. The Apprentice School’s recent authorization to award associate degrees as a part of its curriculum provides an avenue for upward mobility, as graduates embark on their careers.

Xavier Beale, Newport News Shipbuilding’s vice president of trades, puts it best: “Our ability to offer academic degrees deepens our commitment to workforce development and will open new opportunities for our company to help to meet the ever-growing demand for skilled workers in our region.”⁸

While the move to confer academic degrees pushes The Apprentice School further down the educational pipeline, it is also reaching back with its pre-apprenticeship program. The idea underpinning this program is to provide mentoring, math enrichment and an introduction to soft job skills, like leadership, while also exposing students to the craft trades. The program started in fall 2019 with 11 students at the New Horizons Career and Technical Education Center. Of the 11 students in the program, seven went on to The Apprentice School, three took jobs at NNS (a division of Huntington Ingalls Industries) due to insufficient math skills, and one student opted to enroll at a traditional four-year college.

After the pilot program’s success at New Horizons, The Apprentice School is expanding its pre-apprenticeship program to more schools. It’s part of a broader effort to build a pipeline of talent for skilled-trade jobs, and the program is open to high school students whether or not they plan to go on to The Apprentice School. **The long-term goal is admirable: take students starting ninth grade and let them finish the academic portion of the WCSC while in high school, then follow up with on-the-job craft training, and ultimately award an associate degree.**

⁸ <https://newsroom.huntingtoningalls.com/releases/photo-release-the-apprentice-school-at-newport-news-shipbuilding-approved-as-an-institution-of-higher-education>.

The Apprentice School at NNS holds a unique place at the intersection of higher education and the workplace. The school often touts how it is “accelerating the time to talent” for its students. For example, Apprentice School alumni are helping spearhead the shipyard’s transition to high-tech initiatives, like integrated digital shipbuilding. Furthermore, many graduates are quickly moving up the ranks to become foremen. This is particularly important because the shipyard, flush with both young employees and longtime workers, has developed a gap in the middle of the workforce pipeline. Despite its many successes, however, The Apprentice School still faces challenges in some areas. For example, it has struggled to recruit and train women. However, the school is taking steps to change this. With the help of a U.S. Department of Labor grant, The Apprentice School is partnering with education, research, business and advocacy groups to come up with practical tools to increase enrollment among minorities and women. The school also plans to use its pre-apprenticeship program to engage females early in the trades.

Summing Up

The Apprentice School clearly operates at a high level, which prompts us to ask: What lessons can we learn from its success? Can its model be replicated and scaled? In light of these questions, we provide some final thoughts on expanding apprenticeship opportunities in Hampton Roads.

The Apprentice School provides a local “proof of concept” that apprenticeship programs can work well, especially if there is a strong relationship with an employer. When a program is done right, it yields a host of benefits to both employers and employees. However, sometimes the net benefits are difficult to quantify. Newport News Shipbuilding strongly believes in the efficacy of The Apprentice School, despite not having a rigorous, formal cost-benefit evaluation process in place. A recent report by researchers at Case Western Reserve University and the U.S. Department of Commerce provides some insight as to why they are so confident. The researchers looked carefully at several employer-led apprenticeship programs, including health care system Dartmouth-Hitchcock and manufacturing firm

Siemens USA, and found an internal rate of return of an astoundingly high 40% to 50%.⁹

The Apprentice School’s track record spans a century. It has survived the test of time because of its ability to adapt and evolve. This is both a promising and cautionary tale for others. Both policy makers and firms should develop apprenticeship programs that are nimble and can adjust to a changing economic environment.

Apprenticeships, especially those in the trades, can help address workforce gaps by supplying young employees. The Apprentice Institute at Tidewater Community College is a useful step forward for Hampton Roads. Linking apprenticeship programs with high schools also holds significant promise, but would require regional collaboration regarding workforce needs. Further, there are promising opportunities as well outside the trades, as the service sector continues to grow. For example, Hampton Roads’ medical institutions could establish an apprenticeship program for health care workers.

Unfortunately, expanding apprenticeship opportunities likely won’t come easy. As the saying goes, “Culture eats strategy (and policy) for breakfast.” At the firm level, The Apprentice School has a 100-year legacy and a culture that has evolved and strengthened over time. Huntington Ingalls’ sister shipyard in Pascagoula, Mississippi, which also has an apprenticeship program, would love to have the same level of success.

The broader culture around apprenticeships can also act as a stumbling block to both future applicants and firms. There is a perception that apprenticeships are only for the trades. Parents often view apprenticeship programs as a less-desired option for their children, when compared to a college education, and are unaware that many such programs provide a pathway to a baccalaureate degree. Meanwhile, inexperienced firms are wary of taking on the regulatory burden of registering an apprenticeship program. Finding ways to change some of these cultural attitudes is crucial to expanding apprenticeships in the region. We believe making such an effort is worthwhile.

⁹ Susan Helper, Ryan Noonan, Jessica R. Nicholson and David Langdon, “The Benefits and Costs of Apprenticeships: A Business Perspective,” U.S. Department of Commerce (2016), <https://files.eric.ed.gov/fulltext/ED572260.pdf>.

All In: Casinos, Online Betting and the Future of Gambling in Hampton Roads



ALL IN: CASINOS, ONLINE BETTING AND THE FUTURE OF GAMBLING IN HAMPTON ROADS

*You've got to know when to hold 'em
Know when to fold 'em
Know when to walk away
And know when to run*
— From "The Gambler," as sung by Kenny Rogers

Gambling is not new to the Commonwealth of Virginia. In 1612, the Virginia Company of London held a lottery to fund ships bound for the Jamestown Colony. After King William III and Queen Mary II of England signed the royal charter in 1693 to establish what is now known as the College of William & Mary, lottery funds helped fuel construction of the campus. Not only were lotteries a means of funding public infrastructure projects in the Colonies, they also were used to purchase supplies for Continental Army soldiers in the field during the Revolutionary War.¹ Over the next 200 years, the popularity and legality of lotteries and other forms of gambling in Virginia waxed and waned until the passage of a public referendum to create the Virginia Lottery in 1987. For a state that once cast a suspicious eye on gambling, Virginia is now all in on gambling.

With the sale of the first scratch ticket in September 1998, the Virginia Lottery marked an inflection point in public attitudes and policies about gambling in the Commonwealth. Now, Hampton Roads residents can play the lottery in person or online, place bets with online sportsbooks such as FanDuel, DraftKings and BetMGM, and play historical horse racing machines in Hampton. Soon to enter this increasingly competitive arena of gambling will be the Rivers Casino Portsmouth (late 2022) and HeadWaters Resort & Casino in Norfolk (2023).

When it comes to gambling, it's all about winners and losers. Success, whether in the lottery or at a gaming establishment, is often celebrated in the media, while gambling losses and costs to society are rarely mentioned. In January 2021, a Newport News resident won a record-breaking \$914,000 jackpot at Rosie's Gaming Emporium in Hampton.² In March 2021, a Virginia Beach

woman won \$1 million playing the Virginia Lottery.³ In April 2021, a local shipyard worker walked away with \$2 million following a Powerball lottery drawing.⁴ We learned about these lucky individuals from TV and newspaper stories.

One is much harder pressed, however, to hear and read stories about local residents who lose money gambling, who suffer from gambling addiction or who were victims of crime due to increased gambling activities. The same holds true for stories about the associated costs of gambling to city and county budgets. As President John F. Kennedy once told a reporter, "Victory has a hundred fathers and defeat is an orphan."

1 Charles T. Clotfelter and Philip J. Cook, *Selling Hope: State Lotteries in America* (Cambridge, MA: Harvard University Press, 1989), p. 20.

2 <https://www.wavy.com/news/local-news/hampton/newport-news-man-hits-914k-record-breaking-jackpot-at-rosies-in-hampton/>.

3 <https://www.13newsnow.com/article/news/lottery/i-cant-stop-smiling-virginia-beach-woman-wins-1-million-in-virginia-lottery/291-3e3078e4-3a6e-40d1-b78d-bd0318f88c89>.

4 <https://www.wavy.com/news/local-shipyard-electrician-wins-2-million-in-powerball-drawing/#:~:text=Local%20shipyard%20electrician%20wins%20%242%20million%20in%20Powerball%20drawing,-News&text=SUFFOLK%2C%20Va>.

While Norfolk and Portsmouth are likely to benefit from the construction and operation of the new casinos, the overall impact of this bet on the Virginia Beach-Norfolk-Newport News metropolitan statistical area (Hampton Roads) is likely to be small. Why? As residents begin to frequent these casinos, they will, in effect, be moving their money from one form of entertainment to another in the region. In other words, instead of spending their hard-earned dollars at bars, restaurants and movie theaters, consumers will be “voting with their feet” and spending some of their money at these new venues.

We estimate that the Norfolk and Portsmouth casinos will lift regional gross domestic product (GDP) between \$100 million and \$400 million annually. This expected impact equates roughly to 0.1% to 0.3% of regional GDP. However, the casinos will also shift spending within the two cities and across the region, as consumers decide to spend some of their entertainment dollars at these gaming establishments instead of other entertainment, hospitality and leisure businesses in the region. We applaud the fact that these developments are not receiving direct public subsidies, a departure from some previous projects in the region and the Commonwealth. Finally, we note that if competition proves fiercer than expected or patrons tire of casino gaming at some point, our estimates likely represent an optimistic economic outcome. Given the unfulfilled promise of casinos in many communities, it is perhaps best to enter this discussion with clear eyes, even if we hope with full hearts for a resounding success.

In this chapter, we examine the evolution of gambling in the United States and Virginia, and the future of gambling in Hampton Roads. We estimate the impact of the Norfolk and Portsmouth casinos and discuss how displacement may alter the projected economic effects of these new venues. We also look at the social costs of gambling and pay particular attention to gambling addiction. We conclude with some thoughts on whether betting on gambling will spur innovation and growth in the region.

Gambling In The United States: From The Rat Pack To Your Phone

If the only constant is change, then the state of gambling in the United States embodies this saying. In the 1960s, Frank Sinatra, Dean Martin, Sammy Davis Jr., Peter Lawford and Joey Bishop, collectively known as the “Rat Pack,” helped transform the image of Las Vegas, Nevada, from a place to gamble to a highly popular entertainment destination where one could not only legally gamble in a casino, but also enjoy shows and concerts. In the United States, casino gambling was legal only in Nevada until New Jersey voters approved casino gambling for Atlantic City in 1974. While sports track betting was also legal in a number of states, most communities were relatively distant from an establishment where one could place a legal bet.

To say that times have changed would be an understatement. Since the 1970s, attitudes and policies toward gambling have shifted dramatically. Forty-five states and the District of Columbia now operate state lotteries. In 2018, the U.S. Supreme Court ruled that the Professional and Amateur Sports Protection Act of 1992, which effectively granted Nevada a monopoly on legal sports betting, was unconstitutional. A number of states, including Virginia, rapidly moved to create the legal and regulatory frameworks necessary for residents to place sports bets via computer or their phone. By 2019, 18 states had land-based commercial casinos and another six states were operating riverboat casinos (which, curiously, rarely venture beyond their designated pier).

Americans’ views on gambling as a morally acceptable activity have continued to shift over the last two decades. In the most recent Gallup survey of American moral values, 68% of respondents replied that gambling was “morally acceptable.”⁵ This represents an 8% increase from when the question was first asked in 2003. Drinking alcohol, smoking marijuana and gambling were all viewed as morally acceptable by at least 7 in 10 respondents to the 2020 survey. The push for more legalized forms of gambling is not only driven by states and localities in search of revenue, but also by citizens’ preferences.

⁵ Gallup (2021), “Moral Issues,” available at: <https://news.gallup.com/poll/1681/moral-issues.aspx>.

When one hears the word “gambling,” thoughts of casinos and horse tracks may come to mind. The commercial casino, with its blackjack tables, roulette wheels and slot-style machines, has occupied a place in the American consciousness for decades. However, the number of commercial casinos in operation has waxed and waned over the last decade. As illustrated in Graph 1, the number peaked at 524 in 2016, before falling sharply the following year. The number of casinos in operation in 2020 was roughly equivalent to the level seen in 2007.

The COVID-19 pandemic and associated restrictions on economic and social activity negatively affected the financial performance of commercial casinos. Casino revenues declined in 2020 to approximately \$30 billion, a level not seen since 2003. For the first quarter of 2021, the American Gaming Association (AGA) reported that casino revenues were \$11.1 billion, a 17.7% increase compared to the same quarter in 2020.⁶ With an increasing number of Americans vaccinated and demand for leisure and hospitality services on the rise, we are likely to observe a sharp rebound in casino revenues in 2021. Whether these revenues can be sustained in the face of increasing competition for gambling dollars remains to be seen.

State and local lotteries have grown considerably over the last three decades. In the late 1970s, state and local lottery revenues amounted to less than \$1 billion. By 2019, revenues approached \$29 billion.⁷ Growth in some states, however, slowed (if not declined outright) as consumer fatigue set in and competition in other sources of gambling intensified over the last decade. In Virginia, the launch of the mobile lottery and larger jackpots lifted lottery revenues to \$1.43 billion and profits to \$350 million (a record) in just the second half of 2020.⁸

Competition is likely to only increase for casinos and lotteries in the coming years. Since the U.S. Supreme Court struck down Nevada’s legal monopoly on sports betting in 2018, this particular form of gambling is now offered in 21 states and the District of Columbia and is legal, but not yet operational,

in another 10 states.⁹ Intrastate mobile sports betting had been implemented or authorized, at the time of this writing, in 14 states and the District of Columbia. While some states require in-person registration for mobile betting, this requirement appears to limit revenue growth and is likely to fall by the wayside. **In 2018, total sports betting revenue in the United States amounted to \$430.7 million. In 2019, it more than doubled, jumping to \$908.9 million. Sports betting revenue is forecast to reach \$2.5 billion in 2021 and could hit \$8 billion by 2025.¹⁰ Every dollar wagered by phone or computer is one less dollar that could have been spent on a lottery ticket or gambled in a casino.**



⁶ AGA Commercial Gaming Revenue Tracker, <https://www.americangaming.org/resources/aga-commercial-gaming-revenue-tracker/>.

⁷ Statista, state and local lottery revenue in the United States from 1977 to 2019, <https://www.statista.com/statistics/249128/us-state-and-local-lottery-revenue/>.

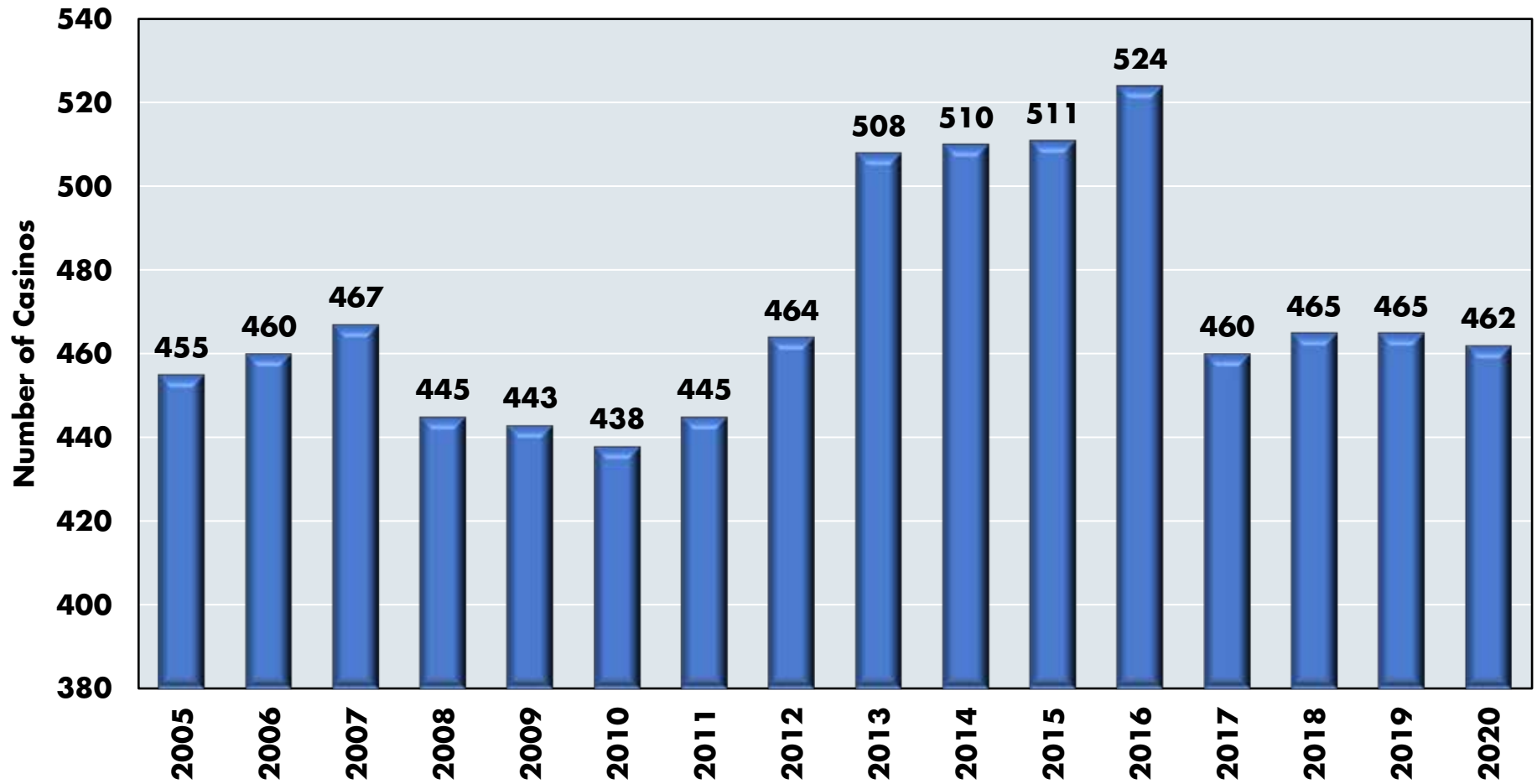
⁸ https://richmond.com/news/state-and-regional/govt-and-politics/big-jackpots-online-gambling-lift-virginia-lottery-revenue-37-in-late-2020/article_98743ed5-de36-567a-90e6-22b7fd4033d8.html.

⁹ <https://www.actionnetwork.com/news/legal-sports-betting-united-states-projections>. The state data are current as of August 2021.

¹⁰ S. Lock (2021), “Forecast revenue from sports betting in the U.S. 2021-2025,” at: <https://www.statista.com/statistics/1117369/sports-betting-revenue-forecast-us>.

GRAPH 1

NUMBER OF COMMERCIAL CASINOS IN THE UNITED STATES, 2005-2020



Source: Statista (2021)

Virginia Rolls The Dice

For decades, the attractiveness of casinos for some Virginia stakeholders has been the lure of additional tax revenue without having to levy new taxes or increase existing tax rates, the creation of new jobs and the addition of new venues to attract more visitors (and their dollars) to the Commonwealth. Legalizing casinos in Virginia could also stem the flow of Virginians to other states in search of gambling opportunities. It is, as the rapper Puff Daddy sang in 1997, “all about the Benjamins.”

Over the last five years, there has been a rapid shift in public policy toward gambling in Virginia. In 2015, legal gambling consisted primarily of the Virginia Lottery, historical horse racing and games associated with charitable giving. By 2021, Virginians could gamble via online lotteries, wager bets with mobile sportsbooks, visit expanded historical horse racing sites and look forward to frequenting commercial casinos in the near future.¹¹ Table 1 provides descriptions of the types of gambling that are currently legal in Virginia.

One might argue that the demarcation line for this change in public policy was drawn in March 2019 when Gov. Ralph Northam signed Senate Bill 1126, establishing a broad framework for expanding commercial casinos and authorizing casino gaming to be regulated by the Virginia Lottery Board. The bill included a reenactment clause, which meant it would need to be passed again for it to take effect. The clause directed the Joint Legislative Audit and Review Commission (JLARC) to conduct a review of gaming laws in other states and approximate what would occur in Virginia if casino gambling were authorized in the Commonwealth. The findings from JLARC’s report prompted the re-signing of the bill in 2020.

The bill authorized casinos in five cities – Bristol, Danville, Norfolk, Portsmouth and Richmond – but only if citizens approved the casinos. Residents in Bristol (71.1%), Danville (68.7%), Norfolk (65.1%) and Portsmouth (66.8%) resoundingly voted in favor of having a commercial casino in their cities. Richmond has scheduled a vote on its proposed casino for November 2021.¹²

In 2019, Richmond was among five cities in the Commonwealth authorized to build and operate a casino. Unlike the other four cities that debuted their casino proposals during the November 2020 general election, Richmond decided to postpone its referendum until November 2021. Council members whittled six proposals to two and then selected the One Casino + Resort in May 2021. The developers have said that the proposed casino will create more than 1,000 jobs, with salaries of over \$50,000 annually. With five casinos being built in the Commonwealth, assuming the Richmond referendum passes, one must question whether all of them can survive in the long run. Opponents argue that the casinos will likely increase problem gambling and primarily attract lower-income customers, serving in essence as a regressive form of taxation. While voters will determine the fate of the proposed Richmond casino in the fall, given the success of the other four casino referenda, it is likely the Richmond referendum will also be approved. For Norfolk and Portsmouth, this would mean another competitor, just 90 minutes up the road.

¹¹ Games of skill were legal for a short period but were effectively banned on July 1, 2021.

¹² “Richmond city postpones casino application and calls for citizen input in 2021” (December 2020), <https://www.rva.gov/sites/default/files/2020-12/Casino%20RFQ%20RFP%20-%20Final.pdf>; “Pamunkey Indian Tribe out of Richmond casino race following city rejection” (March 2021), <https://www.wric.com/news/local-news/richmond/pamunkey-indian-tribe-out-of-richmond-casino-race-following-city-rejection/>

TABLE 1
GAMBLING BY TYPE IN VIRGINIA, 2021

Type	Definition
Casino gaming	Table games (such as craps, roulette, baccarat, poker, etc.) and wagering played with cards and electronic gaming devices where players wager money. Video lottery machines (slot machines) have become one of the most popular forms of gambling in casinos.
Charitable gaming	Bingo, charity game tickets, raffles and charity fundraising permitted by the Office of Charitable and Regulatory Programs throughout Virginia. There were 37 charitable gaming permits operating in Hampton Roads as of March 2021.*
Fantasy sports betting	Players create a fantasy sports team and compete against other teams to win money. Virginia introduced legal fantasy sports betting regulation in 2016.
Games of skill	Games of skill are slot-like machines that appeared in restaurants, bars and convenience stores. The outcome of these games is determined by a player's mental or physical skills rather than by chance. These machines operated in a "grey area" of the law until they were banned in 2020 but were then granted a reprieve in return for tax collections. Skill games were banned again on July 1, 2021.
Historical horse racing machines	Electronic gambling system that allows players to bet on the outcome of horse races that have already been run. These machines appear very similar to a traditional slot machine. Users can select their horse "winners" with each wager or use an auto cap feature for random horse selection.
Live horse race betting	Individuals place in-person bets on the outcome of a live horse race.
Lottery (scratchers, state lottery)	Prize drawings where entrants pay for a chance to win a large jackpot or instant prizes by scratch "reveal" tickets
Online horse race betting	Individuals place bets on live horse races via an online website or a smartphone app from the comfort of their own home.
Sports betting	Placing bets on a particular outcome or winner of a domestic or international sports event (including straight, total line, money line, parlay and teaser bets)
Sweepstakes sites	A contest in which participants enter for a chance to win a range of prizes (from houses to cars to money), and winners are drawn at random
Source: Dragas Center for Economic Analysis and Policy, Old Dominion University Note: *Online Directory of Bingo Sessions in Virginia, https://www.vdacs.virginia.gov/pdf/bingo_events.pdf	

The Rise Of Mobile Betting

When Virginia launched, it was our most successful launch to date, with more users on the first weekend than any state before it.

– Kevin Hennessy, FanDuel Director of Publicity¹³

The bet on casinos by Bristol, Danville, Norfolk and Portsmouth (and, we expect, Richmond after the November election) is being made at a time when the gambling industry is experiencing a period of profound change. Two decades ago, the thought of sitting on your couch and placing real-time bets on whether the next football pass will be completed, a basketball game beats the over/under or an MMA boxer lands more punches than an opponent in a particular round was just a glimmer in the eyes of entrepreneurs. Today, not only does this technology exist, but also consumers are embracing it enthusiastically. While the number of casinos remains relatively stable and lottery revenue growth has slowed, sports betting revenue nationally is projected to increase from \$2.5 billion in 2021 to \$8 billion in 2025.

Virginia legalized sports betting in April 2020 with the passage of Senate Bill 384, which allows for up to 12 online sports-betting providers in the Commonwealth.¹⁴ Table 2 lists the online and mobile sportsbook applications that have already launched or will launch in Virginia. FanDuel was the first, followed quickly by DraftKings, BetRivers, BetMGM and William Hill. Currently, nine providers are either operating or have been approved to operate a mobile sportsbook in the state. Physical sportsbook locations are anticipated to open in spring 2022. JLARC estimates that the mobile sports-betting market will generate between \$22 million and \$55 million annually in tax revenue for the Commonwealth.

TABLE 2
ONLINE AND MOBILE SPORTSBOOK APPS IN VIRGINIA

Online Sportsbook	Launch Date	Partner Casino/ Organization	Probable Physical Sportsbook Location
FanDuel Sportsbook	Jan. 21, 2021	Washington Football Team	TBD
DraftKings Sportsbook	Jan. 24, 2021	Stand-Alone License	TBD
BetRivers	Jan. 27, 2021	Rush Street Gaming	Portsmouth
BetMGM	Jan. 27, 2021	Stand-Alone License	TBD
Caesars Sportsbook (formerly William Hill)	Feb. 3, 2021	Caesars	Danville
WynnBET	March 11, 2021	NASCAR	Martinsville, Richmond
Unibet	April 28, 2021	Stand-Alone License	TBD
PointsBet	TBD	TBD	TBD
bet365	TBD	Hard Rock	Bristol

Source: Sports Handle, <https://sportshandle.com/virginia/>, updated as of Aug. 30, 2021

¹³ <https://www.13newsnow.com/article/news/local/mycity/norfolk/virginia-leading-the-way-for-popular-sports-betting-platform-fanduel/291-888e7ff-3a1a-4433-8c6c-0920e4951d89>.

¹⁴ https://www.americangaming.org/wp-content/uploads/2021/03/AGAGamingRegulatoryFactSheet_Virginia-2021.pdf.

Games Of Skill Or Games Of Chance?

While Virginia was debating whether to approve commercial casinos, gaming machines began appearing in restaurants, bars, convenience stores and truck stops throughout the state. These machines – actually, electronic, computerized terminals – were played by inserting money in hopes of winning a cash prize. On the outside, there appeared to be no fundamental difference between a virtual slot machine and these games; however, operators argued that these machines required skill, rather than chance, to win.

The distinction between skill and chance is important from a legal perspective. If the outcome of a game is determined by the player's ability, then it is not a random event. A popular game of skill mimics the Simon memory game, whereby a player must remember color combinations of increasing complexity. Another version requires a player to identify patterns among nine different pictures, much like a pictorial tic-tac-toe game, but with time limits and "wild cards." These games of skill differ considerably from a slot machine where the player's only input is a bet and the push of a button to start the gamble.



A GAMBLER PLAYS A SKILL GAME AT A LOCAL CONVENIENCE STORE IN HAMPTON.

Games of skill occupied what one could consider an ill-defined legal space. The machines were not taxed or regulated and, while some were skills-based, others appeared to cross the line into games of chance. Virginia planned to ban these games in 2020, even though many small-business owners argued that the revenue from these machines allowed them to make capital investments and expand staff. Dave Willis, a restaurant/bar owner in Norfolk, introduced the gaming machines around 2018 when his business was struggling, and that decision proved to be invaluable. After adding these games, Willis was able to afford a small remodel and increase his employees' wages. In Virginia Beach, a similar story was told by Melody Weekly, owner of Mel's place, a bar and grill. Weekly found that the gaming machines not only provided additional revenue, but also contributed to an increase in food and beverage sales. The extra money allowed her to upgrade the building and hire more staff.¹⁵

As the COVID-19 pandemic rolled across Virginia in spring 2020, however, social distancing and restrictions on economic activity threatened to overwhelm many of these same businesses. Legislators, fearing a significant downturn in state revenues, decided to allow these machines to operate legally in the Commonwealth and to use the tax revenues and license fees for COVID-19 relief, problem gambling and local community support. The tax was \$1,200

¹⁵ <https://www.pilotonline.com/business/vp-nw-games-of-skill-ban-rally-20200301-rct4toj7xzcjgd3kty3uke2u-story.html>.

per machine every month a machine was operated in Virginia, and game distributors were subject to the tax. With over 10,000 machines and \$198.4 million in wagers placed in May 2021, the legalization of these machines was welcomed by many small-business owners and their patrons (Table 3). The Commonwealth collected over \$100 million in taxes while the machines were legal in Virginia.¹⁶

Even though these machines produced a boon for the state and business owners, the Commonwealth banned games of skill on July 1, 2021. One argument was that these games bring gambling and its associated social costs into local neighborhoods, though, curiously, the same argument could be made about lotteries and mobile betting. In all likelihood, the primary rationale was the fear that these machines competed with lottery sales and also posed a threat to the state's nascent casino industry. A 2019 presentation by the Virginia Lottery Board attributed slowing growth in lottery sales to the prevalence of gray market machines.¹⁷ However, in a December 2020 presentation to the Virginia House Appropriations Committee, Dan Timberlake, director of the Virginia Department of Planning and Budget, noted that gray-machine revenue had fallen short of expectations. When asked why, he replied: "One reason we believe the gray-machine revenue is not what was originally forecasted is because people weren't going into the stores (to play them). But what they were doing, to our surprise, is that they were buying lottery tickets. The lottery is not seeing the loss of revenue from the fact that the gray machines are still out there."¹⁸

If the state reaped revenues from both games of skill and lottery sales, it should have been indifferent to where the money originates. The short-lived experiment with games of skill generated revenue for businesses and the Commonwealth and was obviously welcomed by many Virginians. Arguments that one form of gambling displaces another should fall on deaf ears, as it should not be the responsibility of the Commonwealth to choose winners and losers.



¹⁶ <https://www.fox5dc.com/news/some-va-business-owners-fight-against-ban-on-skill-games>

¹⁷ Virginia Lottery briefing for House Appropriations and Senate Finance committees, September 2019, https://i1odvirginiageneralassembly.s3.amazonaws.com/agenda_block_docs/attaches/000/000/428/original/111_-_Lottery.pdf?1568640091.

¹⁸ <https://www.playvirginia.com/virginia-gray-machines-lottery-sales/>.

TABLE 3

MONTHLY REPORT OF SKILL GAME MACHINES IN THE COMMONWEALTH, MAY 2021

Region	Total Wagered	Total Awarded	In Play	Warehoused	Total Machines
Region 1 (Roanoke)	\$20,697,585	\$15,240,639	1,065	13	1,078
Region 2 (Lynchburg)	\$32,046,065	\$26,841,343	1,056	47	1,103
Region 3 (Staunton)	\$10,660,184	\$8,177,235	557	8	565
Region 4 (Alexandria)	\$24,862,133	\$19,137,080	994	38	1,032
Region 5 (Fredericksburg)	\$10,708,016	\$7,877,868	542	27	569
Region 6 (Richmond)	\$40,456,679	\$32,056,971	1,666	104	1,770
Region 7 (Hampton)	\$21,251,730	\$17,414,045	922	38	960
Region 8 (Chesapeake)	\$29,829,243	\$22,337,921	1,539	36	1,575
Region 9 (Charlottesville)	\$7,889,460	\$5,936,468	369	11	380
Other*	\$0	\$0	18	1,163	1,181
Grand Total	\$198,401,095	\$155,019,571	8,728	1,485	10,213

Source: <https://rga.lis.virginia.gov/Published/2021/RD162/PDF>

*Eighteen machines were improperly reported by the distributors as being warehoused, but according to ABC's records they were still subject to the monthly tax.

Bright Lights, Big Gamble? Casinos In Hampton Roads

With the legal framework now in place for five casinos to operate throughout the Commonwealth, how will the casinos in Hampton Roads fare? They will face increasing competition from a variety of sources. First, the rise of mobile and online gambling, as well as the existence of established forms of gambling (lotteries, historical horse racing), means that the casinos will enter an increasingly competitive marketplace. Second, Hampton Roads will be the only region in Virginia (for now) with two casinos in relatively close proximity. Third, there are a growing number of alternatives for one who wants to gamble within 250 miles of Hampton Roads, a fact that poses a challenge to casinos attempting to attract new visitors to the region for the purpose of gambling (Table 4). These factors may lead to a casino “arms race,” where “more casinos are expected to be increasingly dependent on local patrons or convenience gamblers to support their operations and will likely use proven marketing approaches to attract potential gamblers who live near their facilities” (e.g., frequent player incentives, free/discounted dining and drinking programs, and entertainment discounts).¹⁹

Increasing competition, discounts and reliance on local patrons would diminish the economic impact of the casinos on Hampton Roads over time. Competitive pressures would reduce demand for casino gambling, while incentives and discounts would diminish the revenue per patron. An increasing reliance on local residents would merely recycle spending in the regional economy, diminishing the casinos’ contribution. With these proverbial headwinds in mind, we turn to the task of estimating the potential economic impact of these projects on the region.



¹⁹ Julia M. Camp, Carol A. Hartley and Patrick T. Kelly, “The Expansion of Casino Gambling in the United States – State Revenues and Public Interest Implications,” *Accounting and the Public Interest* (2018) 18 (1): 96, <https://doi.org/10.2308/apin-52199>.

TABLE 4

CASINOS AND RACETRACKS/CASINOS WITHIN 250 MILES OF HAMPTON ROADS

Name	Location	Type	Racing Type	Gaming Machines	Table Games
Horseshoe Casino	Baltimore, MD	Casino	-	2,200	168
Ocean Downs Casino and Racetrack	Berlin, MD	Horse Track/Casino	Harness	900	10
Hollywood Casino at Charles Town Races	Charles Town, WV	Horse Track/Casino	Thoroughbred	1,300	90
Horseshoe Casino	Danville, VA	Casino (Proposed)	-	2,000	75
Dover Downs Hotel & Casino	Dover, DE	Horse Track/Casino	Harness	2,600	58
Rosie's Gaming Emporium	Dumfries, VA	Gaming Emporium	-	150	-
Rosie's Gaming Emporium	Hampton, VA	Gaming Emporium	-	700	-
Live! Casino & Hotel	Hanover, MD	Hotel and Casino	-	4,000	250
Harrington Raceway and Casino	Harrington, DE	Horse Track/Casino	Harness	1,800	51
Colonial Downs	New Kent, VA	Horse Track	Harness and Thoroughbred	-	-
Rosie's Gaming Emporium	New Kent, VA	Gaming Emporium	-	600	-
HeadWaters Resort and Casino	Norfolk, VA	Casino (Proposed)	-	3,000	150
MGM National Harbor	Oxon Hill, MD	Casino	-	2,900	170
Rivers Casino	Portsmouth, VA	Casino (Proposed)	-	TBD	TBD
Rosie's Gaming Emporium	Richmond, VA	Gaming Emporium	-	700	-
One Casino + Resort	Richmond, VA	Casino (Proposed)	-	1,800	100

Source: Casino City, an independent directory and information service free of any gaming operator's control, www.casinocity.com

HEADWATERS RESORT AND CASINO IN NORFOLK

In September 2019, Norfolk's City Council initially authorized a land deal with the Pamunkey Indian Tribe that included a hotel, restaurants and an entertainment venue.²⁰ The proposal would have designated the land as sovereign to the Pamunkey, not subject to taxation, and outside the jurisdiction of Norfolk. In November 2019, after complaints of a lack of transparency, doubts about the benefits of the deal and a signature petition that forced the council to schedule public hearings, a new vote was scheduled on the proposal. Two months later, Norfolk Mayor Kenny Alexander announced the Pamunkey Tribe would go through the Commonwealth of Virginia. This change reduced the initial investment plans from approximately \$700 million to about \$500 million, although these estimates continue to evolve. Tennessee billionaire and casino-gaming mogul Jon Yarbrough teamed up with Golden Eagle, the tribe's development partner, on the project.

In 2020, the city of Norfolk and the Pamunkey Indian Tribe came to a final agreement, and the tribe signed a deal to purchase land to build the casino resort. The new deal ensures the land will not become sovereign land and Norfolk will receive tax revenue. The tribe has also been confirmed as a preferred casino partner and will construct the HeadWaters Resort and Casino near Harbor Park, home of the Norfolk Tides minor league baseball team.

As of May 2021, the HeadWaters Resort and Casino was projected to have 3,000 slot machines, 150 table games and a sportsbook. Additionally, the casino resort will have 300 hotel rooms, live music and entertainment venues, bars and restaurants, indoor and outdoor pools, and a spa and fitness center. City officials project total annual revenues to be between \$415 million and \$485 million on a stabilized basis, with annual gaming revenues estimated to be between \$350 million and \$400 million. Nongaming revenues, which include profits from the hotel, food and beverage, and other amenities, are estimated to be between \$65 million and \$85 million on a stabilized basis. Payments to the city of Norfolk in the form of direct payments and taxes are



projected to be between \$26 million and \$31 million annually.²¹ Press releases from Capital Results, the firm that handles media relations for the Pamunkey Indian Tribe, suggest that the opening could occur as early as 2022.

RIVERS CASINO PORTSMOUTH

Portsmouth's road to casino gambling has been much smoother than that of its across-the-river neighbor. On Nov. 3, 2020, Portsmouth residents resoundingly voted in favor of a casino – a proposal state Sen. Louise Lucas has supported for more than 20 years. The hotel-casino, Rivers Casino Portsmouth, will be built by Rush Street Gaming, just off Victory Boulevard near Tidewater Community College, and eventually grow to include restaurants, a sportsbook and other entertainment amenities. "For Portsmouth, this means \$16.3 million in tax generation ... [where] \$16.3 million is an additional 7% of our GDP," said Robert Moore, director of economic development for the city of

²⁰ The Pamunkey were the first Virginia tribe to receive official sanction from the U.S. Bureau of Indian Affairs in July 2015. The reservation is located near the Chesapeake Bay on the north side of the James River, approximately 90 miles northwest of downtown Norfolk. It is one of two original reservation lands assigned from a treaty with the English colonial government.

²¹ Projections assume stabilized operations in year three of the project, as well as the third year of operation of all planned properties in the competitive market, <https://www.norfolk.gov/DocumentCenter/View/61651/Criteria-For-Selection-of-Gaming-Operator>.



THE PROPOSED RIVERS CASINO PORTSMOUTH WILL BE BUILT AT I-264 AND VICTORY BOULEVARD, NEXT TO TIDEWATER COMMUNITY COLLEGE. IT WILL BE DEVELOPED AND OPERATED BY CHICAGO-BASED RUSH STREET GAMING.

Portsmouth. In addition to tax generation, the casino promises to create 1,400 temporary construction jobs, as well as 1,300 permanent jobs.²²

Before work can begin on either the Norfolk or Portsmouth casino, licensing must be obtained through the Commonwealth of Virginia, as well as the Virginia Lottery Board. Once licenses have been granted, construction can begin. Originally, the timeline called for shovels to break ground in November 2021, with the Portsmouth casino opening scheduled for 2023. More recently, however, a spokesperson for the casino said the plans have been pushed forward. Construction is currently expected to last 18 to 24 months, with the venue opening its doors in late 2022.

²² <https://www.krem.com/article/news/local/casinos-are-on-their-way-to-norfolk-portsmouth-heres-when-theyll-be-completed/291-58cfae8e-aa50-4617-a1ab-728901d33cad>.

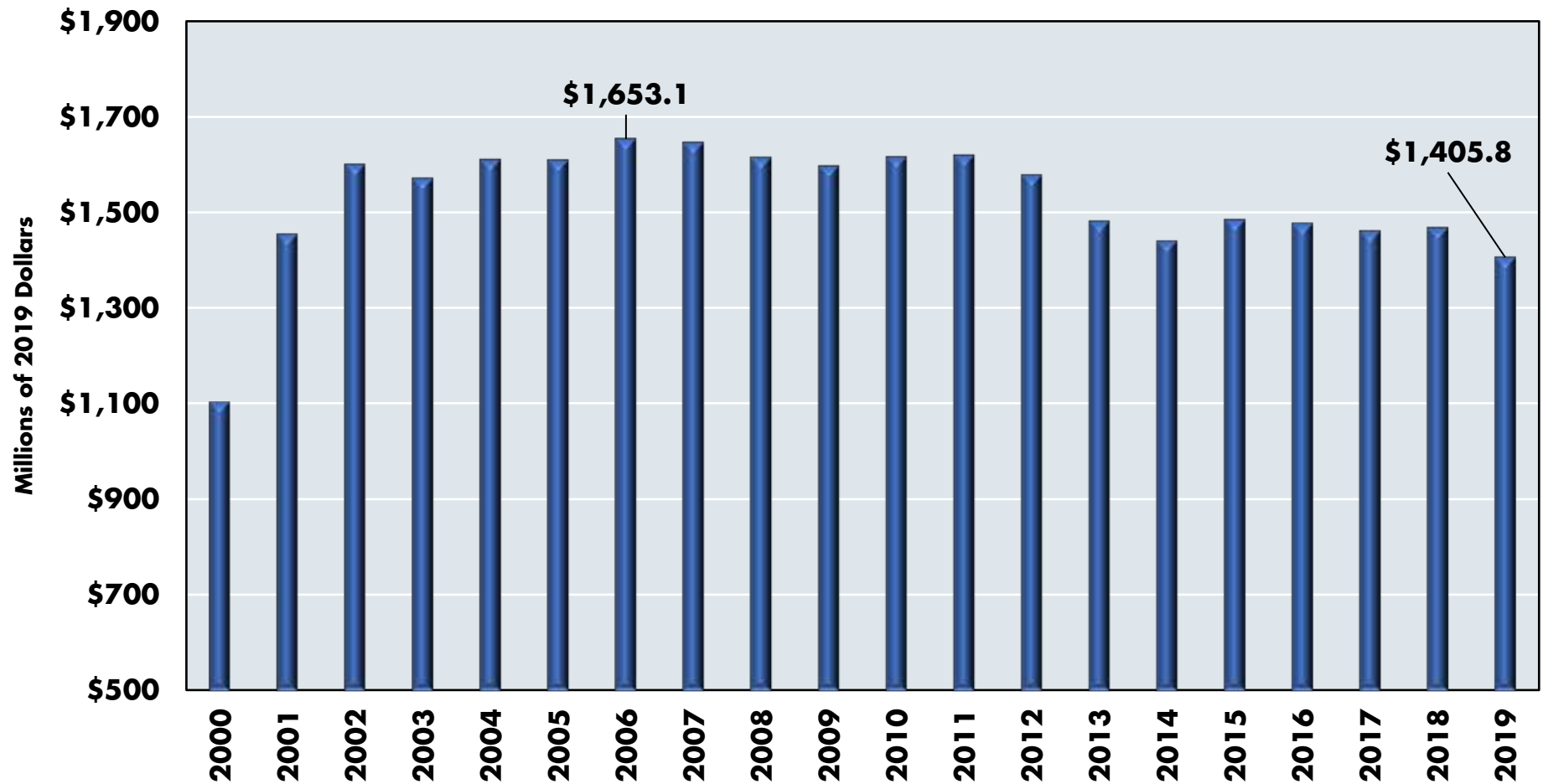
It's All Good – Until It Isn't

We caution that survivorship bias tends to cloud the perceptions of casino projects. We often hear of success stories but rarely learn about casinos that fail to meet expectations. Presentations to city councils and state governments highlight potential jobs and tax revenues, leading one to believe that a casino (or most any gambling venture) is a sure bet. Experience has shown (repeatedly) that, as the novelty wears off, gambling revenues plateau, if not decline outright. Graph 2 illustrates how, after accounting for inflation, casino revenues in Detroit declined from a peak in 2006 (\$1.65 billion) to a prepandemic low in 2019 (\$1.41 billion). Locally, we need only point to the performance of the Virginia Lottery at the end of the most recent decade, and its push to introduce mobile betting as a means of addressing the stagnation in sales, to highlight how consumer fatigue can lead to an ever-widening search for gambling options to sustain revenues.

For Norfolk and Portsmouth, several questions and concerns arise from the public-facing announcements. First, have the cities sufficiently accounted for the operation of two casinos in relatively close proximity? Second, the expected approval and operation of the Richmond casino likely will limit the gains from repatriation by Virginia gamblers to Hampton Roads (the return of gambling expenditures from other states to the Commonwealth). Will the cities and state government revisit their revenue projections for the Norfolk and Portsmouth casinos? Third, the rapid rise in mobile betting may not bode well for more traditional, location-based forms of gambling. We ask whether the projections account for the disruptive impact of technology on gambling preferences and revenue. **While we recognize that these questions are not likely to win one accolades at city council or General Assembly meetings, it is better to ask now rather than face questions in the future of why revenue projections have fallen short.**

GRAPH 2

REAL (INFLATION-ADJUSTED) DETROIT CASINO REVENUE, 2000-2019



Source: Michigan Gaming Control Board, Revenues and Wagering Tax Information (2021)

Who's Coming To The Casinos In Hampton Roads?

The promise of the casinos in Norfolk and Portsmouth (and elsewhere in the Commonwealth) is that these gambling establishments will attract visitors, create jobs, increase incomes and contribute to their respective city coffers. Yet, there are other impacts to consider, especially when one draws back to the regional level. A dollar spent in a casino in Norfolk or Portsmouth is one less dollar spent in a restaurant, bar or movie theater in Hampton, Newport News, Chesapeake, Suffolk or Virginia Beach. **While Norfolk or Portsmouth might “win” by attracting more dollars from other cities in Hampton Roads, the displacement of spending from other forms of entertainment to the casinos means that the economic impact of the casinos on the region is likely to be small, not transformative.**

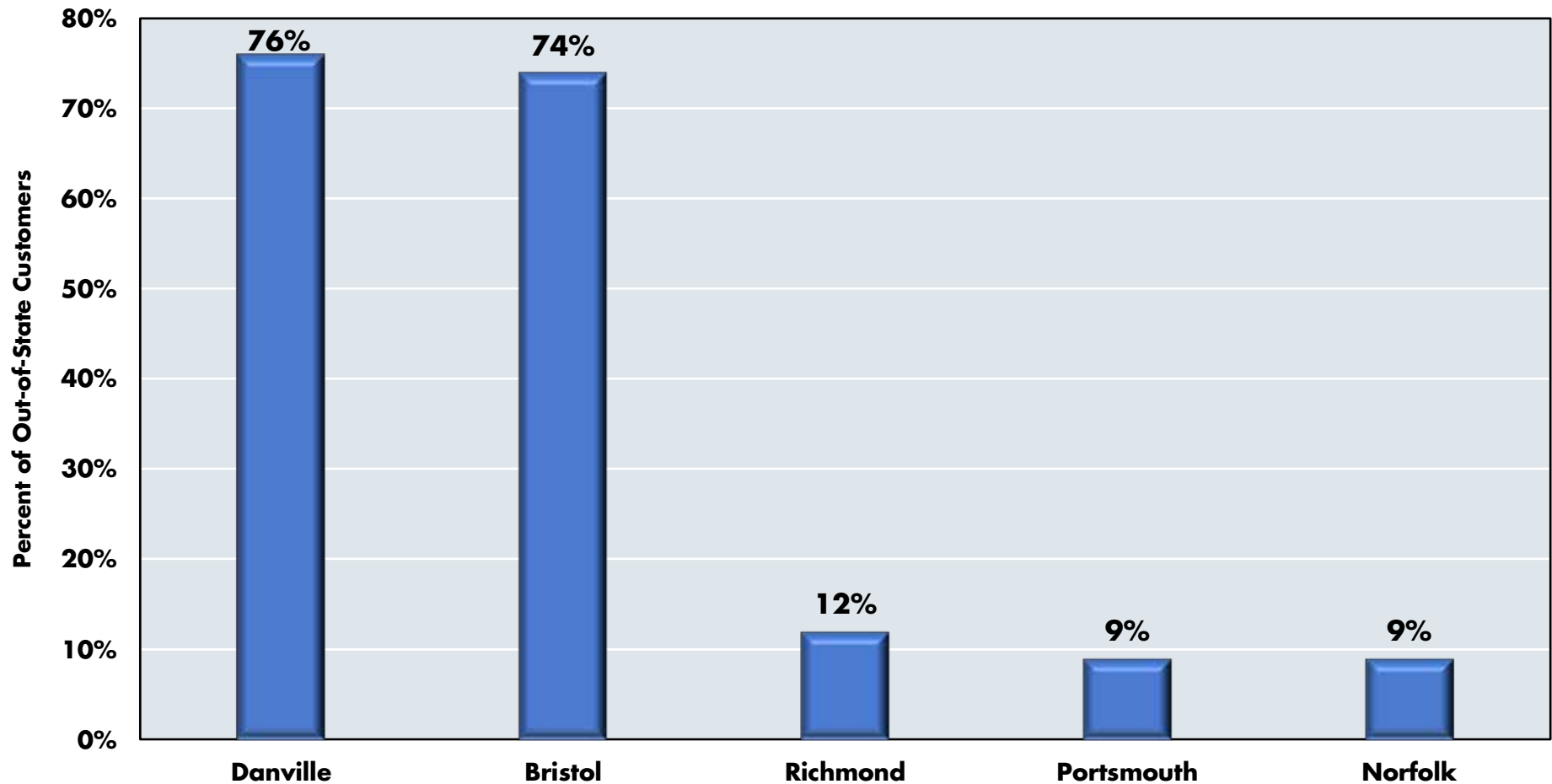
To gauge the potential economic impact of the casinos on the Hampton Roads economy, we first need to ask from whence the casino patrons will come. The more customers that come from outside the region, the greater the potential economic impact of the casinos. Much like tourists visiting the Oceanfront who “inject” money into the regional economy, nonresidents traveling to Hampton Roads to gamble at the casinos will bring “new money” with them, adding to the impact of the gambling establishments.

Graph 3 illustrates JLARC’s 2019 estimates of the percentage of net gaming revenue that will derive from spending by out-of-state customers. These estimates suggest that the Hampton Roads casinos are unlikely to generate a significant amount of revenue from out-of-state visitors. While there is a possibility for the repatriation of spending from other states (i.e., Virginians gambling in other states returning to gamble in the Commonwealth), the proposed casino in Richmond would most likely stand to benefit substantially from repatriated spending due to its closer proximity to casinos in Maryland and West Virginia.

Who, then, will frequent the casinos in Norfolk and Portsmouth? According to JLARC and the consulting firm The Innovation Group (TIG), only 4% to 10% of casino revenue is generated by customers who live outside the local market area (within two hours’ driving distance). Only the Las Vegas and Atlantic City markets have sustained higher proportions of gaming revenue from out-of-market visits. For Hampton Roads, this means that the revenue from out-of-state customers would come from North Carolina, rather than states to the north, due to the projected casino development in Richmond. In other words, because of the geographical limitations of the Hampton Roads market and the projected development of casinos in Richmond and other areas of the Commonwealth, most of the Norfolk and Portsmouth casino patrons will come from within our metropolitan area. It would be difficult to attract customers from Northern Virginia and Richmond to Hampton Roads with a casino in Richmond occupying a blocking position. While some might argue that summer visitors to the Oceanfront will visit the casinos, this argument also recognizes that some spending will be displaced from restaurants, bars and other venues to the casinos.

GRAPH 3

PERCENTAGE OF NET GAMING REVENUE FROM OUT-OF-STATE CUSTOMERS



Source: 2019 JLARC casinos report, <http://jlarc.virginia.gov/pdfs/reports/Rpt527-5.pdf>

A Short Primer On Economic Impact Analysis

When considering the economic impact of a policy, economists focus on two broad effects: displacement and additionality. Changes in public policy may cause economic agents (consumers and businesses) to alter their behavior. The question is whether the policy change results in spending that is additional or whether it displaces economic activity from one sector to another.

Additionality occurs when a policy change causes economic agents to engage in behavior that they would not have taken in absence of the policy. Economic agents do not shift expenditures from elsewhere in this case. If a new advertising campaign, for example, influences a family from Pennsylvania to come to Virginia Beach for a vacation that they otherwise would not have taken, then the expenditures associated with the visit and the consequent economic activity are additional to the economy.

Displacement, on the other hand, occurs when a policy change causes economic agents to shift their behavior such that they reduce spending in one area to increase spending in another area. The additional spending as a result of the updated policy must be balanced against the reductions in spending elsewhere to determine the economic impact. For example, if a consumer shifts spending from going to a movie theater instead of a restaurant, the consumer is merely “moving” spending from one form of entertainment to another. If one fails to make allowances for displacement, the overall economic impact of a project will be overstated.

To visualize how the economy reacts to a change in investment or employment, imagine a pebble dropped in a puddle. The **direct impact** on employment, sales and employee compensation ripples through the rest of the economy like the waves moving outward through the puddle. These ripples represent the **indirect and induced impacts** that come about through the interconnectedness of the local economy.

The indirect impact comes from economic activity at companies frequented by casino employees and companies that provide services to the casinos. The

induced impact comes via additional spending due to increases in income generated by companies directly and indirectly affected by casino employment or spending. These spillovers create a total economic impact that is larger than the direct impact.

The notion of an economic multiplier summarizes the total economic impact of a change in economic activity. If a firm invests \$1 million (direct impact) that in turn generates \$300,000 in indirect economic impacts and \$200,000 in induced economic impacts, then the economic impact multiplier effect is $(\$1,000,000 + \$300,000 + \$200,000) / \$1,000,000 = 1.5$.

From this perspective, consider the impact of going to the gym. If you usually use the elliptical machine but switch to the treadmill for the same amount effort and time, the marginal impact on your fitness is negligible. On the other hand, if you were only working out two days a week and increase to five days a week, there will be a discernable impact on your fitness. Our question is whether the casinos attract “new” money or recycle “old” money within the region.

Analysts’ estimates of economic impact can often seem confusing. We explain below some of the more common terms they use:

- Compensation – the total payroll cost of employees, including wages, salaries and all benefits.
- Employment – the annual average of full-time, part-time and seasonal employment in an industry or region.
- Output – the measure of the total value of goods produced in an industry. However, output from one industry utilizes output from other industries, so the measure overstates the contribution of an industry to GDP.
- Value Added – the total market value of all final goods and services produced in a region in a given period of time. Value added is the measure of the increase or decrease in GDP.

Estimating The Economic Impact Of Casinos In Hampton Roads

To estimate the economic impact of each casino, we use projections of three economic inputs: capital investment (buildings, furnishings, equipment and so on), direct employment and annual casino revenue (Table 5). Of course, our estimates depend on the accuracy of the projections of these economic inputs. Given the continued evolution of the scale and scope of the casinos in Norfolk and Portsmouth, our estimates should be viewed as informative rather than authoritative. For these assumptions, we draw upon JLARC analysis, news reports and staff analyses from the cities of Norfolk and Portsmouth. We estimate aggregate economic impacts of the casinos on Hampton Roads.²³

TABLE 5			
ECONOMIC IMPACT ANALYSIS ASSUMPTIONS			
	Capital Investment	Gambling Revenues	Nongambling Revenues
Norfolk	\$500 million	\$350 million	\$45 million
Portsmouth	\$300 million	\$150 million	\$20 million
Sources: City of Norfolk (2020), "Staff Report – Impacts of a Casino Hotel on the City of Norfolk"; WAVY.com (2021), "Portsmouth Casino Developer Commits to Building Hotel, but Won't Say When"; and the Dragas Center for Economic Analysis and Policy, Old Dominion University			

ESTIMATED IMPACT OF CONSTRUCTION

Unlike some other recent projects in Hampton Roads, the construction of the two casinos will not receive any state or local government tax incentives or grants. Instead, private funds will be used to fund construction. The injection of new capital into Hampton Roads for the building of the casinos and associated properties will temporarily boost jobs and output in the region. However, one must also

recognize that not all the expenditures on these projects will stay in the region. Some building supplies, furnishings, machines and services will be sourced from outside Hampton Roads, so it would not be appropriate to act as if all these expenditures were occurring in the region. We conservatively estimate that 40% of capital investment expenditures will occur within Hampton Roads, while the remaining spending will take place outside the region. This means that of the \$800 million in projected capital investments in the two casinos, approximately \$320 million will be spent within Hampton Roads.

We estimate that construction of the two casinos will temporarily lift employment in Hampton Roads by approximately 4,200 jobs and add \$291.9 million to nominal GDP (Table 6). These jobs and increases in GDP are transitory; that is, once the construction is complete, the jobs and increases in output will largely dissipate. To place these estimates in context, the increase in output, if it occurred within one year, would amount to approximately 0.3% of Hampton Roads' 2019 GDP.

TABLE 6				
ECONOMIC IMPACT: PROPOSED INVESTMENTS IN CASINOS IN NORFOLK AND PORTSMOUTH				
	Direct	Indirect	Induced	Total
Employment	2,875	424	908	4,207
Value Added (Millions)	\$171.0	\$42.3	\$78.6	\$291.9
Compensation (Millions)	\$166.5	\$25.2	\$39.1	\$230.8
Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University, and IMPLAN Group. Estimates may not sum due to rounding.				

²³ We use IMPLAN from the IMPLAN Group and JOBSEQ from Chmura Economics and Analytics to model the economic impacts. The results presented in this chapter were generated using IMPLAN.

IMPACT OF SUSTAINED OPERATIONS

To estimate the annual economic impact of the fully operational casinos, we must first consider the question of displacement. If, as noted by JLARC and TIG, the casinos in Norfolk and Portsmouth generate about 10% of net gaming revenues from out-of-state customers, and the casino in Richmond is approved, then the pool from which the casinos will draw will be limited compared to the casinos in Bristol, Danville or Richmond. Furthermore, the literature and practice show that casinos tend to draw customers predominantly from their local market area. This means that much of the revenue generated by the Norfolk and Portsmouth casinos will be the result of spending that is reallocated by Hampton Roads residents. While one might quibble about the extent of displacement, it will clearly occur, and will invariably reduce the overall impact of the casinos on regional economic activity.

Graphs 4 and 5 illustrate the projected annual economic impact of spending in the Hampton Roads casinos. If one completely ignores displacement and assumes (unrealistically) that all spending in the casinos will come from outside the region, then the industry output would increase by about \$868 million. However, since we want to avoid double counting (a flaw in some projections of the impacts of casinos), we focus on the impact on regional GDP measured by value added, which would be approximately \$462.2 million. Completely ignoring displacement would lead one to conclude that the casinos would create almost 7,300 jobs in Hampton Roads.

We cannot ignore displacement, of course, and studies that shrug displacement effects aside or provide estimates of economic impact based on industry output alone should be viewed with a healthy dose of skepticism.²⁴ For example, if the casinos generated \$500 million annually in gambling revenue, but 50% of that revenue originated from within Hampton Roads, then only the impact of the “new” spending

²⁴ If displacement occurs, where displacement occurs, and the magnitude of displacement by casinos remain a matter of debate in the economics literature. Leven and Phares (1998) estimated that about half of casino revenues in Missouri were the result of displacement spending. Siegel and Anders (1999) found that casino spending displaced other forms of entertainment spending in 11 Missouri counties. Chhadra (2007) estimated that about 30% of Iowa gamblers would have participated in other entertainment activities if casinos were not locally available. Wiley and Walker (2009), on the other hand, found a complementary effect between casinos and retail property values in the Detroit urban area.

(\$250 million) should be considered. To do otherwise ignores the impact of consumers shifting dollars away from local restaurants, bars, movie theaters and other establishments to spend on gambling, rooms, and food and drink in the casinos.

Using value added (the addition to regional GDP) and accounting for displacement yields more realistic estimates of the casinos’ impact. If 50% of spending is from outside the region (an optimistic estimate), the casinos will add \$231 million to regional GDP and create more than 3,600 jobs. However, if only 10% of casino patrons are from outside the region, the net annual economic impact of the casinos shrinks to only \$46 million and 730 jobs.

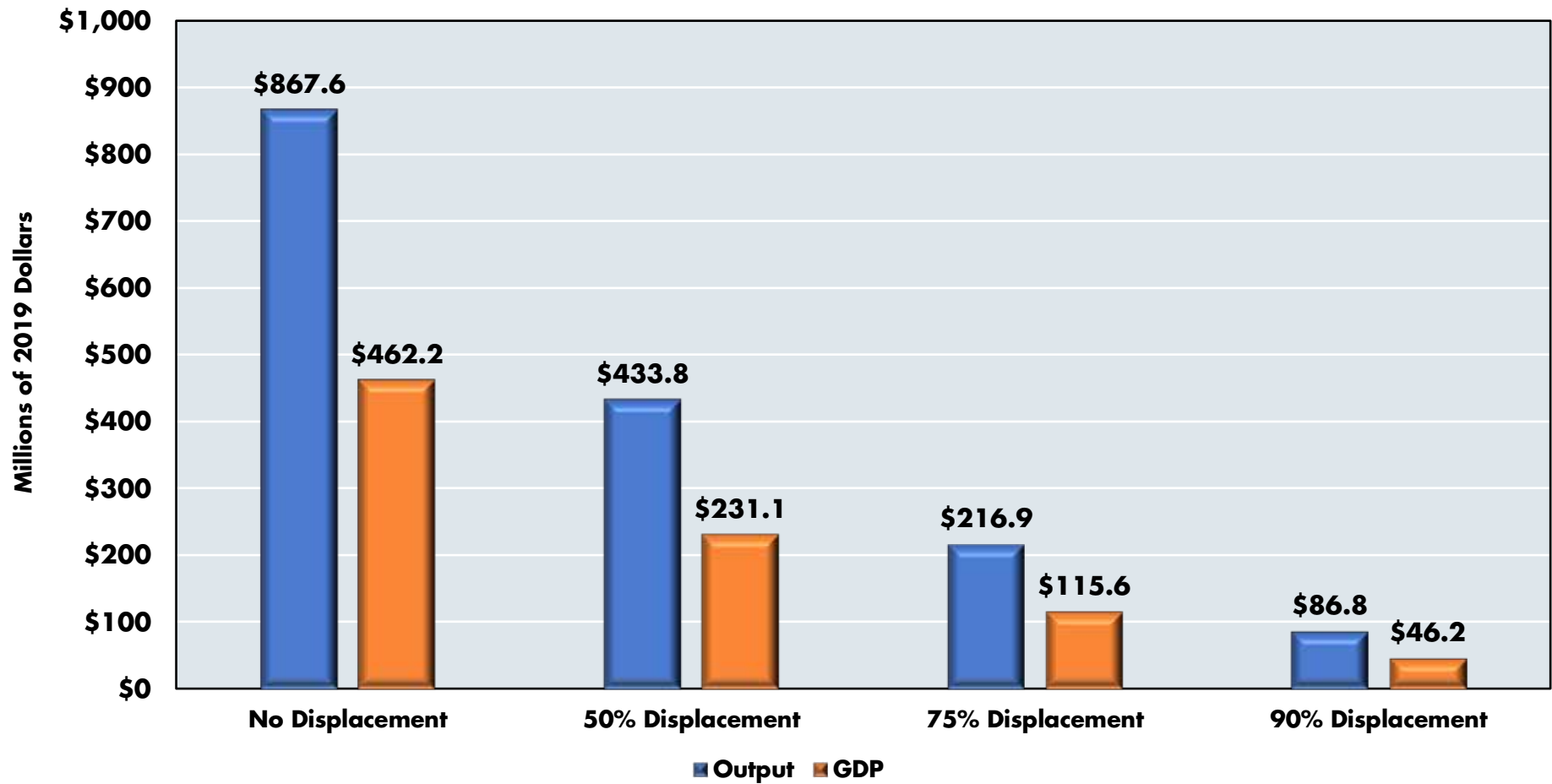
The fiscal impact of the casinos depends on where one stands. While projections vary, the casinos in Norfolk and Portsmouth are expected to generate about \$350 million and \$150 million, respectively, in revenue annually. The budgets of Norfolk and Portsmouth will undoubtedly benefit from the spending at the casinos. In September 2020, the city of Norfolk projected that the Norfolk casino would generate between \$24.8 million and \$44.5 million annually.²⁵ A November 2020 release from the city of Portsmouth stated that the Portsmouth casino would generate more than \$16 million annually.²⁶ We do not argue that the cities where the casinos are located will benefit from increases in tax revenue; however, we need to point out that as displacement rises, the revenues of other cities and counties in Hampton Roads may decline as consumers shift some of their spending to Norfolk and Portsmouth.

²⁵ <https://www.norfolk.gov/DocumentCenter/View/62929/Casino-Hotel-Staff-Report-Final>.

²⁶ <https://www.accessportsmouthva.com/news-and-press/rush-street-gaming-casino-approved-by-voters-in-portsmouth-virginia>.

GRAPH 4

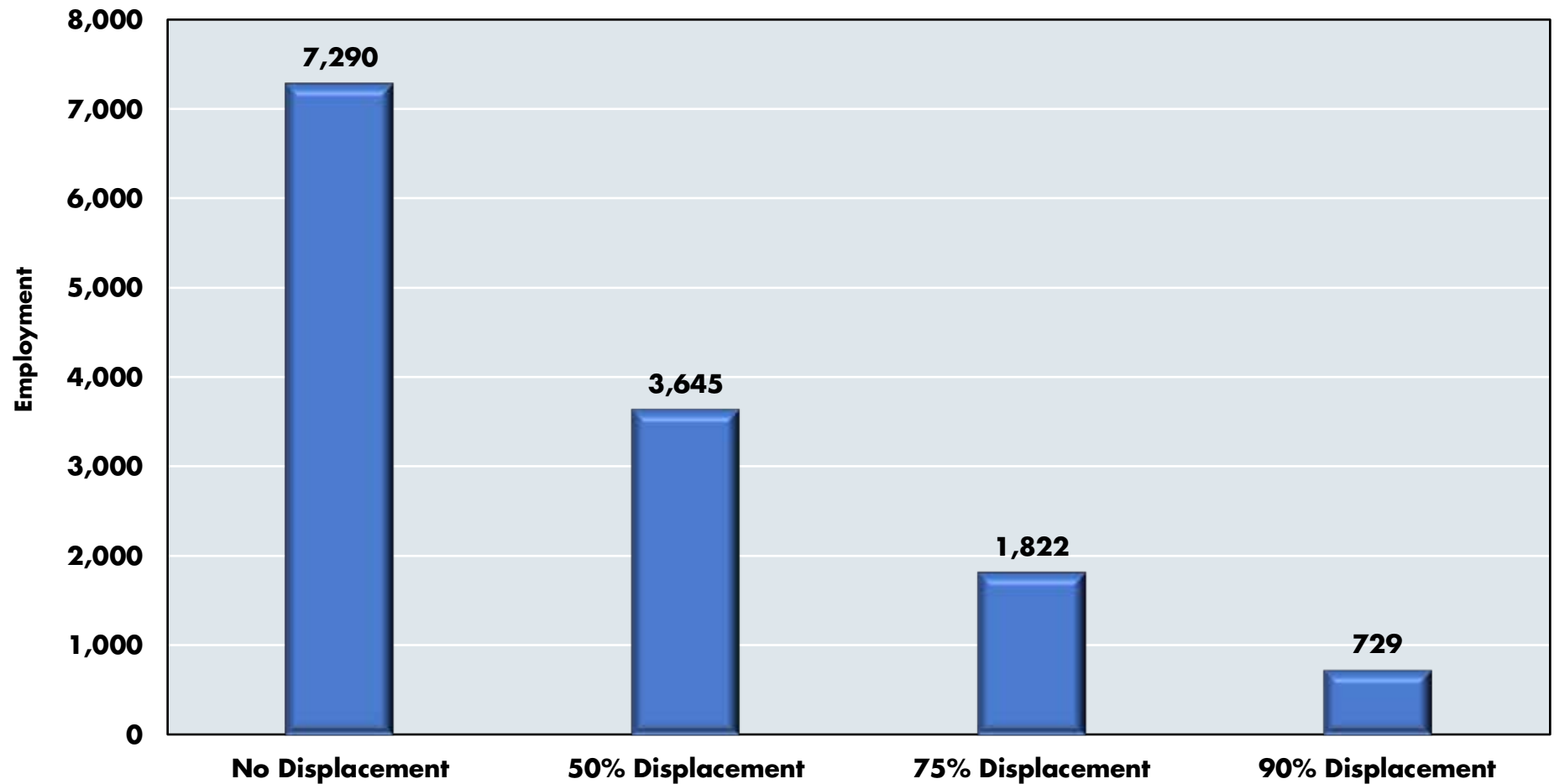
**ESTIMATED ANNUAL ECONOMIC IMPACT OF CASINOS ON OUTPUT AND GDP: HAMPTON ROADS,
NET OF DISPLACEMENT**



Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University, and IMPLAN Group

GRAPH 5

**ESTIMATED ANNUAL ECONOMIC IMPACT OF CASINOS ON EMPLOYMENT: HAMPTON ROADS,
NET OF DISPLACEMENT**



Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University, and IMPLAN Group. Estimates may not sum due to rounding.

Problem Gambling

According to The Recovery Village Drug and Alcohol Rehab treatment facility, an estimated 10 million Americans struggle with gambling addiction in the United States. The social costs attributed to gambling vary, depending on the type of gambler. Gambling addiction can affect anyone of any age or gender, and it impacts not only the individual with the problem but also close family and friends. This addiction is more common in adults than in adolescents, but the exposure to and participation in gambling at a younger age increases the risk of developing a gambling problem later in life. Approximately 1 in 20 college students are said to exhibit signs of compulsive gambling, a rate that is higher than that for the overall adult population.²⁷ Table 7 lists local programs that specialize in gambling addiction.

For many people, addiction to gambling isn't an isolated problem. Individuals who are most at risk of developing gambling problems typically have preexisting addictions or disorders. A correlational link exists between gambling and depression, and one study found suicidal ideation in nearly half of its respondents.²⁸ Substance abuse is also prevalent among these individuals, with the connection to alcoholism being most common. Although little data exist on gambling addiction among adults in Virginia, research suggests the estimated percentage of Virginia adults with a gambling problem is between 5% and 10%.²⁹ Previous estimates of the general public afflicted with a gambling disorder range from approximately 0.5% to 2%. Hampton Roads is home to approximately 1.8 million people, so there may be between 9,000 and 36,000 problem gamblers in the region. Yet, with the advent of the mobile lottery, online sportsbooks and games of skill, the argument that casinos will be the impetus for problem gambling seems to have lost some steam. The challenge for cities and counties in Hampton Roads will likely be meeting the rising demand for mental health services due to the increasing range of gambling choices available to the public. It may be appropriate to allocate more funds to behavioral health services in order to meet this demand.

²⁷ The Recovery Village, Gambling Addiction Facts and Statistics, <https://www.therecoveryvillage.com/process-addiction/compulsive-gambling/related/gambling-statistics/>, and the National Center for Responsible Gaming, https://www.icrg.org/sites/default/files/oec/pdfs/ncrg_fact_sheet_gambling_disorders.pdf.

²⁸ <https://preventionlane.org/gambling-vulnerable-populations>.

²⁹ <https://www.virginiamercury.com/2020/02/24/as-virginia-preps-for-casinos-and-sports-betting-experts-say-state-needs-sharper-focus-on-problem-gambling/>

TABLE 7
GAMBLING ADDICTION TREATMENT PROVIDERS:
HAMPTON ROADS, 2019

Name	Location
Middle Peninsula Northern Neck Counseling Center	9228 George Washington Memorial Highway Gloucester, Virginia 23061
Norfolk Community Services Board	7460 Tidewater Drive Norfolk, Virginia 23505
Sentara Norfolk General Hospital Gambling Addiction Treatment	600 Gresham Drive Norfolk, Virginia 23507
Virginia Beach Mental Health Substance Abuse Division	289 Independence Blvd., Pembroke 3, Suite 245 Virginia Beach, Virginia 23462
Hampton Veterans Affairs Medical Center/Mental Health SATP	100 Emancipation Drive, Unit 116-A Hampton, Virginia 23667
Mental Health Support Services Alpha Counseling	2278 Executive Drive Hampton, Virginia 23666
Gordon Wellness LLC	610 Thimble Shoals Blvd., Suite 403 Newport News, Virginia 23606
A. Richards Counseling and Psychotherapy	720 Rodman Ave. Portsmouth, Virginia 23707
Virginia Beach Department of DHS MHSA Div Adult Day Treatment	1045 Lynnhaven Parkway Virginia Beach, Virginia 23452
Western Tidewater Community Services Board	7025 Harbour View Blvd., Suite 119 Suffolk, Virginia 23435
Source: Substance Abuse and Mental Health Administration (2019)	

Do Casinos Increase Crime?

Opponents of casinos rely on a straightforward argument: Casinos attract people with money to spend, and criminals, being profit-maximizing individuals, are quick to offer illicit services (drugs and prostitution, for example) or prey on those with money (confidence scams, robbery and the like). Proponents of casinos argue that the evidence supporting the casino-crime hypothesis is overstated. It turns out the evidence, depending on how one looks at it, can support either perspective.

Since the 1980s, more than 30 peer-reviewed studies have examined the influence of commercial casinos on criminal activity and public safety. A 2019 review of these studies found that some of them concluded criminal activity increased after casinos opened; other studies reported that some crimes increased and some decreased (a mixed effect); and still others saw no statistical evidence to support the hypothesis that casinos influence criminal activity (Table 8). Yet, as with academic studies, one must read past the abstract to discern the nuance of the findings.

TABLE 8		
FINDINGS OF 32 CASINO-CRIMINAL ACTIVITY STUDIES		
Finding	Total Number of Studies	Percentage of Studies
Increase in crime	4	13%
Mixed effect (increases and decreases in crime)	9	28%
No impact on crime	19	59%
Source: Jay Albanese (2019), "Casino gambling impacts on crime and public safety: A review of 30 years of research," <i>International Journal of Criminal Justice Sciences</i> 14 (2), 320-338		

First, the demographics of casino patrons indicate that they are less likely to be involved in crimes typically measured by these studies. Crime statistics show that, on average, younger individuals are more likely to perpetrate and be victims of crime than older individuals, especially street crimes. Casinos attract

an older and higher-income clientele, who are more likely to go out less often, go home earlier and visit less desirable places than younger people. Casino patrons who are in their 40s and 50s are likely to behave much differently than theme park, bar and beach visitors in their 20s and 30s.

Second, revenue from casinos may fund the growth of public safety services, which, in turn, uncover more criminal activity. Most studies fail to account for the level and composition of public safety resources prior to and after the introduction of a commercial casino. This is not to say the area surrounding the casino is safer or less safe, just that there are more public safety resources. This leads to more interactions with the public, which, in turn, leads to more reports of criminal activity.

Third, many studies are geographically limited and cannot be extended to other locations. A 2019 study of casinos in Southern California found that perceived staff friendliness and casino popularity on Yelp were significantly related to higher crime rates. However, the nature of the study meant that its results were only specific to the area being examined.

A 2021 study suggested that criminal activity around a casino may "behave" much like casino revenues – increasing at opening and then returning to pre-opening levels.³⁰ The JACK Casino opened in Cincinnati's central business district in 2013. Within the casino's neighboring area, criminal activity decreased during construction (2012) and the year of opening. Criminal activity increased from 2014 to 2016, even while the city experienced an overall decline in property crimes. Criminal activity then dropped to the pre-opening level.

The latest findings in the literature suggest that psychology may play an important role in the casino-crime hypothesis. Increases in crime appear to occur after casinos open, but these increases may subside after the initial surge. Upticks in crime tend to be frequently reported (one need only watch the evening newscast or read the morning paper to see how criminal activity is often featured), while statistics that show decreases in crime rarely make the news.

³⁰ Minxuan Lan, Lin Liu and John Eck (2021), "A spatial analytical approach to assess the impact of a casino on crime: An example of JACK Casino in downtown Cincinnati," *Cities* 111, <https://doi.org/10.1016/j.cities.2020.103003>.

Both sides appear to be partially correct; there is evidence that casinos do result in more criminal activity, and there is also a lack of evidence that casinos result in more crime. The risk for decision makers in Norfolk and Portsmouth is to assume that all will turn out well. It would be better to be prepared by investing now in public safety resources rather than to be surprised when criminal activity increases after the casinos open. Being optimistic about crime is not a tenable policy position.

Final Thoughts

Over the last decade, Virginia has doubled down on its bet on legalized gambling. Today, a resident of Hampton Roads can place a bet through an online or mobile sportsbook, buy a physical or virtual lottery ticket, visit a historical horse racing establishment and look forward to gambling at a casino in Norfolk or Portsmouth in the near future. This is a marked change from three decades ago when Virginia did not even have a state lottery.

With this in mind, we offer some final observations about the expansion of gambling and the opening of casinos in Hampton Roads and across the Commonwealth.

Governments in Virginia are increasing their reliance on taxes that are more sensitive to economic conditions. Proponents of casinos and other forms of gambling invariably point to the contributions to local and state budgets to support these projects. While we do not deny that gambling will enhance the bottom lines of Norfolk and Portsmouth, we also note that casinos are sensitive to changes in economic conditions. Given that the casinos in these cities will primarily attract patrons from Hampton Roads, their fortunes may rise and fall in relation to decisions made in Washington, D.C., regarding the size and composition of the federal budget. As most of us are aware, the strength – or lack thereof – of our regional economy is closely tied to federal defense spending.

Casinos will create jobs and increase output in Hampton Roads, but the impact across the region is likely to be small.

An increase in the number of jobs in the region would be welcome news, especially given the relatively anemic job growth over the decade prior to the COVID-19 pandemic. However, these jobs are likely to be concentrated in the leisure and hospitality sector, which continues to struggle to attract workers in the aftermath of the pandemic. Even our most optimistic estimates suggest that the casinos might lift output by 0.4% on an annual basis, an incremental rather than monumental gain. Experience in the gambling industry shows that, after the novelty has worn off, revenues tend to plateau, if not outright decline. We caution readers to view promises of sustained, fulsome impacts over time with a wary, informed eye.

Displacement effects should not be cast aside in the conversation about casinos or other projects.

The majority of benefits from the casinos are likely to accrue to Norfolk and Portsmouth. With about half of workers in Hampton Roads living in one community and working in another, there are likely to be some spillovers across the region in terms of spending and employment. However, the economic impact of the two Hampton Roads casinos is likely to be lower than that produced by casinos in other Virginia regions where the proportion of out-of-state visitors is expected to be higher. Hampton Roads would need visitors to the region to increase their spending rather than substitute casino patronage for other forms of leisure activity. One dollar cannot be spent at the same time in different places.

Gambling is here, thus we should plan accordingly for the social costs.

We know that problem gambling and criminal activity are likely to occur at higher rates as gambling opportunities increase, so we should act now. Enhancing our investment in behavioral and mental health services is not only a wise course of action to help residents cope with gambling addiction, but also to address other economic and social shocks. Investing more in policing, including community-based approaches to nonviolent crimes, appears to be a sensible response to the projected increases in visitors to the casinos. Finally, working across jurisdictional boundaries will be necessary, given that many local residents will travel to the casinos to work or gamble. As with other challenges and opportunities in Hampton Roads, collaboration can help increase the gains for the entire region.



Whither Old Dominion University?



WHITHER OLD DOMINION UNIVERSITY?

I don't get no respect.

– Comedian Rodney Dangerfield's iconic catchphrase

In August 2020, the respected Times Higher Education Impact Rankings placed Old Dominion University among the Top 100 institutions in the world in terms of its ability to reduce economic inequality and provide students with upward social and economic mobility. The ranking reflected the large number of first-generation college students at ODU and their subsequent social and economic success. ODU was the only university in Virginia to crack the Top 100 and one of only 12 from the United States within this group.¹

The reaction to this news? Underwhelming, to say the least. This achievement received scant coverage by regional media and zero mentions in the Richmond Times-Dispatch and The Washington Post.

However, when U.S. News & World Report subsequently issued its annual rankings of institutions, there were headlines and stories galore. Much was made of the number of highly ranked Virginia campuses, which included the University of Virginia at No. 26 among national universities, William & Mary at No. 39 and Virginia Tech at No. 74. The slightly improved rankings of institutions such as Tech were noted in the media and trumpeted by the favored institutions.² Independently, in 2018, SmartAsset, a financial technology company, proclaimed that Virginia had the best higher education system in the nation.³

Because they have an impact on ODU, it is instructive to take a closer look at ranking systems such as those used by SmartAsset and U.S. News & World Report. These are narrowly tailored metrics that pay almost no attention

to the distinctive needs of part-time students, distance learning students or more mature students. But in fall 2020, 35.3% of students at public four-year institutions attended part time.⁴ Further, in fall 2017, 42% of students attending public institutions were age 25 or older⁵ and in fall 2018, 35.3% were taking at least one distance learning course.⁶

Nor do the most popular of today's campus ranking systems give more than passing attention to the racial and ethnic makeup of student bodies. U.S. News & World Report does not seem to care that only 7% of undergraduates at UVA self-identified as being Black in fall 2019 (the comparable percentage at ODU was 32%). Indeed, since 2012, ODU has enrolled more Black students than Norfolk State University, but this is of no consequence to the magazine.

U.S. News & World Report's ranking system does assign a 5% weight to the six-year graduation rate of each institution's Pell Grant recipients – students who come to campuses from lower-income households. The other 95% of the magazine weights, however, focus on traditional high school graduates who proceed to college immediately after graduation and the quantity of resources each institution devotes to its mission.

1 "Impact Rankings 2020 by SDG: Reduced Inequalities," *Times Higher Education*, www.timeshighereducation.com/rankings/impact/2020/reducing-inequalities#!page/3/length/25/sort_by/rank/sort_order/asc/cols/undefined.

2 For example, Virginia Tech moved up from No. 76 to No. 74 in the national university rankings and proudly made note of this: <https://vtnews.vt.edu/articles/2019/09/provost-usnewsrankings-2020.html>. In the same rankings, the University of Virginia fell out of the Top 25: Justin Mattingly, "University of Virginia Falls Out of the Top 25 in College Rankings List," *Richmond Times-Dispatch* (Sept. 9, 2019), https://richmond.com/news/local/university-of-virginia-falls-out-of-top-25-in-college-rankings-list/article_cab477eb-8e2e-5708-81a2-6203e8fc2394.html.

3 "Top Ten States for Higher Education," *SmartAsset* (May 7, 2018), <https://smartasset.com/student-loans/top-states-for-higher-education-2018-edition>.

4 "Total Fall Enrollment in Degree-Granting Postsecondary Institutions," Table 303.40, College Navigator, National Center for Education Statistics, https://nces.ed.gov/programs/digest/d19/tables/dt19_303.40.asp.

5 "Characteristics of Postsecondary Students" (April 2020), National Center for Education Statistics, https://nces.ed.gov/programs/coe/indicator_csb.asp.

6 "Distance Learning," College Navigator, National Center for Education Statistics, <https://nces.ed.gov/fastfacts/display.asp?id=80>. One-sixth of all students were taking only distance learning courses. Doubtless COVID-19 has increased this percentage.

Even though it has been well established that household income is an important determinant of whether students can attend college and subsequently persist and graduate, ranking systems like those of U.S. News & World Report pay scant attention to this. This matters in the Commonwealth of Virginia. Consider that in 2015 the average undergraduate student at W&M came from a household whose annual income ranked it in the 81.8th percentile nationally, while at ODU, the comparable statistic was the 61.4th percentile.⁷

The bottom line is that the established ranking systems place ODU in a quandary. The University has evolved into an institution that not only champions access and mobility, but as the Times Higher Education ranking reveals, also has experienced substantial success in providing such. The problem is that, historically, these principles and activities have not been valued highly – either in Virginia or nationally. Lip service may be given to access and affordability, but these are campus characteristics that have remarkably little to do with elevated rankings or institutional prestige.

Institutions such as UVA, Virginia Tech and W&M historically have filled important roles in the Commonwealth. They have assembled impressive records in admitting and graduating talented students who (predictably) do well after they leave these campuses. Their graduates perennially play important roles in society. Nevertheless, the future viability and cohesion of the Commonwealth in the 21st century more likely will be determined on campuses like ODU, for it is there that the critical societal mobility task is being addressed in a meaningful way.

The relevant societal test with respect to Virginia's public colleges and universities is not whether highly intelligent students who come to those campuses from wealthy households can succeed. They nearly always do, even if they do not graduate (Bill Gates, Steve Jobs, Larry Ellison and Mark Zuckerberg, for example). Instead, the pertinent challenge facing the Commonwealth is whether less well-situated students coming from less-wealthy

⁷ Raj Chetty, John Friedman, Emmanuel Saez, Nicholas Turner and Danny Yagan, "Mobility Report Cards: The Role of Colleges in Intergenerational Mobility," Opportunity Insights, <https://opportunityinsights.org/education>.

households also can ultimately climb the ladder of success. It is the fate of these graduates that will indicate whether the American dream is still alive and well.

If higher education institutions similar to ODU succeed in moving students upward, then our society will be opportunity-based, optimistic and stable. However, if the ODUs of the world fail or their efforts are sidetracked, then the possibility that we will experience societal upheaval increases significantly. Those who pooh-pooh this assessment should recall certain pre-COVID-19 public events and demonstrations that occurred around the country (including those in Charlottesville and Richmond), as well as the postelection storming of the U.S. Capitol. While the issues motivating these demonstrations varied from one site to another, collectively they reflected a common circumstance: a world that has become more volatile and less happy because increasing numbers of citizens perceive that they do not have realistic opportunities for upward mobility.

With this as prologue, let us focus on ODU, where Brian O. Hemphill, Ph.D., has just assumed the role of president. We begin by examining measures of the University's size and then discuss its performance.

Enrollment

Graph 1 reveals that Old Dominion's headcount enrollment ended the previous decade just about where it was when the decade started – between 24,000 and 25,000 students. Since the University always has enrolled many part-time students, the conversion of headcount enrollment to full-time equivalents (FTEs) is important because state funding is substantially connected to FTEs. According to the U.S. Department of Education, ODU's 12-month FTE enrollment in 2018-19 was 19,291, which constituted 79.8% of its headcount enrollment. Interestingly, this percentage has not changed significantly in recent years despite the University's commitment to instruction via the internet.

Counter to expectations, and despite the COVID-19 pandemic, ODU's fall 2020 headcount enrollment grew more than 2%, even though college headcount enrollments nationally were declining by 2.5%. This was the ninth consecutive year that national higher education enrollments had deteriorated.

The mix of ODU's students has changed gradually. Between 2010 and 2020, the University lost approximately 1,000 graduate students, but this was counterbalanced by a gain of about 1,000 undergraduate students.⁸ This shift reflected a variety of factors, including the opening of new on-campus housing for undergraduates and a thriving economy that diminished the desire of some to pursue graduate degrees. The University's undergraduate student body progressively has become more female. In fall 2004, 52.31% of ODU undergraduates were women. By fall 2018, this percentage had climbed to 59.05%.⁹

The student body also has become substantially more diverse in terms of race. Over an approximate quarter-century (1994 to 2018), the percentage of self-identified Black (non-Hispanic) students doubled. Graph 2 highlights the year 2012 because this was the first year in which ODU enrolled more Black students than NSU. With respect to Black students, ODU's student body now roughly reflects the Black population in Hampton Roads.

The phenomenon of increasing diversity has not been confined to Black students. The percentage of Hispanic/Latino students at the University more than quadrupled over the same period (Graph 3). The same cannot be said for students who self-identify as Asian, however, as Graph 4 illustrates. Although the percentage representation of Asian and Asian American students on the ODU campus has been edging upward in recent years, it remains below its 2003 level (Graph 4). Various reasons have been posed as explanations for this and most relate to the perceived levels of comfort of Asian and Asian American students at ODU. More persuasive, perhaps, is the paucity of people living in Hampton Roads who self-identify as Asian or Asian American – it is only 3.5%, well below the Commonwealth's 6.9%.¹⁰

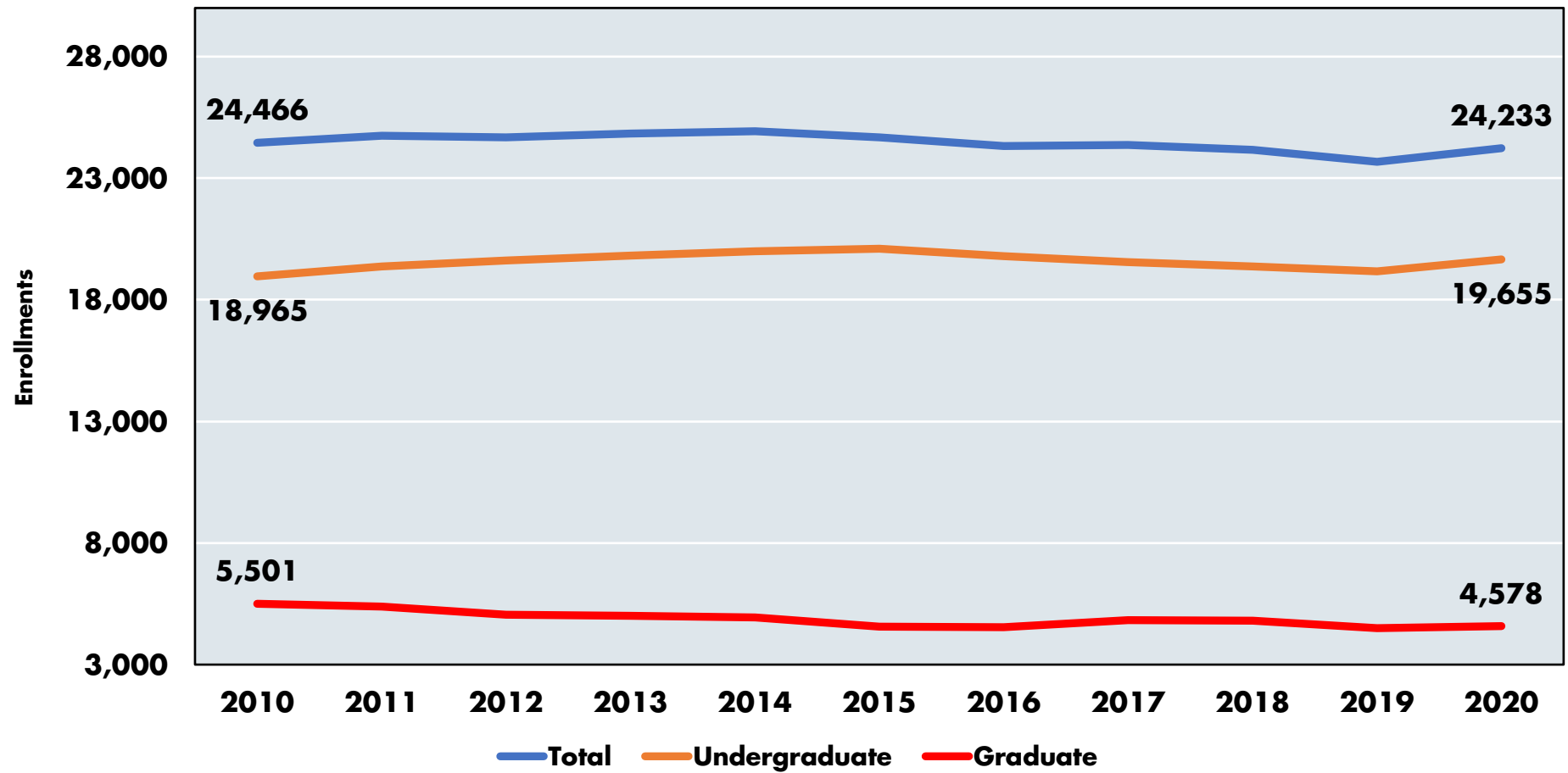
⁸ International undergraduate students were not part of this expansion, however. During the first decade of this century, ODU enrolled an average of 35 new undergraduate international students per year. This number has fallen to about 20 in recent years, U.S. Department of Education, Integrated Postsecondary Education Data System (IPEDS), "Fall Enrollment: Residence and Migration of First-Time Freshmen," <https://nces.ed.gov/ipeds>.

⁹ IPEDS.

¹⁰ U.S. Census, Quick Facts, www.census.gov/quickfacts/fact/table/VA,US/PST045219.



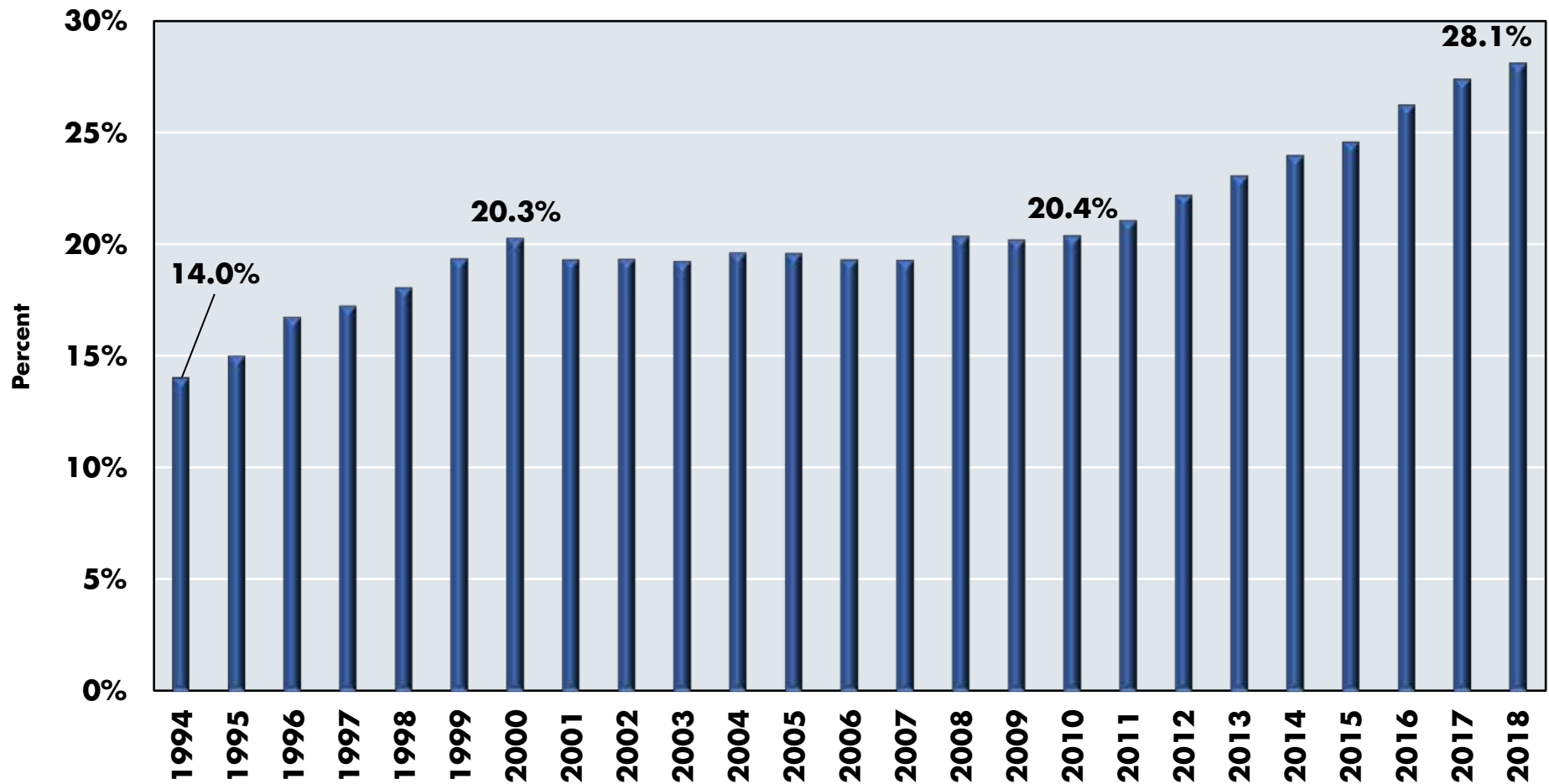
GRAPH 1
HEADCOUNT ENROLLMENTS: OLD DOMINION UNIVERSITY,
FALL 2010-FALL 2020



Source: IPEDS, the Integrated Postsecondary Education Data System, <https://nces.ed.gov/ipeds>. Undergraduate and graduate data were estimated for 2014

GRAPH 2

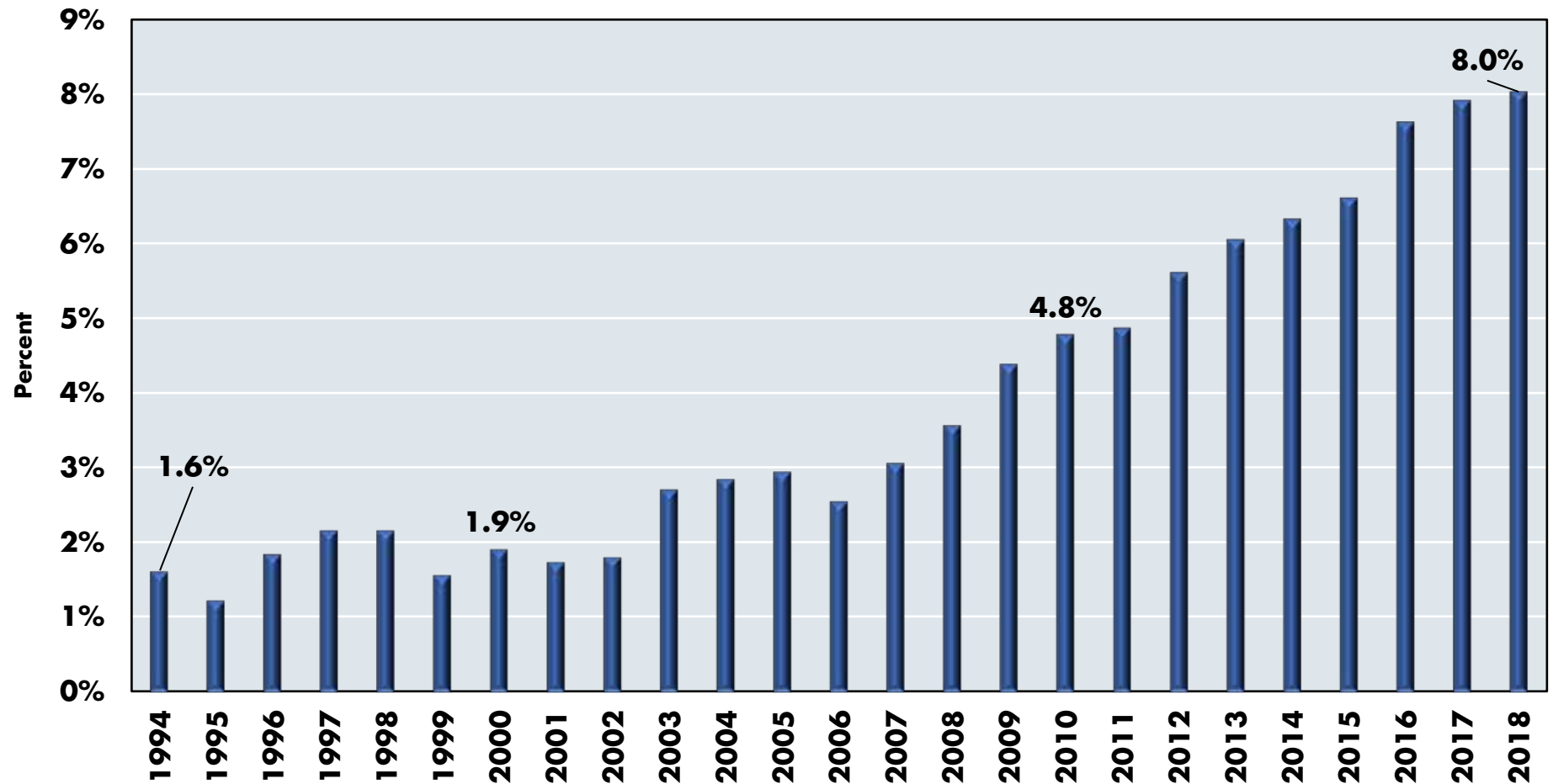
PERCENT OF BLACK (NON-HISPANIC) STUDENTS:
OLD DOMINION UNIVERSITY, 1994-2018



Source: IPEDS, the Integrated Postsecondary Education Data System, <https://nces.ed.gov/ipeds>

GRAPH 3

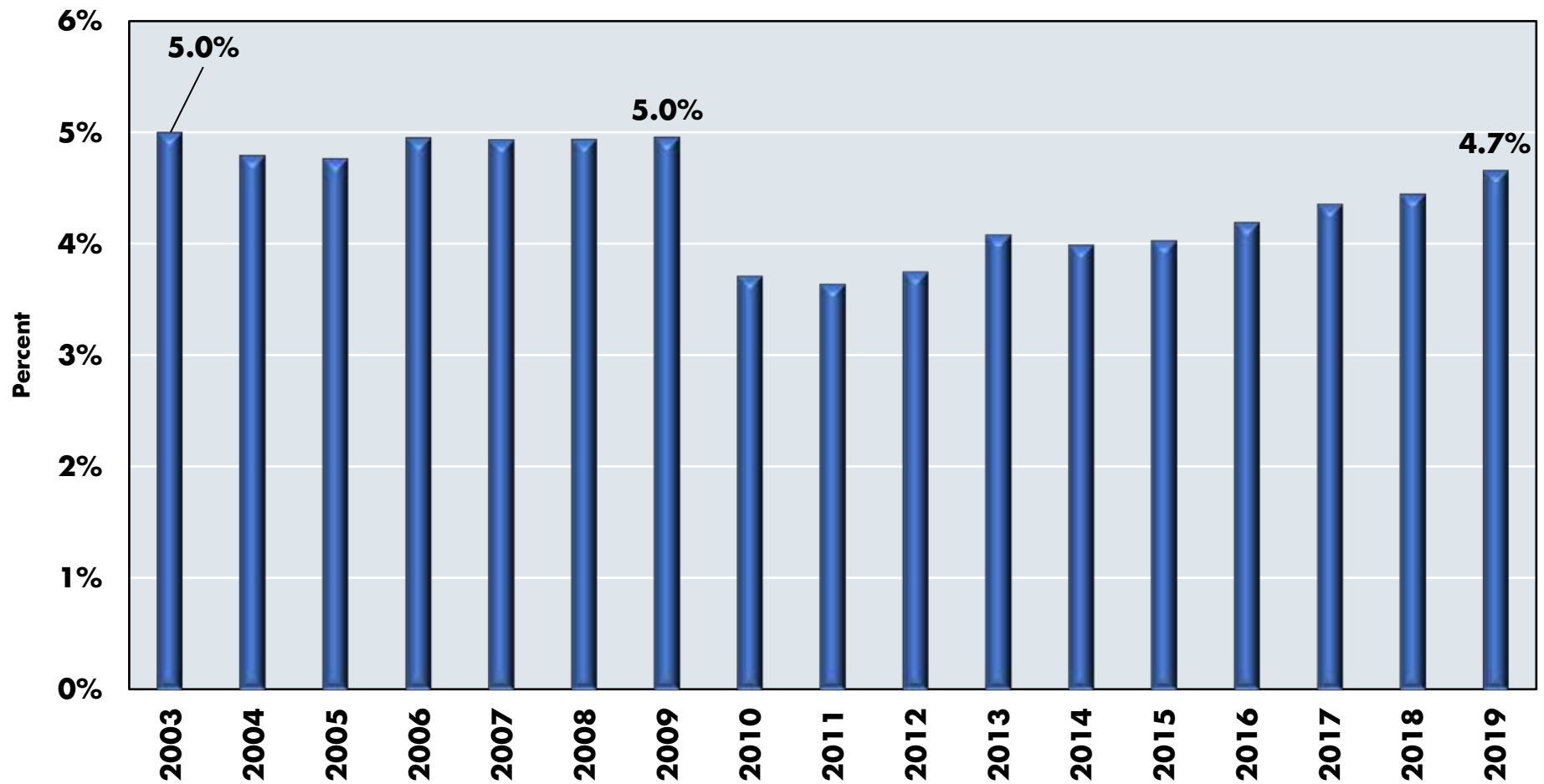
PERCENT OF HISPANIC AND LATINO STUDENTS:
OLD DOMINION UNIVERSITY, 1994-2018



Source: IPEDS, the Integrated Postsecondary Education Data System, <https://nces.ed.gov/ipeds>

GRAPH 4

PERCENT OF ASIAN AND ASIAN AMERICAN STUDENTS:
OLD DOMINION UNIVERSITY, 2003-2019



Source: IPEDS, the Integrated Postsecondary Education Data System, <https://nces.ed.gov/ipeds>

Faculty And Administrators

In 2020, Old Dominion's faculty numbered 901, and it had 546 administrators and administrative professionals. In addition, the University employed 1,053 classified staff and 562 part-time workers. It ranked as the 17th-largest employer in Hampton Roads.¹¹

DIVERSITY

Asians and Asian Americans are more heavily represented among the University's faculty than in its student body. In 2020, almost 13% of faculty were Asian or Asian American. Approximately 37% of the faculty members were non-white.¹²

ODU enjoys the distinction of having had the first woman president of a four-year public university in Virginia. JoAnn Gora, who was the provost for nine years, served as acting president in 1995. Subsequently, Roseann Runte served as president between 2001 and 2007.

FACULTY RECOGNITION

Stanford University recently compiled a world listing of faculty members whose work has been most frequently cited by others. Stanford limited the group to the Top 2% in that regard in 22 scientific fields and 176 subfields. It is notable that 53 ODU faculty members were recognized by Stanford as members of this prestigious academic club.¹³ Not bad for an institution that began in 1930 as a two-year division of the College of William & Mary. This achievement has received only sparse recognition in the media, however. Rodney Dangerfield would have understood this.

¹¹ "Facts and Figures," Old Dominion University, www.odu.edu/about/facts-and-figures. Data are as of December 2020.

¹² Faculty Demographics, www.odu.edu/acadaffairs/faculty-diversity/faculty-demographics. Data are as of December 2020.

¹³ John P.A. Ioannidis, Kevin W. Boyack and Jeroen Bass, "Updated Science-Wide Author Databases of Standardized Citation Indicators," *PLOS Biology*, 18(10), 2020, <https://doi.org/10.1371/journal.pbio.3000918>.

INSTITUTIONAL MISSION

A tension sometimes emerges on campus between those who see ODU as a research institution and those who view it as an institution that offers opportunity and upward mobility in society to students who often come to it from lower-income households. "ODU is attempting to ride two horses at once," was the pungent observation of a former president, "and the two horses aren't going the same direction." Opined another external observer, "You can excel at one but seldom at both."

It is not the function of the State of the Region Report to determine ODU's mission or the goals that are placed in front of its faculty and staff. It is appropriate, however, for us to note that no higher education institution can be all things to all people. Given limited resources, choice-making cannot be avoided. Better that ODU (or any organization) understand the choices confronting it than to evolve unknowingly into an amorphous entity that reflects accident rather than design. Are the University's undergraduate admission practices consistent with its role as a research institution?

Conventional Institutional Performance Measures

Were one to ask a random citizen or legislator to identify the metrics that best measure university performance, likely they would mention retention, graduation rates and the ability of graduates to obtain good-paying jobs after receiving their diploma. Research institutions might add the amount of each institution's externally funded research to this list.¹⁴

Consensus deteriorates when one attempts to add metrics to the previous list. Because the missions of institutions differ, metrics designed to illuminate the performance of a flagship land-grant institution should not be the same as those constructed to evaluate the activities of a historically black college or university (HBCU), a metropolitan institution such as Old Dominion or

¹⁴ "University Performance Metrics," Strategy2Act, www.strategy2act.com/solutions/university-performance-metrics.htm.

a regional baccalaureate institution such as the University of Virginia's College at Wise.

However, it is not easy to convince citizens, legislators and especially the media not to evaluate all institutions using the same criteria. Applying the same metrics to all institutions at first glance might seem reasonable and proper, but often this results in apples-and-oranges comparisons. Nevertheless, let us consider how ODU performs with respect to three conventional criteria: student retention rates, graduation rates and the subsequent employment success of graduates.

RETENTION

College students who drop out are expensive, both to institutions and to themselves. Job markets pay large salary premiums to individuals who have earned a baccalaureate degree compared to those who dropped out prior to graduation.¹⁵

Graph 5 reports the retention rate from freshman to sophomore year for first-time, full-time undergraduate students at ODU. The national average rate at four-year public institutions was 81% between 2018 and 2019. ODU's retention rate was 80%, not bad given the nontraditional nature of its student body.

Nonetheless, institutions in Virginia that perhaps are comparable exhibit higher retention rates – George Mason University retains 86% and Virginia Commonwealth University retains 83%. These data represent a chink in ODU's armor when "How well are you doing?" discussions occur among citizens and decision makers.

GRADUATION

Students who drop out of college between their freshman and sophomore years are unlikely to ultimately graduate from college. Therefore, given its retention rate, it is predictable that ODU's graduation rate is not impressive. The University's six-year graduation rate for all first-time, full-time freshmen

was 52.8% in 2019 (Graph 6). Reflecting national trends, the graduation rate for ODU men (48.3%) was substantially below that for ODU women (57.0%).

Once again, graduation rates at GMU (71%) and VCU (61%) were higher than that at ODU. With respect to its retention and graduation rates, ODU can point out that it serves a less wealthy student body than the other two institutions and that the SAT/ACT scores of its students are not as high as those at the other two. The average household income national percentile of ODU students was the 61.4th, while it was the 69.3rd at GMU and the 70.8th at VCU.¹⁶ Meanwhile, for freshmen who entered these institutions in fall 2019, the median SAT score in mathematics was 520 at ODU, but 560 at VCU and 600 at GMU. Thus, the average undergraduate attending ODU is less wealthy and less academically prepared than the average student at either GMU or VCU, and this is reflected in graduation rates.¹⁷

Table 1 summarizes the simple correlation coefficients between retention rates, graduation rates, the incomes of the households from which students come, students' SAT/ACT scores and the percentage of undergraduates receiving Pell Grants. The data are paired observations for the 2018-19 academic year from a sample of 235 four-year public colleges and universities. It is apparent that both retention and graduation rates are strongly associated with household incomes and standardized test scores. Many national studies have concluded that cause-and-effect relationships exist among these variables.

These data suggest that it would be wise for the State Council of Higher Education for Virginia (SCHEV) to publish statistically adjusted retention and graduation rates for each institution, controlling for their respective household family incomes and standardized test scores. One could then obtain a better idea of how well each institution is performing, given its student body.¹⁸

15 In 2017, individuals ages 25-29 earned an average of \$19,034 more annually than those who completed some college but did not graduate: Wesley Whistle, "Ripple Effect: The Cost of the College Dropout Rate," Third Way (Jan. 28, 2019), www.thirdway.org/report/ripple-effect-the-cost-of-the-college-dropout-rate.

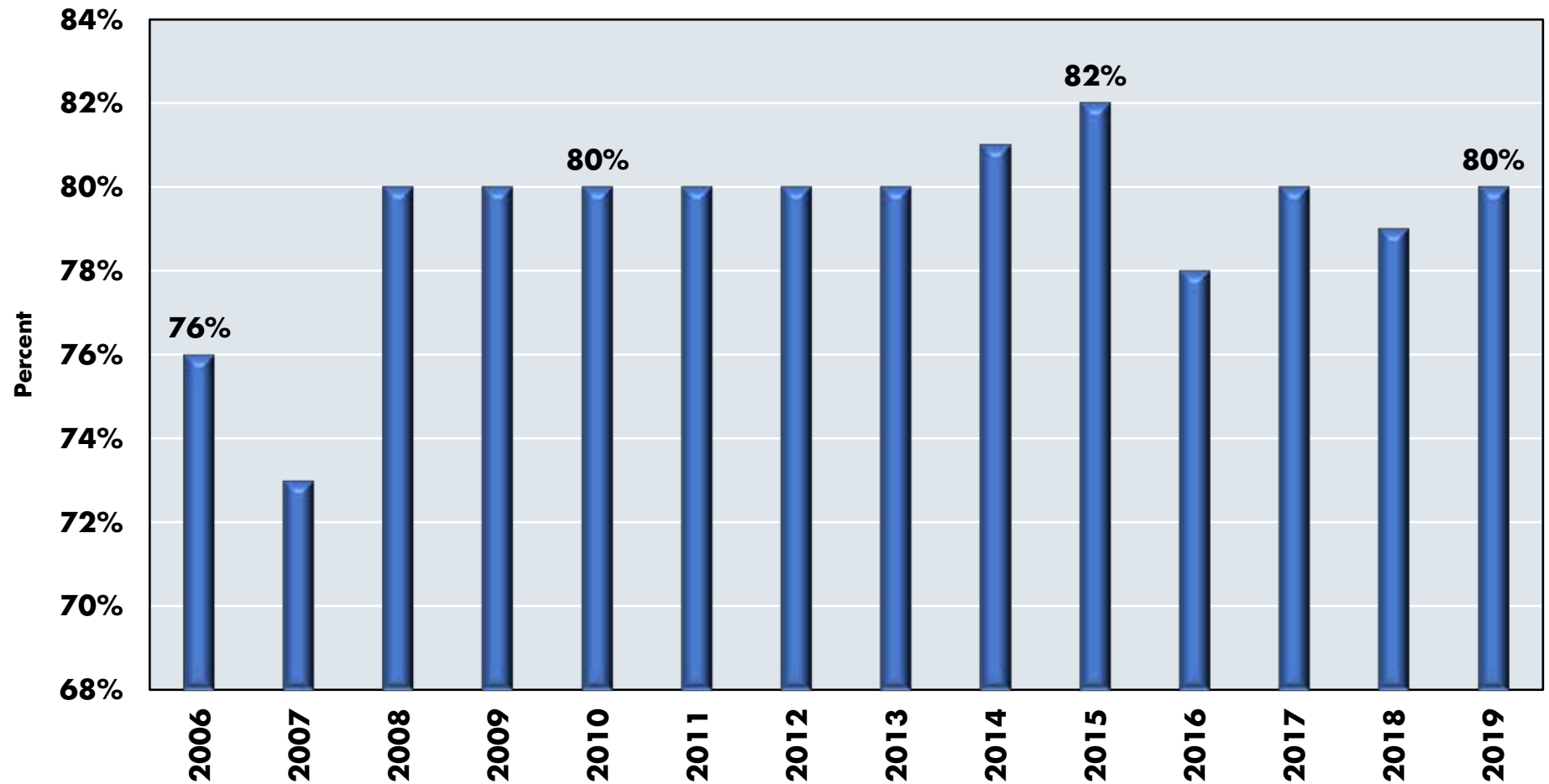
16 Raj Chetty, John Friedman, Emmanuel Saez, Nicholas Turner and Danny Yagan, "Mobility Report Cards: The Role of Colleges in Intergenerational Mobility," <https://opportunityinsights.org>.

17 "Admissions: First Time Freshman Profile," State Council of Higher Education for Virginia, https://research.schev.edu/enrollment/B10_FreshmenProfile.asp.

18 There could be some "moral hazard" attached to such a policy. Institutions might perceive a reduced need to recruit and admit qualified students.

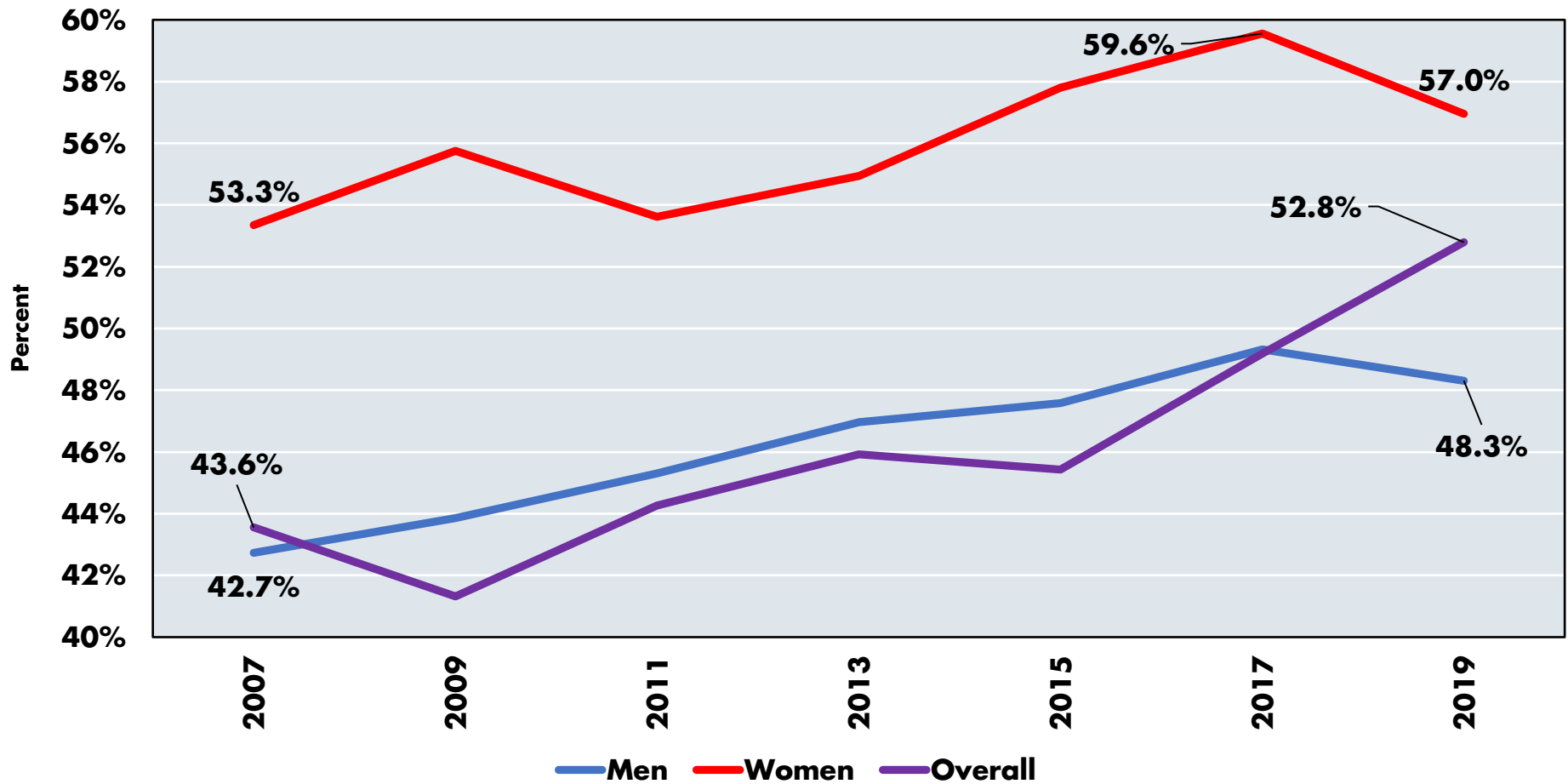
GRAPH 5

**FIRST-TIME, FULL-TIME RETENTION RATES:
OLD DOMINION UNIVERSITY, FALL 2006-FALL 2019**



Source: IPEDS, the Integrated Postsecondary Education Data System, <https://nces.ed.gov/ipeds>

GRAPH 6
SIX-YEAR GRADUATION RATES:
OLD DOMINION UNIVERSITY, 2007-2019



Source: IPEDS, the Integrated Postsecondary Education Data System, <https://nces.ed.gov/ipeds>

TABLE 1

**SIMPLE CORRELATION COEFFICIENTS BETWEEN SELECTED VARIABLES:
235 FOUR-YEAR PUBLIC INSTITUTIONS, 2018-2019**

Variable	Retention Rate	Graduation Rate	Household Income	SAT/ACT	Undergraduate Pell Percent
First-Time					
Full-Time Retention Rate	1.00	.893	.699	.782	.077
Six-Year Graduation Rate	.893	1.00	.753	.061	.086
Median Household Income of Students	.699	.770	1.00	.941	-.899
Brookings SAT/ACT	.782	.839	.941	1.00	-.908
Undergraduate Pell Percent	.077	.071	-.899	-.908	1.00

Sources: IPEDS for graduation rates, retention rates and Pell Grant percentages; Opportunity Insights for median household incomes; and the Brookings Institution for the hybrid SAT/ACT score, which is the normalized institutional statistic that reflects both ACT and SAT scores. The 235 four-year public university sample is described in James V. Koch and Richard J. Cebula, "Runaway College Costs: How College Governing Boards Fail to Protect Their Students" (Johns Hopkins University Press, 2020).

Two public policy questions emerge from these data. First, should the Commonwealth recognize the challenges associated with serving students who may not be as well prepared for the rigors of higher education? If so, should the General Assembly allocate funding to colleges and universities and increase financial aid to these students? Virginia's 2020 legislative session witnessed an important change in legislative behavior – one that did take into account the makeup of most of today's public university student bodies. ODU received a special \$5 million General Fund allocation to address its distinctive needs as well as a healthy upward bump in the allocation it received for student financial aid. The ascendancy of several Black legislators to positions of power and influence has made the General Assembly more sensitive to issues relating to lower-income students and student bodies that do not fit the traditional mold.¹⁹

¹⁹ The state of Oregon recently changed its higher education funding formulas to provide greater financial support to institutions with more racially diverse and lower-income student bodies: Jordyn Brown, "Oregon universities will see a shift in funding under new model," *The Register-Guard* (Feb. 16, 2021), www.registerguard.com/story/news/2021/02/16/oregon-universities-see-shift-funding-under-new-state-model/6729930002. Colorado has been doing so for some time.

A second policy consideration relates to whether Virginia should direct less-prepared students to community colleges rather than four-year institutions. The answer to this question is not clear. While it is less expensive for the Commonwealth to educate a student on one of its community college campuses, that same student is less likely to eventually obtain a baccalaureate degree if he or she does go the community college route. Much depends upon the student's major course of study, however.

INSTITUTIONAL CONTRIBUTION TO LABOR MARKET SUCCESS

Many citizens believe the most important thing colleges and universities do is prepare their students for employment after graduation. In this view, the success of our higher education institutions should be measured by jobs filled and incomes earned. For several years, SCHEV has been collecting data on the postgraduation jobs and income earned by the students who complete their baccalaureate degrees at a Virginia public institution of higher education. These data are interesting but less useful than some might believe. For one, more than half of graduates from a typical college or university

do not participate in the survey and it seems likely they do not constitute a random sample of all graduates. Second, the incomes earned by graduates are quite sensitive to the locations where they are working. In May 2019, average weekly wages in the Washington, D.C., metropolitan region were 63.4% higher than in Lynchburg and 33.4% higher than in Hampton Roads.²⁰ Third, much depends on a student's major course of study. The Bureau of Labor Statistics reported in May 2019 that the average weekly wage for computer systems analysts in Hampton Roads was 56.9% higher than that for educational guidance counselors.²¹

Thus, comparing the wages of graduates can be a fraught enterprise. The Brookings Institution, however, has developed an interesting method to estimate the "value-added" of specific institutions of higher education to their graduates' incomes, whatever those incomes are. Brookings' value-added measure is an estimate of how much a specific institution contributed to a student's postgraduate income over and above what that student would have earned had he or she majored in the same discipline at the typical institution nationally. Table 2 records Brookings' estimates of the value-added contributions of selected Virginia public institutions in 2015.

20 Bureau of Labor Statistics, "May 2019 National, State, Metropolitan and Nonmetropolitan Area Occupational Employment and Wage Estimates," www.bls.gov/oes/current/oes_abo.htm.

21 Bureau of Labor Statistics.

TABLE 2

BROOKINGS INSTITUTION ESTIMATES OF INSTITUTIONAL VALUE-ADDED FOR BACCALAUREATE RECIPIENTS AT VIRGINIA FOUR-YEAR PUBLIC INSTITUTIONS COMPARED TO THE AVERAGE INSTITUTION

Institution	Brookings Value-Added Estimate
Christopher Newport University	-1%
George Mason University	20%
James Madison University	13%
Norfolk State University	NA
Old Dominion University	14%
Radford University	-4%
University of Mary Washington	5%
University of Virginia	22%
Virginia Tech	27%
Virginia Commonwealth University	7%
Virginia State University	1%
William & Mary	18%

Source: Jonathan Rothwell and Siddharth Kulkarni, "Beyond College Rankings: A Value-Added Approach to Assessing Two-Year and Four-Year Schools" (Washington, D.C.: Brookings Institution, 2015)

EXTERNALLY FUNDED RESEARCH AND DEVELOPMENT ACTIVITIES

Is the glass half full or half empty when we discuss ODU's funded research activities? Graph 7 reports the University's research and development expenditures over the past decade. Note that the sharp reduction after FY 2013 reflects a change in how ODU reported its own contributions to these expenditures rather than a dramatic decline in funding from external sources such as the National Science Foundation or the Department of Defense.²²

What should we make of the data presented in Graph 7? The glass is half full if one considers that ODU opened its doors in 1930 as a two-year division

22 Old Dominion's new methods of reporting its research and development expenditures put it in conformance with National Science Foundation guidelines.

of the College of William & Mary with a total budget of only several hundred thousand dollars. Few people would have forecast that 90 years later the University would be expending more than \$67 million from all sources to fund its research and development activities. However, the glass may be half empty if one compares ODU's performance in this arena with similar institutions.

Total research expenditures are sensitive to institutional scale (the number of students and faculty) and whether or not an institution has a medical school. Graph 8 reports research expenditures per full-time equivalent (FTE) student at several Virginia institutions in FY 2019. UVA, VCU and Virginia Tech have medical schools. (FTE faculty numbers were not available.)

National Science Foundation data ranked ODU only 185th nationally among all U.S. institutions of higher education in terms of the size of its research and development expenditures in FY 2019. ODU ranked fifth among Virginia institutions in this regard, but fell to sixth when the computation was performed on a per-FTE student basis.²³

The only topical research and development area where ODU cracked the top 100 nationally was physics (97th). The University's best performance in terms of funding sources was with NASA, where it ranked 83rd.²⁴

These are acceptable performances, but ODU must improve if it intends to increase its economic impact on Hampton Roads and expects to augment its roles in public health and the medical sciences. Improved performance will not occur magically, however. Careful attention must be given to faculty hiring decisions, the expectations placed in front of faculty, compensation, and promotion and tenure decisions.

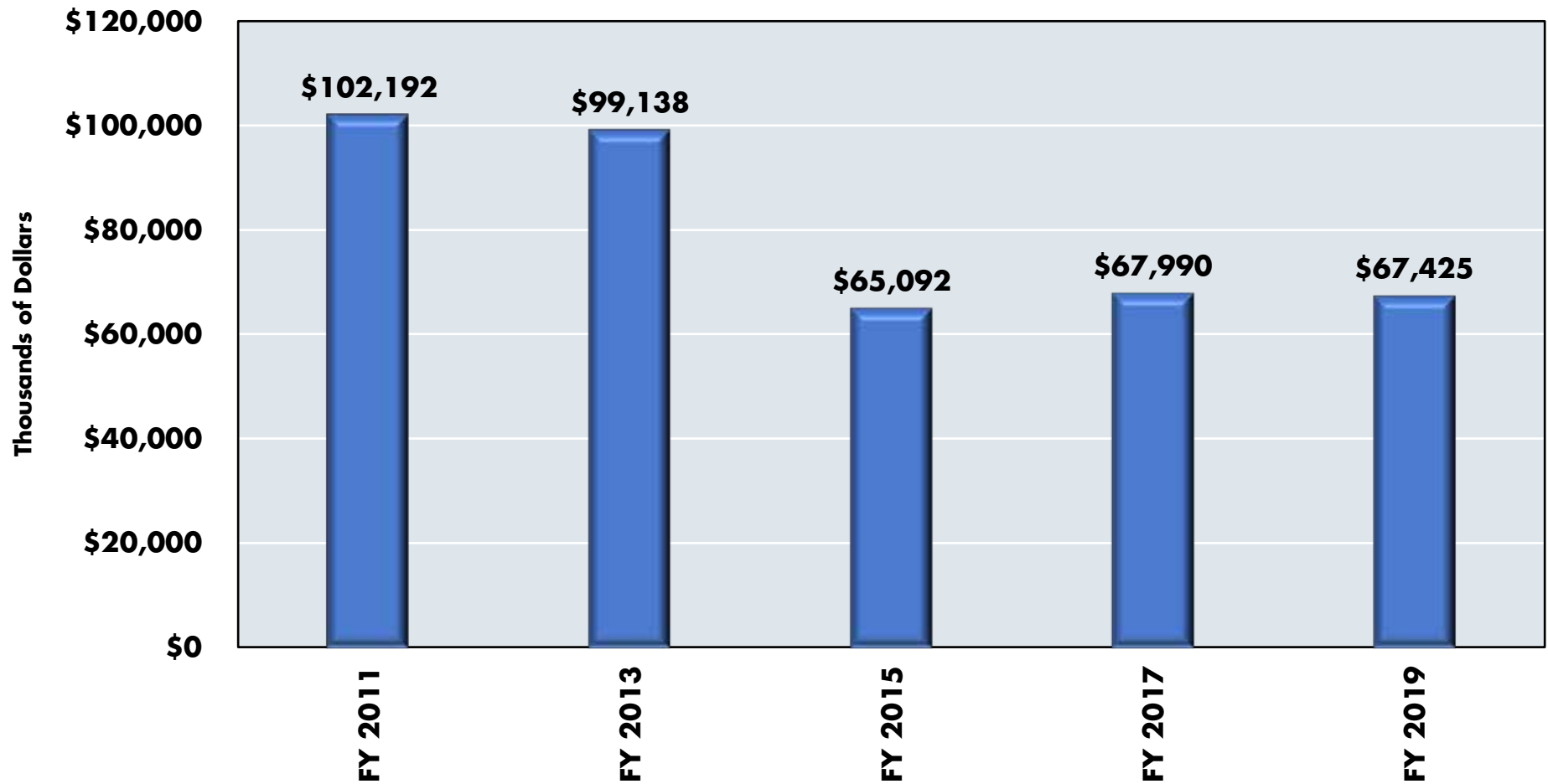
²³ The research and development expenditures come from the National Science Foundation, Higher Education Research and Development: fiscal year 2019, <https://nces.nsf.gov/pubs/nsf21314#data-tables>. FTE student numbers come from the State Council of Higher Education for Virginia, <https://research.schev.edu/info/reports>.

²⁴ National Science Foundation.



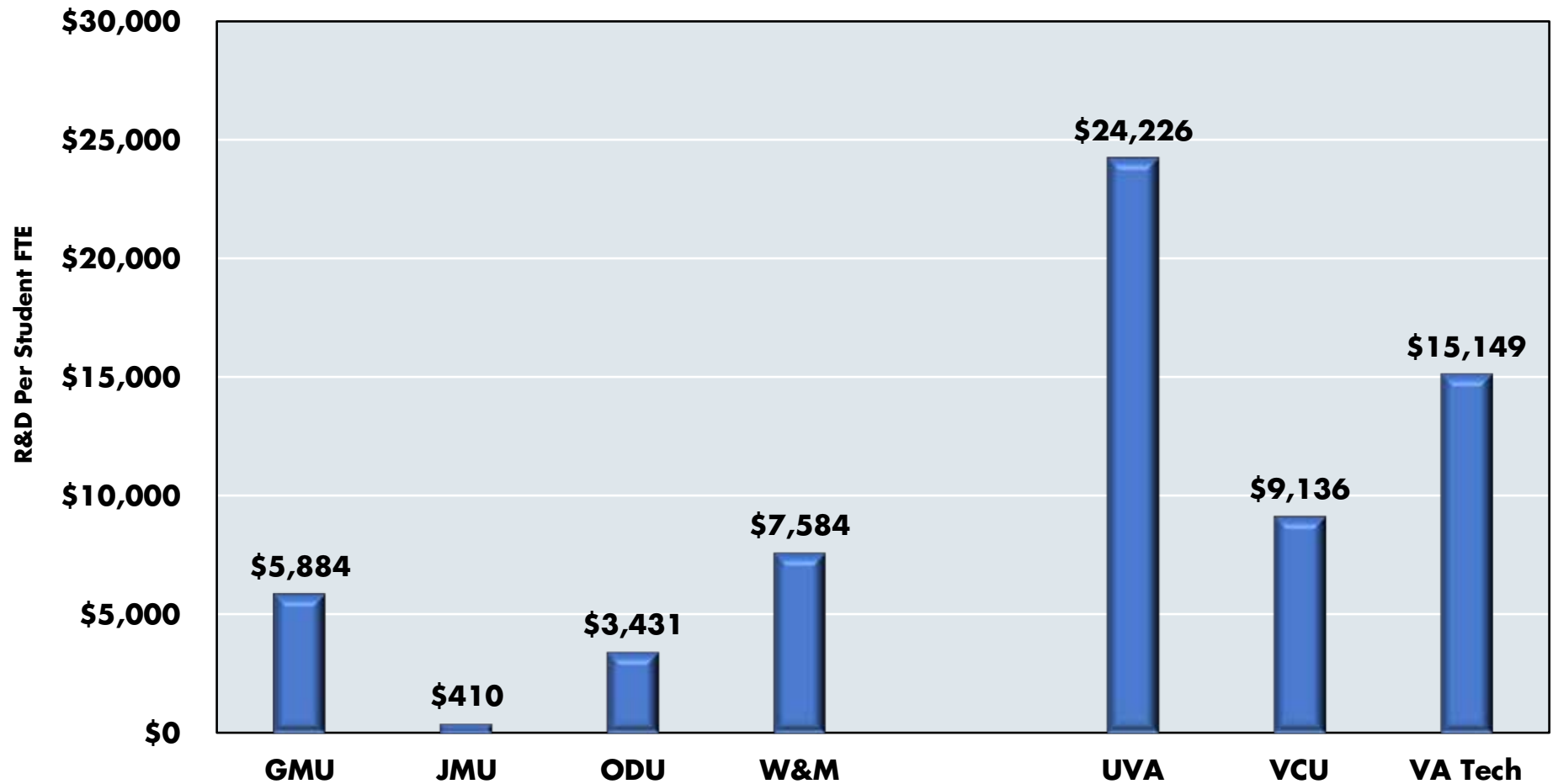
GRAPH 7

UNIVERSITY EXPENDITURES ON RESEARCH AND DEVELOPMENT:
OLD DOMINION UNIVERSITY, FISCAL YEAR 2011-FISCAL YEAR 2019



Source: National Science Foundation

GRAPH 8
RESEARCH AND DEVELOPMENT EXPENDITURES PER STUDENT FTE,
FISCAL YEAR 2019



Sources: Research and development expenditures are from the National Science Foundation, Table 20, Higher Education R&D Expenditures, Ranked by FY 2019 R&D Expenditures: FYs 2010-2019, <https://nces.nsf.gov/pubs/nsf21314#data-tables>. FTE student numbers are from the State Council of Higher Education for Virginia, <https://research.schev.edu/info/reports>.

The Commonwealth's Financial Support

Virtually every state agency believes it deserves more support from Virginia's General Fund, and Old Dominion University is no exception. However, before assessing ODU's case in this regard, it is appropriate to provide some background. The Commonwealth's respected Joint Legislative Audit and Review Commission (JLARC) has noted that Virginia is a high-tuition, low-tax-support state insofar as higher education is concerned.²⁵ This view has been confirmed by the similarly respected State Higher Education Executive Officers (SHEEO) organization, which notes that in FY 2017, the average state devoted 5.8% of its tax and lottery revenues to higher education, while in Virginia only 5% was allocated for the same purpose.²⁶

Virginia's state appropriations per full-time equivalent (FTE) college student were only \$5,805 in FY 2019, well below the national average of \$8,196. On the other hand, tuition and fee revenues were above average at \$9,786 per FTE, compared to the national average of \$6,902. Virginia seals its situational fate by also being a below-average student financial aid state – the national average amount of student financial aid provided in FY 2019 was \$808 per FTE, but Virginia supplied only \$716.²⁷

Thus, it is true that Virginia provides less tax support and financial aid to its public college students than the typical state, and those students pay higher than average levels of tuition and fees. The reasons for this are complex, but it is fair to observe that in times of fiscal stress, legislators often regard public higher education budgets as a bank account upon which they can draw for funds needed in other agencies. When cornered, legislators typically assert that most, if not all, Virginia colleges and universities can raise tuition and fees in order to avoid severe financial problems. If they have the University of Virginia in mind, then this likely is true. In the 10 years between the 2008-09 academic year (when the Great Recession began) and 2018-19, UVA

increased its "sticker price" tuition and fees 84.8%, while the consumer price index rose only 19.2%.²⁸ However, it is not clear that the same logic applies to institutions such as ODU (where the comparable increase was only 48.6%).²⁹

How has ODU fared? Between FY 2005 and FY 2019, the University's general fund appropriation per full-time equivalent student rose 41.09%, one of the highest percentage increases of any higher education institution in Virginia (Table 3). This is an outstanding performance and credit is largely due to former President John R. Broderick and his staff.

Of course, in absolute terms, this still left ODU well behind institutions such as NSU and VCU, but ahead of UVA and Virginia Tech. Broderick performed exquisitely well in terms of enhancing ODU's financial support from the General Assembly during his presidency. Further, these data do not include the results of the most recent (2021) General Assembly session, when the University emerged with significant additional funding.

Thus, even though ODU's mission and institutional positioning are not highly valued by external ratings agencies, and often not by Virginia media and opinion leaders either, this has not prevented the General Assembly from doing well by the institution – at least in recent years. As one legislator put it to us, "None of my children really considered attending Old Dominion when they were high school seniors, but I think it has been doing a great job."

25 Joint Legislative Audit and Review Commission, "Addressing the Cost of Public Higher Education in Virginia," (November 2014), <http://jlarc.virginia.gov/pdfs/reports/Rpt461.pdf>.

26 State Higher Education Executive Officers, *State Higher Education Finance*, 2019, https://shef.sheeo.org/wp-content/uploads/2020/04/SHEEO_SHEF_FY19_Report.pdf.

27 State Higher Education Executive Officers, *State Higher Education Finance*, 2019.

28 UVA's published tuition and fees come from *The Chronicle of Higher Education*, "Tuition and Fees, 1998-99 Through 2019-20" (Dec. 30, 2019), www.chronicle.com/article/tuition-and-fees-1998-99-through-2018-19. The CPI data represent the midpoint of each academic year (January) and come from the Bureau of Labor Statistics, www.bls.gov/regions/mid-atlantic/data/consumerpriceindexhistorical_us_table.htm.

29 "Tuition and Fees 1998-99 Through 2019-20," *The Chronicle of Higher Education*.

TABLE 3

**GENERAL FUND SUPPORT FROM THE COMMONWEALTH PER FULL-TIME EQUIVALENT STUDENT:
SELECTED VIRGINIA INSTITUTIONS, FY 2005 TO FY 2019**

Institution	FY 2005	FY 2008	FY 2012	FY 2015	FY 2018	FY 2019	Percent Change FY 2005 to FY 2019
GMU	\$4,933	\$6,815	\$4,692	\$5,011	\$5,258	\$5,392	+7.98%
JMU	\$3,910	\$4,680	\$3,531	\$3,889	\$4,183	\$4,445	+13.68%
NSU	\$8,833	\$10,177	\$7,550	\$9,284	\$12,142	\$12,364	+39.97%
ODU	\$5,578	\$7,387	\$5,551	\$6,374	\$7,471	\$7,689	+41.09%
UVA	\$6,006	\$7,615	\$4,994	\$5,972	\$6,382	\$6,297	+4.85%
VCU	\$7,445	\$8,624	\$6,387	\$7,320	\$8,298	\$8,717	+17.09%
VA Tech	\$5,824	\$6,647	\$4,984	\$5,445	\$5,412	\$5,527	-5.11%
W&M	\$5,955	\$7,281	\$5,221	\$5,504	\$5,683	\$6,060	+1.76%

Sources: General fund support numbers are from Old Dominion University; calendar year full-time equivalent enrollment data are from IPEDS.

Student Debt

The high-tuition, low-state-support model of financing higher education adopted by Virginia has had predictable effects on the volume of debt incurred by students to finance their education. The U.S. Department of Education's College Navigator website reports that the 65% of full-time, beginning undergraduate students at Old Dominion who took out loans to finance their education did so to the tune of \$7,426 in 2018-19.³⁰ Extrapolated over four years, this suggests the typical graduate incurs student debt of almost \$30,000, which is slightly above the national average.

The relatively modest median household incomes of ODU students (at least compared to most other Virginia four-year public universities) increase the amount they borrow. However, ODU's status as a lower-cost institution within Virginia has the opposite effect and reduces the amounts students need to

borrow to finance their education. Compare ODU's \$7,426 average student borrowing level in 2018-19 to that of \$8,323 at GMU and \$8,367 at VCU.³¹

Loans must be paid back. A total of 5,668 former ODU students began to repay their loans in 2016. Three years later, 6.9% of these students had defaulted on their loans. The national average default rate was 9.3%.³² Student loan default rates were lower at GMU (2.1%) and VCU (4.1%), but higher at NSU (11.3%).

It is not difficult to see why the increased allocation of student financial aid grant funds that ODU received from the 2020 General Assembly was so welcome.

³¹ College Navigator.

³² "Debt and Loan Default Rates," College Factual, www.collegefactual.com/colleges/old-dominion-university/paying-for-college/student-loan-debt/.

³⁰ College Navigator.

A Measure Of Operating Efficiency

It is not easy to assess the operating efficiency of a college or university because many campus activities generate costs but no revenue. Further, efficiency usually is measured with respect to some type of output. But what is the “output” of an institution such as Old Dominion University? It is more than the number of graduates or credit hours generated, and includes activities ranging from intercollegiate athletics and free lectures to the provision of preschool and free or low-cost dental hygiene services. In addition, cross-subsidies and below-cost activities abound at a modern university. Vital, but complex, public-private partnership arrangements (ODU’s University Village is one example) complicate things, as does the existence of foundations. Thus, it is difficult to measure university efficiency unless one can agree upon what the universities are supposed to be doing.

With these caveats, we will peek at the services that often are termed “administrative.” These include the activities and expenditures of offices ranging from the registrar to public safety. Our measure of the efficiency of these offices is each institution’s average “institutional support cost” per FTE student, which is reported by institutions to the U.S. Office of Education.³³ We adjust these magnitudes for changes in the consumer price index over time so that the numbers in one year are comparable to those in another year.

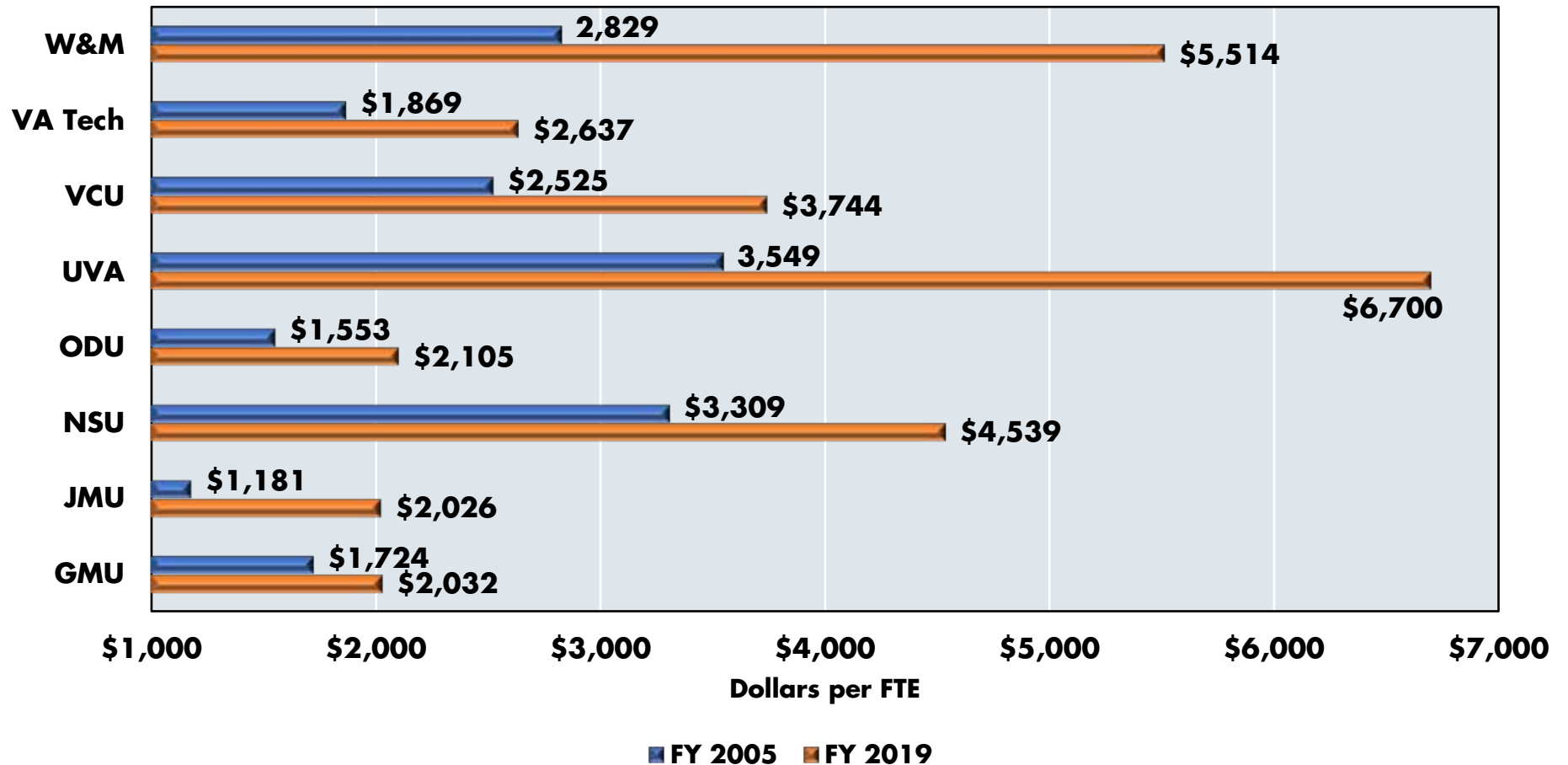
The University of Virginia, William & Mary and Norfolk State University easily report the highest “real” (price-adjusted) instructional support costs per FTE student. W&M witnessed a dramatic 94.94% increase in what most would label administrative overhead (Graphs 9 and 10). Someone must pay for such expenditures and since the Commonwealth’s General Fund support has declined in real terms, this means that institutions have relied substantially upon increases in their tuition and fees to fund their increased expenditures.

How does ODU rate on this efficiency scale? Rather well. The University’s institutional support expenditures per FTE put it with GMU and JMU in a category much lower than that of the other five institutions. In addition, ODU’s percentage rate of increase in these expenditures, FY 2005 to FY 2019, was second-lowest among the eight institutions. A professor asked to assign a grade to this performance likely would say it merits at least a B, if not a B+ or A-.

³³ Another caveat is in order. Institutions retain some flexibility in terms of how they report their expenditures to the U.S. Office of Education, and therefore, one should not regard these data as beyond reproach.

GRAPH 9

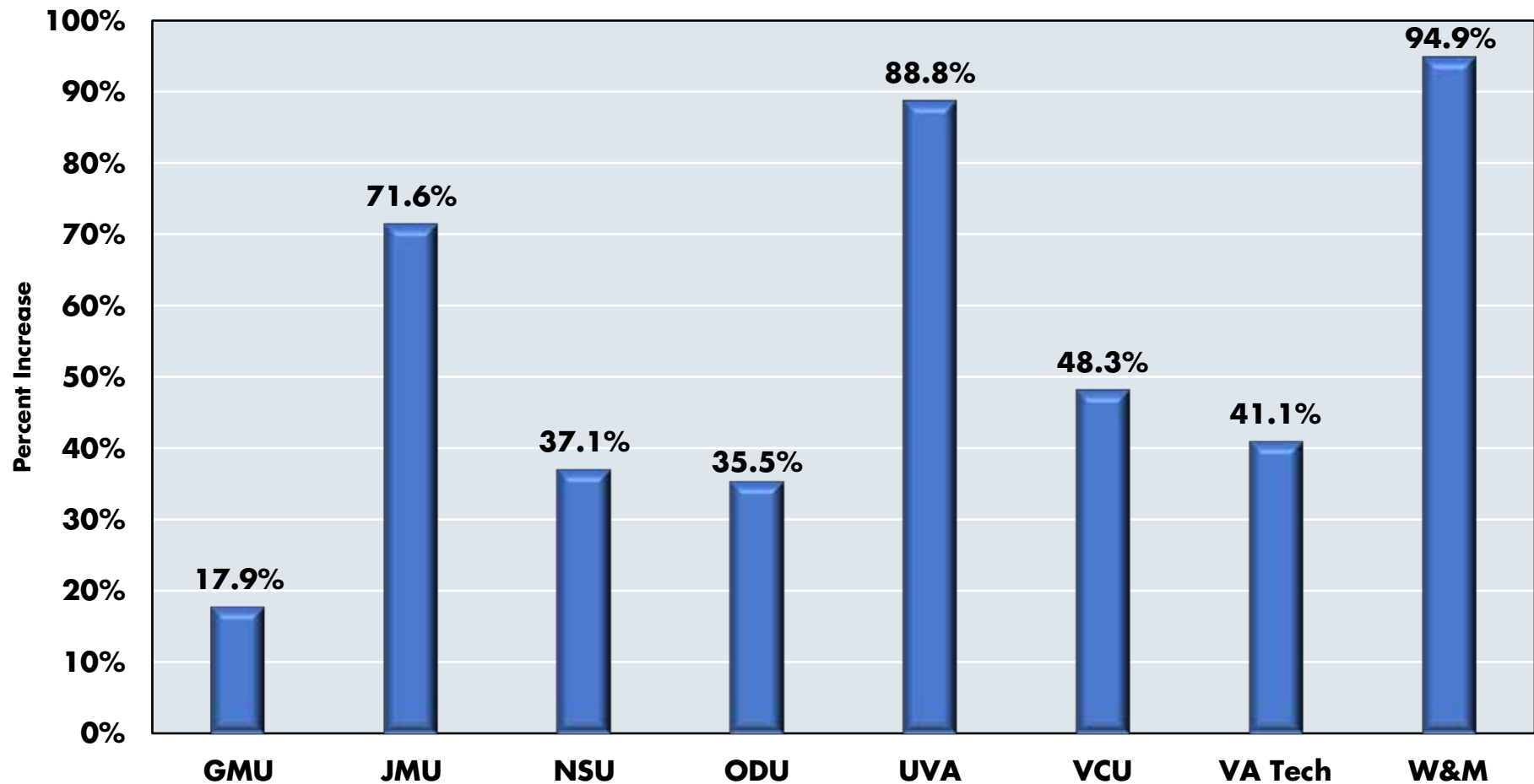
REAL INSTITUTIONAL SUPPORT EXPENDITURES PER FTE STUDENT:
SELECTED VIRGINIA INSTITUTIONS, FY 2005 AND FY 2019



Source: IPEDS, the Integrated Postsecondary Education Data System, <https://nces.ed.gov/ipeds>

GRAPH 10

PERCENT INCREASE IN REAL INSTITUTIONAL SUPPORT EXPENDITURES PER FTE STUDENT:
SELECTED VIRGINIA INSTITUTIONS, FY 2005 AND FY 2019



Source: IPEDS, the Integrated Postsecondary Education Data System, <https://nces.ed.gov/ipeds>

Areas Of Distinction

Every academic program at Old Dominion University that is eligible for external disciplinary accreditation holds that status. It is fair to say that educational quality is present across the length and breadth of the institution.

Nevertheless, institutions with merely adequate or good academic programs seldom achieve distinction. It is only when multiple programs of significance achieve consistent national recognition as excellent or path-breaking that what might be termed a “halo effect” spreads across and benefits the entire institution. When this halo effect exists, it improves the reputations of programs throughout the institution.

The consensus of external senior academic leaders is that it takes at least three, and more likely five or six, nationally recognized programs to generate a halo effect. Their view is that ODU currently does not meet this threshold but has the potential to do so.

External authorities have high regard for the University's program in nuclear physics but note that because it does not generate easily recognizable commercialized innovations and products, it is not as potent or visible as other academic programs. In terms of raw academic power and prestige, however, it is one of the best in the nation, boasts some very accomplished faculty and has invaluable connections to the Jefferson Lab in Newport News.

The academic areas with the greatest potential for ODU to gain legitimate national distinction focus on societal problems and needs. Rising sea levels and resiliency provide a cogent example of an academic thrust that clearly addresses local, regional and national needs and builds on existing University strengths in areas such as oceanography. The ever-expanding roles of health and medical care in the United States strongly suggest that the incipient School of Public Health must be a major point of emphasis when additional funds are allocated. What is required now is a combination of well-designed faculty additions; active pursuit of foundation and grant funds; more rigorous and focused salary, promotion and tenure decisions; and political acumen. ODU can achieve these goals if it recognizes what can be accomplished and acts accordingly.

There was a time at the turn of the century when ODU occupied a national leadership position in distance learning. The University's Teletechnet programs were both well known and highly regarded. A variety of external circumstances and some self-inflicted wounds resulted in decreased emphasis on distance learning at ODU, and today the University no longer can claim national leadership in this important arena. Other institutions now enroll 100,000 or more distance learning students annually, while as one can infer from Tables 4 and 5, ODU's number now ranges between 10,000 and 15,000 in a typical semester. While the University remains very capable in distance learning and produces programs of high quality, the rapidly changing distance learning world has, in some ways, passed it by.

It remains the case, however, that ODU is more heavily immersed in distance learning than any other Virginia public institution. Tables 3 and 4 collectively disclose that more than 49% of ODU students either are taking exclusively distance learning courses or taking some distance learning courses. It seems likely that this is a reason why the University's headcount enrollment increased in fall 2020 when it was declining nationally and on a majority of Virginia public and private campuses. Thus, national leader or not, distance learning has had salutary effects on ODU.

Is it too late for the University to regain national leadership? The answer is “no” if the focus is to be upon the provision of specific academic programs in well-defined areas such as nursing or engineering management. The distance learning market is highly partitioned and therefore amenable to the development and growth of specific, well-orchestrated academic programs. Because it is easier to enter distance learning markets not already dominated by an existing competitor, attention ought to be given to offering online some of the University's newest programs. Cryptology, perhaps, presents such an opportunity.

However, if ODU's ambition is to offer most of its current stable of academic programs to customers around the world, it would do well to recognize that this train already has departed. Significant economies of scale exist in the provision of distance learning programs, and those that entered the market early and expanded now enjoy visibly lower costs per unit because they can spread their fixed costs over much larger student bodies.

Regardless, distance learning has become critically important to the University's future, and the onset of COVID-19 underlined this reality. Even prior to the pandemic, about half of all ODU students were taking at least one distance learning course. This proportion seems likely to increase. Therefore, whether the University stakes out a viable national presence in distance learning or not, it must ensure that it continues to offer high-quality distance learning opportunities to its regular student body. It is apparent from Tables 4 and 5 that Virginia's public university students are interested in distance learning courses.

TABLE 4				
PERCENT OF VIRGINIA PUBLIC COLLEGE AND UNIVERSITY STUDENTS TAKING SOME DISTANCE LEARNING COURSES				
Institution	FY 2013	FY 2015	FY 2017	FY 2019
CNU	0.00	0.00	0.00	0.00
GMU	15.17	19.94	25.67	35.19
JMU	9.92	9.57	8.95	4.59
LU	3.05	2.65	2.70	2.34
NSU	36.12	42.33	41.46	59.06
ODU	14.97	17.71	24.19	29.85
RU	12.08	18.65	22.08	29.46
UVA Wise	13.39	5.63	56.51	4.02
UMW	2.90	3.46	5.83	6.28
UVA	1.55	1.36	2.01	7.62
VCU	17.26	23.74	25.40	30.86
VMI	0.00	0.00	0.00	0.00
VA Tech	23.32	27.35	32.90	28.80
VSU	0.00	0.00	0.00	0.00
W&M	0.00	0.00	0.00	0.17
Source: College Navigator				

TABLE 5

PERCENT OF VIRGINIA PUBLIC COLLEGE AND UNIVERSITY STUDENTS TAKING ONLY DISTANCE LEARNING COURSES

Institution	FY 2013	FY 2015	FY 2017	FY 2019
CNU	0.00	0.00	0.00	0.00
GMU	1.32	1.86	2.06	2.54
JMU	0.27	0.73	0.81	1.18
LU	3.05	0.04	0.00	5.83
NSU	2.37	2.82	3.48	3.48
ODU	12.00	13.97	16.92	19.29
RU	0.57	0.97	0.93	1.61
UVA Wise	22.77	41.32	19.94	35.69
UMW	0.07	0.00	0.28	2.36
UVA	1.09	0.86	1.82	2.05
VCU	0.98	2.07	1.90	2.41
VMI	0.00	0.00	0.00	0.00
VA Tech	0.23	0.24	0.19	0.19
VSU	0.00	0.00	0.00	0.00
W&M	0.00	0.00	0.00	0.09

Source: College Navigator

Fundraising

The Old Dominion University Educational Foundation holds nearly all University endowment assets. As Graph 11 demonstrates, the foundation's values have increased nicely over time. Thus, in 2000, the Educational Foundation's assets ranked ODU 341st among colleges and universities nationally in terms of size; this ranking improved to 310th in 2010 and 288th in 2019. Not a bad achievement for a foundation that was established only in 1955.

National rankings of foundations in terms of their size are not a pure measure of success because some gifts immediately are spent to achieve a specific purpose, for example, the generous gift of Richard and Carolyn Barry to construct the Barry Art Museum at ODU. Such gifts do not increase the value of the endowment although in the case of the Barrys, their generosity also extended to gifts that did enter the foundation's endowment.

Alonzo Brandon, ODU's vice president for university advancement, and recently retired President John R. Broderick proved to be adept fundraisers. ODU reported \$325.4 million in new gifts and commitments between 2008 and 2020. This success reflects hard work and dedication to the university, but also the reality that in 2020, ODU, in contrast to many other institutions, was not riven by discord and divisive issues. Broderick deserves considerable praise for nurturing this milieu.

There is one financial issue relating to the Educational Foundation (and analogous college foundations nationally) that merits exploration. It has to do with how foundations manage and invest the funds entrusted to them. Most academic foundations pay for the active management of their asset portfolios by financial professionals. This seems a reasonable approach until one learns that actively managed funds (some of which are referred to as hedge funds) have not performed as well as indexed, low-cost equity funds that are not actively managed and whose asset distributions replicate entire large market segments. Each year, 60% to 80% of actively managed funds typically do not

fare as well as low-cost, indexed funds that reflect the entire equity market.³⁴ A 2019 compilation by economist Mark Perry found that over the previous 15 years, 88.97% of all actively managed equity funds did not perform as well as the S&P Composite 1500 Index.³⁵

Why is this so? First, active managers believe they know more than the collective wisdom of the entire equity market and conclude they can “beat it.” Second, their active management and trading practices drive up transaction costs. Third, active managers themselves usually command high salaries, which end up being paid for by the college foundations.

The ODU Educational Foundation appropriately diversifies its investments and on June 30, 2020, stocks (both domestic and foreign) accounted for 45.9% of its holdings. Given the data we have presented concerning indexed investments, we believe it would be wise for the foundation to increase its use of low-cost indexed equity funds. The remainder of the corpus of the foundation is invested in fixed income assets, hedge funds, tangible real assets and private equity. Indexed funds exist for some of these asset types (for example, fixed-income vehicles such as bonds) and the lessons of indexing should be applied to these asset segments as well.

Our recommendation does not imply that all active asset managers do not “beat the market.” Some do, but most do not. The foundation should consider the weight of this evidence and see how it measures up.

The point to be taken here is that the ODU Educational Foundation’s general performance represents a success story that many similarly situated foundations would, if they could, gladly emulate.

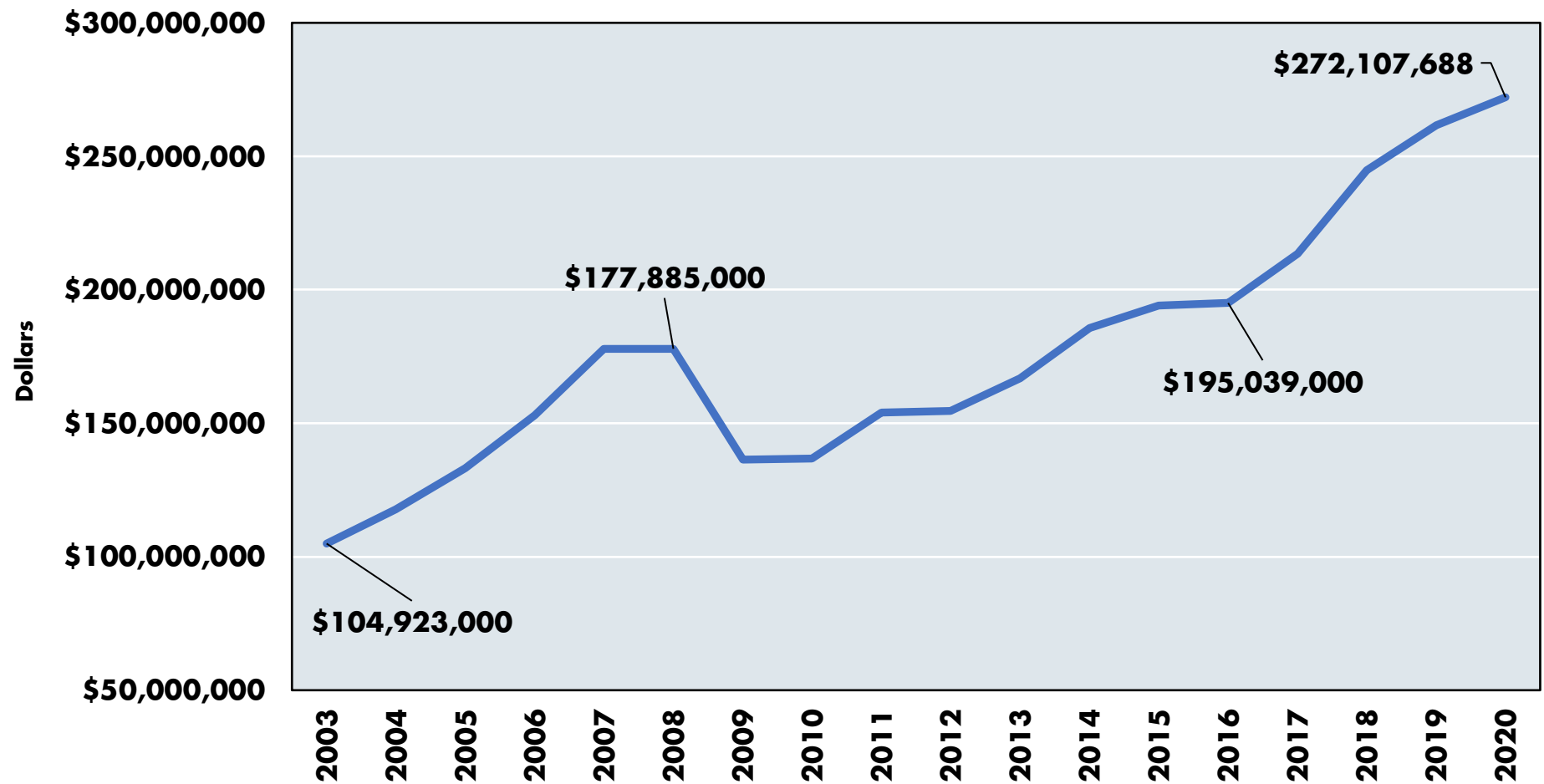
³⁴ This is a point famously made in 1973 by Burton G. Malkiel in his classic, *A Random Walk Down Wall Street* (New York: W.W. Norton). Vanguard’s VTSMX, which indexes all segments of American equity markets, represents an excellent example. Yahoo Finance (www.yahoofinance.com) says VTSMX carries an enviable, very low expense ratio of only 0.14%, providing it with an approximate .5% head start over most actively managed funds.

³⁵ Mark J. Perry, “More Evidence That It’s Really Hard to ‘Beat the Market’ Over Time,” *Carpe Diem Blog* (March 19, 2019), www.aei.org/carpe-diem/more-evidence-that-its-really-hard-to-beat-the-market-over-time-92-of-finance-professionals-cant-do-it-2.



GRAPH 11

VALUATION OF OLD DOMINION UNIVERSITY EDUCATIONAL FOUNDATION ENDOWMENT
AS OF JULY 1, 2003-2020



Source: National Association of College and University Business Officers, "Historic Endowment Study Data," www.nacubo.org/Research/2020/Historic%20Endowment%20Study%20Data

Intercollegiate Athletics

Old Dominion University has assembled an enviable history of success in intercollegiate athletic competition. Its men's basketball teams have won more than 59% of their contests and almost 77% of those played at Chartway Arena. The women's basketball teams have emerged victorious in more than 70% of their games and have won more than 74% of contests at home. ODU has captured 28 team and five individual national championships in sports ranging from sailing and field hockey to women's and men's basketball.

ODU teams consistently attract large numbers of fans, and it is not unusual for both the men's and women's basketball teams to lead Conference USA (C-USA) in attendance. However, intercollegiate athletic success nearly always is accompanied by substantial financial investments in facilities, coaches and financial aid for athletes. So also, it has been at ODU. **Table 6 reports intercollegiate athletic revenues and expenditures at the University from FY 2003 to FY 2019. Both revenues and expenditures quadrupled during this period, and the compound average growth rate in expenditures was a hefty 8.68% annually. The primary reason for the increased costs was the advent of football at ODU and the University's membership in C-USA.**

The modern-era Monarch footballers (the "Division" played football as the William & Mary Norfolk Braves from 1930 to 1940) played and won their first game in 2009 against Chowan University, 36-21. ODU competed successfully in the Colonial Athletic Association in 2011 and 2012, and in 2013 joined C-USA, a diverse collection of mostly public Football Bowl Subdivision (FBS) institutions sprinkled geographically from Miami to El Paso, Texas. The Monarchs spent 2013 as an independent and began to compete for the C-USA football title in 2014. The team won the Bahamas Bowl in 2016 against Eastern Michigan University and currently boasts seven alumni who play in the National Football League.

Along the way, the Monarch football program generated excitement. Until recently, the teams typically played before sellout crowds, and contests were preceded by lively pregame festivities. Quarterback Taylor Heinicke set

Football Championship Subdivision (FCS) records for the most passing yards in a single season as well as for the most completions in a season and in 2012 won what is considered the Heisman Trophy of the FCS, the Walter Payton Award. In the otherwise down season of 2018, the Monarchs stunned No. 13 Virginia Tech, beating the Hokies 49-35.

Those are some of the highlights. Losing seasons, including a 1-11 finish in 2019, have taken the shine off ODU football, and attendance at games has fallen significantly. COVID-19 forced the cancellation of the 2020 season and eliminated an important revenue stream. However, this did not eliminate the need to service the bonds sold to finance newly constructed and attractively renovated S.B. Ballard Stadium.

It is worth noting that Central Florida, Western Kentucky, Coastal Carolina, Florida Atlantic and Georgia Southern all suffered losing seasons after moving up to the FBS. But they hired prominent coaches, prospered and played in nationally televised games because of the success they experienced in the FCS. ODU recently hired a new head coach in Ricky Rahne, a former Penn State offensive coordinator, who has made a promising start in rebuilding the program. Acquiring the offensive coordinator from one of the nation's most storied football programs constitutes a visible boost for the football program.

While attendance has fallen in recent years, revenue has not. Since moving to FBS, ticket revenue has increased an average of 2.5% annually (though it has suffered recently) and ODU's fundraising has increased significantly. In calendar year 2010, the Old Dominion Athletic Foundation (ODAF) raised \$4,220,550. In 2018, annual fundraising rose to \$16,755,345, a 297% increase. Even in 2020, when the pandemic reduced the University's revenues, ODAF still raised \$10,464,240.

In 2019, ODU received \$1.57 million in guarantees for playing football games on the road. Additionally, C-USA shares in revenue from the College Football Playoff, of which ODU receives about \$1 million annually. Three road games have been scheduled in the next few years with Southeastern Conference programs that will pay ODU between \$1.5 million

and \$2 million per game. These revenues would decline, though not disappear, if ODU were playing in the FCS. A good payday when an FCS school plays an ACC or SEC opponent is \$500,000 to \$700,000.

Students have proven to be diffident concerning Monarch football, and their attendance has been disappointing. **Nevertheless, in 2019-20, a full-time undergraduate student paid a mandatory \$1,935.38 per academic year athletic fee to finance ODU intercollegiate athletics. For a full-time undergraduate who takes 30 semester hours in an academic year, this translates to \$64.51 per credit hour, or \$193.54 per three-hour course.** These data come from SCHEV.³⁶

One will search in vain on the ODU website for specific data relating to the athletic fee. The website diplomatically notes: "The University term 'tuition' refers to a per-credit-hour comprehensive rate that includes payment for instructional programs, academic services and activities, recreational sports, and intercollegiate athletics which includes a student activity fee of \$125.69 per credit hour for Norfolk campus courses, \$109.55 per credit hour for Higher Education Centers, Distance Learning, and online courses not at designated distance learning locations."³⁷ However, despite the size of the fee, the University's 2020-21 Schedule of Tuition, Fees, and Service Charges does not mention it by name.³⁸ This schedule did, however, find room to list hundreds of other obscure fees, including a diaper provision fee (\$6 per week) and a paraffin bath fee (\$30).

Note in Table 6 that in the year when ODU began to play football (2009), annual intercollegiate athletic expenditures rose about \$7.5 million, and when the University moved up to FBS football in 2012, annual expenditures rose another \$7 million. These expenditures were deemed necessary to pay for the accoutrements of bigger-time football, including the transformation of Foreman

³⁶ "2019-2020 Tuition and Fees Report," Appendix D-1, State Council of Higher Education for Virginia, <https://schev.edu/docs/default-source/Reports-and-Studies/2019/201920tuitionandfeereport.pdf>. Note that six institutions (W&M, CNU, UVA Wise, JMU, LU and VMI) assessed their undergraduate student athletic fees even higher than Old Dominion. Strong reliance upon student fees to fund intercollegiate athletic programs is distinctive to Virginia.

³⁷ Old Dominion University, 2020-2021 tuition rates, <https://odu.edu/tuition-aid/costs-tuition/tuition/tuition-rates>.

³⁸ Old Dominion University, "2020-2021 Schedule of Tuition, Fees, and Service Charges," file:///H:/AEA%20Journals/tuition-fee-schedule.pdf.

Field into S.B. Ballard Stadium. Attractive though it clearly is, S.B. Ballard is a 21,000-seat stadium that appears to suit the needs of an FCS-level team rather than an FBS-level program. Absent the appearance of a financial angel, however, the critical dimensions of the stadium are unlikely to change.

While ODU's athletic expenses have increased, productive fundraising has mitigated the impact on students and student fees. Between the 2012-13 athletic season (the University's last in the CAA) and 2018-19, athletic expenditures financed by student athletic fees rose only from \$27,089,358 to \$28,784,075, according to the Virginia Auditor of Public Accounts. This reflects the impact of a state statute enacted in 2015 that limits ODU to funding no more than 55% of its athletic budget from student fees.

The Commonwealth's restrictions are far less cumbersome for FCS programs, which can fund up to 70% of their athletic budgets with student fees. James Madison University, for instance, spent \$27,011,357 in student fees in 2012-13, but unrestrained by the 55% FBS limit, expended \$41,576,716 in 2019.

It is no secret that ODU's membership in C-USA has presented challenges. Yes, it enabled the Monarchs to move their football program into the FBS but failed to offer the University any natural geographic rivals. Fans may yawn when the Monarchs play Middle Tennessee State University or the University of Texas at San Antonio.³⁹ It is not that these institutions are not capable of producing strong teams; they are. But, fan interest in, say, a matchup between ODU and the University of Southern Mississippi (another C-USA member) is low compared to what it would be if the opponent were JMU, William & Mary or the University of Richmond. Fans would attend games against these latter opponents even if they believed the Monarchs were likely to lose. Not so for C-USA contests.

However, moving to FBS has allowed ODU to play a much more attractive nonconference schedule that has included home games with North Carolina,

³⁹ We suspect much the same attitudes hold true in Tennessee and Texas with respect to Old Dominion.

N.C. State and Virginia Tech. The Monarchs' 2018 victory over Tech gave the University a week's worth of national publicity that reached tens of millions of people. Defeating the Hokies in Norfolk was one of the biggest moments in ODU athletic history.

Beginning in 2022, Virginia Tech will visit ODU five times over the ensuing 10 seasons. Virginia and Wake Forest also will come to Norfolk, as will Army and East Carolina. None of these home games would have been possible had ODU not moved up to the FBS.

Modest fan interest in the C-USA has translated into low revenue from television contracts. Television contracts reflect the number of people who watch contests. Realistically, this number is small for most C-USA athletic events.

C-USA membership also brought with it vastly increased travel costs. As the crow flies, it is 1,755 miles from Norfolk to El Paso, the home of C-USA member the University of Texas at El Paso. It is expensive to take teams to such locations, to say nothing of the class time the student-athletes forfeit. C-USA has massaged its scheduling to reduce travel distances and travel times, but in the end, reality is that C-USA members are geographically dispersed.

The C-USA has evolved into a different league than the one ODU initially joined, while the CAA similarly is a far different league from the one the University left. East Carolina, Tulsa and Tulane were C-USA league members in 2013; ECU almost surely would have become a major rival for the Monarchs. However, those schools left for the American Athletic Conference. One of the primary reasons for leaving the CAA was the impending loss of traditional rivals GMU and VCU, as their transition to the A-10 Conference was imminent.

Given ODU's attractive but smallish football stadium, the general lack of fan interest in C-USA opponents, the absence of a lucrative C-USA television arrangement, the costs associated with being a member of that conference and the costs of playing FBS football rather than FCS football, many external observers who do not have a horse in the race believe it would be in the University's best interests to move Monarch football back to the FCS (which would mean returning to the CAA in football). Other sports, especially men's

and women's basketball, could conceivably join a conference such as the Atlantic 10, where traditional opponents such as GMU, Richmond and VCU compete.

The conference movements just described might not be easy to accomplish. Some "hat in hand" approaches, apologies and even payments might be required. Nevertheless, this could well be the beginning of a viable path to long-term financial stability and increased fan interest in ODU intercollegiate athletics.

There are other scenarios. Moving ODU out of C-USA, playing football as an FBS independent and moving other sports to the A-10 is another possible path forward. Liberty University and the University of Connecticut recently became football independents at the FBS level and have had no problem scheduling quality games or signing TV contracts with national networks. FBS independents such as Brigham Young University, Notre Dame, Army and others are eligible for bowl games, have the flexibility to schedule regional opponents and multiple guarantee games in a season, and benefit from the exposure of playing at the highest level of college football. Additionally, UConn has seen a significant increase in fundraising because it moved basketball and other sports back into the Big East. Liberty finished the shortened 2020 football season in the Top 25.

Another potential option that has been gaining momentum would see C-USA and the Sun Belt Conference exchange members to create an East-based league, of which ODU would be a part. This would address the issues of travel costs, missed class time and undesirable league opponents, among other things. While long considered, discussions on this proposal have become more serious as of late.

All three of the possibilities just described would be challenging to implement but are worth exploring and possibly pursuing. The inherent obstacle to moving to another conference is that

it would require many other universities and commissioners involved to agree. It is fair to say this is an unstable environment subject to rapid change. ODU should continually evaluate its circumstances and be prepared to act if and when more favorable options become available.

TABLE 6

INTERCOLLEGIATE ATHLETICS REVENUES AND EXPENSES:
OLD DOMINION UNIVERSITY, FY 2003-FY 2019

Fiscal Year	Old Dominion Revenues	Old Dominion Expenses
2003	\$10,350,457	\$9,805,977
2004	\$12,223,951	\$11,019,044
2005	\$15,035,087	\$13,990,585
2006	\$15,729,516	\$14,954,947
2007	\$19,276,659	\$17,974,306
2008	\$27,219,527	\$25,520,288
2009	\$26,721,859	\$23,346,192
2010	\$29,021,652	\$27,308,713
2011	\$35,247,421	\$34,375,037
2012	\$36,929,483	\$35,561,455
2013	\$37,504,701	\$37,504,701
2014	\$39,538,893	\$38,273,927
2015	\$39,933,872	\$39,431,561
2016	\$42,086,525	\$41,855,635
2017	\$40,827,956	\$40,827,956
2018	\$43,996,643	\$43,996,643
2019	\$42,629,922	\$42,629,922

Source: U.S. Department of Education, "Equity in Athletics Data Analysis," <https://ope.ed.gov/athletics/#/>

A Few Missteps

Fortunately, Old Dominion has avoided many of the mistakes that have waylaid the prosperity of other institutions, though as already noted, one exception was the institution's failure to capitalize upon its enviable position in distance learning. Even so, perfect foresight never will exist, and dozens of real and bogus opportunities compete for the attention of presidents, administrators and faculty members. Hence, we should not expect flawless performances year after year.

In the 1990s, under the leadership of Provost JoAnn Gora, the University moved to guarantee every undergraduate student a practicum connected to his or her course of study. Of course, many practicums already existed in the form of student teaching, the training of nurses and physical therapists, internships and the like. The aims of the practicum guarantee, an idea that originated with Northeastern University in Boston, were twofold. First, it would improve the undergraduate experience and connect classroom instruction to the real world. Second, it would constitute an attractive recruiting device. Somewhere along the way, this initiative withered and disappeared.

Less than optimal decisions also include the financial arrangements that ODU, via its Real Estate Foundation, negotiated in its University Village development on the east side of Hampton Boulevard. The University committed itself to a 60-year leasing arrangement that includes a 3% annual escalation in lease payments. Although this agreement has floated under the radar, it has proven to be expensive.

As this is being written, consideration is being given within the region to ways in which three of the area's major health/medical players – Sentara, ODU and Eastern Virginia Medical School – might join forces to improve the provision of health care and (not to be ignored) spur the region's long-term economic development. With respect to this latter point, one of the obvious differences between Hampton Roads and other mid-Atlantic metropolitan regions that are growing faster than ours is the comparative absence of a vigorous "ed-med" complex in our area. Several opportunities to achieve a blending or merger

of ODU and EVMS existed in the past but either were ignored, fumbled or opposed by members of the regional power structure.

In late 2020, EVMS staked out a position of public opposition to anything that involved merger and mounted a public relations blitz to amplify its objections. The *Virginian-Pilot* did not react favorably to those efforts,⁴⁰ however. Significant members of the regional power structure, including Sentara, believe the merger notion has some merit. There are economies of scale to be realized and possibilities for the sharing of resources, especially where faculty are concerned and with respect to ODU's distance learning capabilities as they might apply to telemedicine. Sentara wields immense influence; it employs more than 30,000 people at 12 hospitals and earned revenues of \$3.9 billion even in the first six pandemic-affected months of 2020.⁴¹

Taking a longer view, when the Virginia General Assembly decided in the late 1960s to merge the Medical College of Virginia into the Richmond Professional Institute, leading to the creation of Virginia Commonwealth University in 1969, this idea met with strident opposition from MCV-related individuals, who said the combination would never work and would do serious damage to MCV's reputation.⁴² Lawsuits were filed and attempts made in the General Assembly to reverse the merger, but all came to naught.

Fifty years later, it is apparent that the MCV/RPI merger into VCU was one of the smartest things ever done by the Richmond metropolitan region. Today's VCU Health is a leader in health care and a massive contributor to the economic dynamism of the Richmond area. It seems reasonable to expect a similar evolution were ODU and EVMS to merge, accompanied by significant financial support from Sentara.

40 "Editorial: Time for a Discussion About the Future of EVMS," *The Virginian-Pilot* (Dec. 3, 2020), www.pilotonline.com/opinion/vp-ed-editorial-evms-future-1204-20201203-pjnojrupvayfeabv6t5g4rhp-story.html.

41 Ayla Ellison, "Sentara's Health Plan Revenue Helps Offset COVID-19's Financial Damage," *Becker's Health Care Hospital CFO Report* (Aug. 17, 2020), www.beckershospitalreview.com/finance/sentara-s-health-plan-revenue-helps-offset-covid-19-financial-damage.html.

42 See one example: "Warren Brandt, VCU's President in a Time of Transition and Turmoil, Dies at 93," *VCU News* (Dec. 17, 2020), <https://www.news.vcu.edu/article/>.

Covid-19 And "The Cliff"

The COVID-19 pandemic has changed higher education in a variety of ways, good and bad, but its impact on enrollments represents an existential threat to colleges and universities. Headcount enrollments declined once again in fall 2020, making it the ninth consecutive year that such enrollments have declined in American higher education. We should expect to see some institutions shutter their doors over the next year, even if effective vaccines are deployed, because of their already parlous financial condition, deteriorating demographic prospects (which we cite subsequently) and changing student tastes.

As already noted, Old Dominion was a welcome exception to the continuing trend of declining enrollments. The University's ability to offer quality distance learning courses plus one of the lowest COVID-19 infection rates on any Virginia public campus proved to be attractive to students. It does seem possible that vaccines and adjustments in behavior will overcome the challenges thrust on ODU by COVID-19, but some of the habits students and faculty have acquired during recent restrictions are not going to disappear. Increased use of distance learning will remain with us, as will versions of less centralized, locationally distributed administrative models.

It will be challenging in the coming years for ODU to maintain its current headcount enrollment unless it develops new markets and/or implements new enrollment approaches and strategies. **Table 7 reports the number of high school graduates the Western Interstate Commission for Higher Education (WICHE) projects for Virginia between 2020-21 and 2036-37. The projections are uniformly negative – WICHE foresees a 4.60% decline in high school graduates in Virginia, 9.69% in the mid-Atlantic region and 6.18% in the United States. Some now refer to this anticipated decline as a cliff.⁴³ Whatever the label, this phenomenon must be a matter of concern for ODU.**

43 Eric Hoover, "The Demographic Cliff: 5 Findings from New Projections of High School Graduates," *The Chronicle of Higher Education* (Dec. 15, 2020), www.chronicle.com/article/the-demographic-cliff-5-findings-from-new-projections-of-high-school-graduates.

Since the University already has drifted in the direction of becoming an open-admission institution at the undergraduate level (ODU admitted 89% of undergraduate applicants in fall 2019),⁴⁴ there is little room for downward adjustment in terms of admission standards, a traditional remedy for enrollment-pressed institutions. If the University is going to maintain its current headcount, it must develop new admission markets and/or become more effective in existing markets.

TABLE 7

PROJECTED NUMBER OF HIGH SCHOOL GRADUATES IN VIRGINIA, THE MID-ATLANTIC REGION AND THE UNITED STATES, 2020-21 AND 2036-37

Geographic Area	Year	Projected High School Graduates	Percent Change
Virginia	2020-2021	94,760	
	2036-2037	90,400	-4.60%
Mid-Atlantic Region	2020-2021	467,890	
	2036-2037	422,540	-9.69%
United States	2020-2021	3,750,170	
	2036-2037	3,518,410	-6.18%

Source: "Knocking at the College Door: Projections of High School Graduates," Western Interstate Commission for Higher Education, 2020, www.knocking.wiche.edu

The population growth nexus of Virginia is banana-shaped, with the tip of the banana starting in Northern Virginia, extending south through the Richmond metropolitan area and ending with the tail of the banana at the oceanfront in Virginia Beach. With a few exceptions, such as Charlottesville and Blacksburg, population in the rest of Virginia will decline over the next two decades. Admission efforts need to focus intently on Northern Virginia, where ODU's image is hazy, and its recognition currently is not high. **Retrospectively, it was a mistake for the University not to nurture the superbly located center it opened in Loudoun County in the 1990s.** Not

⁴⁴ National Center for Education Statistics, College Navigator, <https://nces.ed.gov/collegenavigator/?q=old+dominion&s=all&id=232982#admsns>.

only could that center have enrolled significant numbers of students, but also it would have given ODU badly needed visibility in Northern Virginia and made it much more of a player in the region and statewide.

Today, any intelligent ODU admission strategy must include a dramatically increased emphasis on Northern Virginia. Pragmatically, this is where the students are, and the University's admission efforts and resource allocations must recognize this.

Historically, institutions often have turned to international students to fill their ranks. However, both the actions of the Trump administration and the effects of COVID-19 have reduced the flow of international students into the United States. The Biden administration's approach to international students differs, and we all hope that vaccines and other preventive measures will put COVID-19 in our proverbial rearview mirror. International student recruitment is not inexpensive, however, and international students require extra attention when they arrive on campus. They add positively to the campus milieu in many ways, but more so than domestic students, require additional resources. **The potential to increase international student enrollment over the next two decades is significant, and the University's internal resource allocations should reflect this.**

Several counties in North Carolina are included in the Hampton Roads metropolitan region by the U.S. Office of Management and Budget, which defines such things. Students from these North Carolina collar counties, however, pay out-of-state tuition to attend ODU. The University should pursue legislative approval to grant in-state tuition to any student coming to it from within this larger Virginia Beach/Norfolk/Newport News metropolitan region.

Finally, ODU should discuss openly its enrollment strategies and admission standards. Simply put, Virginia is not a state that historically has valued institutions with minimal admission standards. Thus, while the evolution of ODU toward providing greater access and controlling cost increases may have immense social value, it is not a strategy that is likely to result either in editorial kudos or parents bragging that their son or daughter

just gained entrance. It certainly will not result in higher U.S. New & World Report rankings.

As recently as 2005, the University admitted only 69.4% of its undergraduate admission applicants;⁴⁵ it now admits almost 90% of applicants, approximately 40% of whom are Pell Grant recipients. This is a step in the direction of helping make Virginia a more opportunity-oriented, equitable place to live. However, as we have noted, this is not viewed as a propitious development – at least in the realm of higher education – by many influential Virginians, whose views reflect the historically restrictive character of Virginia society and the state’s public higher education system.

Any set of admission standards involves tradeoffs between societal equity (as evidenced by access and affordability) and prestige (external rankings and restrictive admissions are the primary indicators). More of one often means less of the other. There are both benefits and costs attached to ODU’s admission evolution, which has focused on equity rather than prestige.

Query what the best admission policy is for ODU to pursue as it faces a decline in the number of high school graduates throughout the nation. Ours is not to tell the University what its admission standards should be, but instead to suggest that the costs and benefits of various sets of admission standards should be discussed in appropriate offices on campus so that those affected understand the tradeoffs.

⁴⁵ IPEDS, the Integrated Postsecondary Education Data System, National Center for Education Statistics, <https://nces.ed.gov/ipeds>.

Final Observations

Old Dominion University as an entity is now 91 years old. More innovative than most institutions of higher education in Virginia, it has on several occasions chosen paths that set it apart from other four-year public universities, especially those designated research institutions, as is ODU.

Two examples will suffice. Early in the 1990s, ODU began to make a serious commitment to distance learning. This effort was greeted with warm approval by students and elected officials but pooh-poohed by a significant number of its counterpart institutions in the Commonwealth. Time has a way of fashioning judgments and more than 25 years later, other institutions strive to come within shouting distance of what ODU has accomplished in the distance learning arena.

The jury is still out with respect to the other departure from conventional higher education wisdom in Virginia, namely, ODU evolving into an institution that places a high value on being both accessible and affordable. This is a departure from the restricted-entry, high-cost model that historically has been the coin of the realm in Virginia higher education. Plaudits and prestige always have gone to the institutions that have evinced high admission standards and enrolled small proportions of lower-income and minority students.

In recent years, ODU has emphasized the provision of opportunities to a wide range of students and has recorded the lowest increase in its sticker price tuition and fees of any four-year public Virginia university between 2000-01 and 2020-21.⁴⁶ It has assembled a racially diverse student body, and 45% of its first-time, full-time undergraduate students in 2018-19 were Pell Grant recipients, well above the Virginia four-year public institution average.

The 2020 and 2021 sessions of the General Assembly, after dealing with the complications of COVID-19, gave ODU special General Fund additions to help it deal with its challenges, and at the same time recognized the extensive financial need of its student body by means of larger student financial aid allocations. These represented the first significant occasions when the governor

⁴⁶ These ranged from Old Dominion’s 173.9% increase to the stratospheric increases of Christopher Newport University (379.65%), William & Mary (394.3%) and the University of Virginia (345.2%).

and the General Assembly have acknowledged the distinctive nature of ODU among the state's research institutions. There is more to be done in this regard.

John R. Broderick concluded a very successful presidency in summer 2021 – one marked by record-setting performances in a variety of critical areas, including prodigious campus construction and expansion, highly productive fundraising and unprecedented legislative success. He left the institution in far better shape than the one he inherited.

Challenges remain, however, for example, the University's relationships with EVMS and Sentara Healthcare. Helping supercharge Hampton Roads out of its decade-long pattern of modest economic growth must be a high-

priority undertaking for the University. Improving retention and graduation-rate performances is also a top-drawer goal. Despite conspicuous success, redefining the institution's intercollegiate athletic future may be required. And, as previously noted, there is an enrollment "cliff" looming just over the horizon.

This list could go on, but to lengthen it would imply that ODU is beset by problems. It is not. Even so, Rodney Dangerfield's "I don't get no respect" calling card often does apply to the University. It will take high-quality, visionary leadership combined with sterling faculty and staff performances to alter this reality.



Bad News: The Decline of Local Journalism



BAD NEWS: THE DECLINE OF LOCAL JOURNALISM

The lowest form of popular culture – lack of information, misinformation, disinformation, and a contempt for the truth or the reality of most people’s lives – has overrun real journalism. Today, ordinary Americans are being stuffed with garbage.

– Carl Bernstein, American investigative journalist and author

Local journalism is in peril. Newspapers all over the country are reducing coverage, cutting back staff, abandoning physical newsrooms or shuttering operations altogether at a breathtaking pace. The United States has lost fully one-fourth of its newspapers since 2004, including 70 dailies and more than 2,000 weeklies or other nondaily papers. Weekday circulation of the remaining newspapers has fallen even more sharply in the same time period – from nearly 55 million in 2004 to 24 million in 2020 (Table 1). Correspondingly, there are now fewer reporters covering news in our local communities. The Pew Research Center reports that U.S. newspapers have lost 57% of their newsroom employees since 2008.¹

This chapter examines how these worrisome trends have affected local journalism in Hampton Roads. Newspapers – whether print or online – have long provided the vast majority of “iron core” news, a term we borrow from the distinguished journalist Alex S. Jones. The iron core is fact-based, serious reporting; it includes bearing witness at crime scenes, protests and school board meetings, but also digging deeper to provide context and explain complex stories, to shine a light on corruption and injustice, and to hold those in power accountable.² Columnists, pundits, news aggregators, your neighbors who post on social media and talking heads on cable television all depend on the iron core, although they generally contribute little to it themselves.

The breadth and depth of local coverage in our region’s newspapers has shrunk dramatically in the past two decades, but no similarly comprehensive, critical source of news and information has emerged to fill the gap. The newspaper crisis points to a deeper crisis in the functioning of our civic institutions. Without a robust,

reliable and independent source of fact-based news, there can be no common basis for understanding, discussing or enhancing the state of our region.

The initial trigger for the crisis in local journalism was the digital revolution. In the early years of the 21st century, newspapers lost their near-monopoly as a comprehensive source for up-to-date information about local communities and beyond. Readers and advertisers increasingly turned to various internet sites instead. Consumers were (and are) reluctant to pay for digital content, and media enterprises that had thrived for decades suddenly struggled to find a viable model for producing and delivering the news. The Great Recession of 2007-2009 coincided with the widespread adoption of the smartphone and social media, and advertising dollars for traditional news outlets plummeted. Between 2004 and 2020, annual advertising revenue in the U.S. newspaper industry sank from \$48 billion to \$8 billion, a staggering decrease of 82% (Table 2).

¹ Penelope Muse Abernathy, “News Deserts and Ghost Newspapers: Will Local News Survive?” (2020), pg. 11, at: <https://www.usnewsdeserts.com/reports/news-deserts-and-ghost-newspapers-will-local-news-survive/>; Pew Research Center, Newspapers Fact Sheet (July 9, 2019), at: <https://www.journalism.org/fact-sheet/newspapers/>; and Elizabeth Grieco, “U.S. newspapers have shed half of their newsroom employees since 2008” (April 20, 2020), at: <https://www.pewresearch.org/fact-tank/2020/04/20/u-s-newsroom-employment-has-dropped-by-a-quarter-since-2008/>.

² Alex S. Jones, *Losing the News: The Future of the News That Feeds Democracy* (New York: Oxford University Press, 2009), 1-6.

TABLE 1**TOTAL ESTIMATED CIRCULATION
OF U.S. DAILY NEWSPAPERS, SELECTED YEARS**

Year	Weekday	Sunday
1968	62,535,000	49,693,000
1972	62,510,000	50,001,000
1976	60,977,000	51,565,000
1980	62,202,000	54,676,000
1984	63,340,000	57,574,000
1988	62,695,000	61,474,000
1992	60,164,000	62,160,000
1996	56,983,000	60,798,000
2000	55,773,000	59,421,000
2004	54,626,000	57,754,000
2008	48,597,000	49,115,000
2012	43,433,000	44,821,000
2016	34,657,199	37,801,888
2020	24,299,333	25,785,036

Sources: Pew Research Center Newspapers Fact Sheet (June 29, 2021), at <https://www.journalism.org/fact-sheet/newspapers/>, and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Figures after 2004 take both print and online readership into consideration.

The collapse of the for-profit business model that sustained newspapers in the 20th century has been accompanied by an unprecedented wave of buying and selling, resulting in the massive consolidation of the 21st-century newspaper industry. A handful of very large publicly traded chains that are dominated by various investment entities now “control the fate of more than 1,000 papers, including a third of the nation’s dailies, and more than half of total circulation.”³ These include Hampton Roads’ two daily newspapers, The Virginian-Pilot and Daily Press, both owned by Tribune Publishing Co. Earlier this year, Tribune was fully acquired by its largest shareholder, the hedge fund

3 Abernathy, “News Deserts and Ghost Newspapers,” 21 and 33.

TABLE 2**ESTIMATED ADVERTISING AND CIRCULATION REVENUE OF
THE U.S. NEWSPAPER INDUSTRY, SELECTED YEARS**

Year	Advertising Revenue	Circulation Revenue
1968	\$5,232,000,000	\$2,288,215,000
1972	\$6,939,000,000	\$2,929,233,000
1976	\$9,618,000,000	\$4,087,303,000
1980	\$14,794,000,000	\$5,469,589,000
1984	\$23,522,000,000	\$7,368,158,000
1988	\$31,197,000,000	\$8,046,287,000
1992	\$30,639,000,000	\$9,163,534,000
1996	\$38,075,000,000	\$9,969,240,000
2000	\$48,670,000,000	\$10,540,643,000
2004	\$48,244,000,000	\$10,988,651,000
2008	\$37,848,257,630	\$10,086,956,940
2012	\$25,316,461,215	\$10,448,561,493
2016	\$18,274,943,567	\$10,910,460,499
2020	\$8,833,842,400	\$11,091,733,928

Source: Pew Research Center Newspapers Fact Sheet (June 29, 2021), at <https://www.journalism.org/fact-sheet/newspapers/>

Alden Global Capital LLC. Privately held regional chains, including Boone Newspapers Inc. and Landmark Media Enterprises LLC, own or manage many of the remaining U.S. newspapers. (Table 3)

The coronavirus pandemic has placed local journalism under further stress. Steven Waldman, an astute observer of the crisis, notes that “even before COVID-19, the local media system was a strong breeze away from collapsing. A hurricane is now blowing through the local news landscape.”⁴ The Pew

4 Steven Waldman, “A Replanting Strategy: Saving Local Newspapers Squeezed by Hedge Funds,” Center for Journalism & Liberty (Sept. 28, 2020), 4, at <https://www.journalismliberty.org/publications/replanting-strategy-saving-local-newspapers-squeezed-by-hedge-fund>.

Research Center has tracked how the advertising revenue of publicly traded newspaper companies – already at a historic low – fell precipitously in the first quarter of 2020. The companies responded by slashing payrolls, selling property and closing newsrooms, reducing print days or stopping production of some papers altogether.

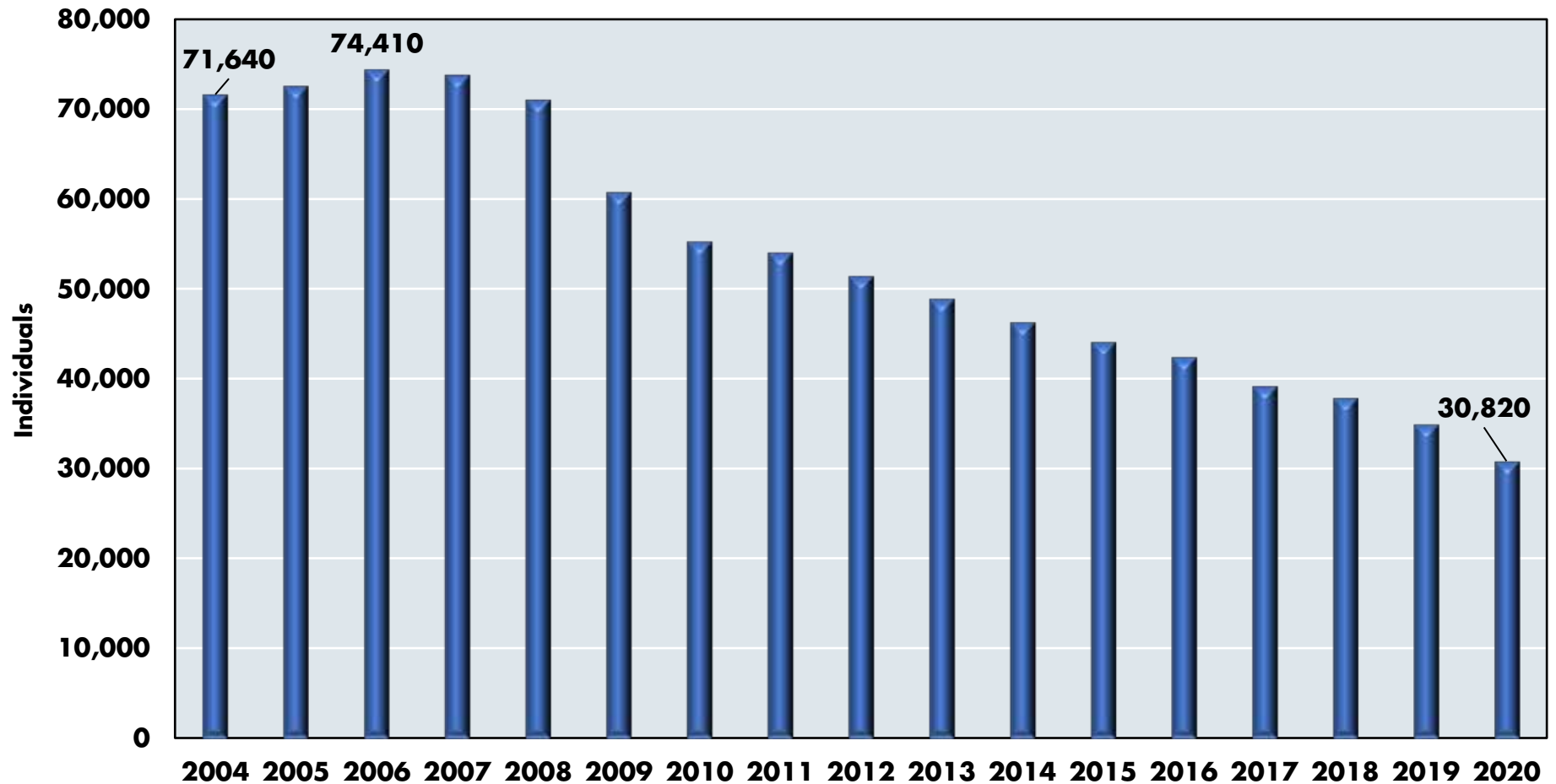
Hampton Roads is immune to none of these trends. In fact, our region provides both an exemplary case study and a cautionary tale of the decline of local journalism. This decline merits our attention no less than our region’s economic recovery or ability to create high-paying jobs. The well-being of Hampton Roads depends on reliable information, community dialogue, accountable leadership and well-functioning institutions – all of which are fostered by high-quality local journalism. Conversely, regions without a thriving press have been shown to have lower levels of voter participation and civic engagement, higher rates of municipal borrowing and government inefficiency, and a diminished sense of community. Residents of communities without a newspaper are more likely to view local affairs through a national political lens, or to get their information from bogus or overtly partisan news sources.

This chapter provides an overview of the local press in Hampton Roads, and how it has evolved over time. We show how the fate of our regional news media reflects broader developments around the country, including the transformation of longstanding publications into “ghost newspapers” and the ominous spread of “news deserts.” These terms were coined by Penelope Muse Abernathy, visiting professor at Northwestern University’s Medill School of Journalism (formerly at the University of North Carolina’s Center for Innovation and Sustainability in Local Media). Her work provides an essential resource for this chapter. Finally, we underscore the importance of local journalism, even (or especially) in the changed media landscape of the 21st century, and we point to potential models for its economic sustainability in the years ahead.

TABLE 3			
LARGEST 10 NEWSPAPER OWNERS, RANKED BY NUMBER OF PAPERS OWNED, 2019			
Rank	Owner name	Total papers	Daily papers
1	Gannett/ Gatehouse	613	262
2	Digital First/ Tribune	207	70
3	Lee/BH Media	170	84
4	Adams Publishing Group	158	40
5	CNHI	112	71
6	Ogden Newspapers	84	49
7	Paxton Media Group	75	42
8	Boone Newspapers	65	29
9	Community Media Group	57	14
10	Landmark Media Enterprises	55	3
Source: “News Deserts and Ghost Newspapers: Will Local News Survive?”, https://www.usnewsdeserts.com/reports/news-deserts-and-ghost-newspapers-will-local-news-survive/			

GRAPH 1

**EMPLOYMENT IN NEWSPAPER NEWSROOMS:
UNITED STATES, 2004-2020**



Sources: Pew Research Center Newspapers Fact Sheet (June 29, 2021), at <https://www.journalism.org/fact-sheet/newspapers/>; Elizabeth Grieco, "U.S. newspapers have shed half of their newsroom employees since 2008" (April 20, 2020), at <https://www.pewresearch.org/fact-tank/2020/04/20/u-s-newsroom-employment-has-dropped-by-a-quarter-since-2008/>; and Mason Walker, "U.S. newsroom employment has fallen 26% since 2008" (July 13, 2021), at <https://www.pewresearch.org/fact-tank/2021/07/13/u-s-newsroom-employment-has-fallen-26-since-2008/>

The Newspaper Business In Hampton Roads: How We Got Here

Hampton Roads' oldest newspapers have a long history. The Colonial-era Virginia Gazette (Williamsburg) first appeared in 1736, and numerous papers have adopted that name since, including the modern weekly that was founded in 1930 – and still operates today, publishing two issues a week. The Virginian-Pilot traces its roots back to 1865. The Suffolk News-Herald was established in 1873, the Daily Press (Newport News) in 1896, the Journal and Guide (Norfolk) in 1900 (known as the New Journal and Guide since 1991) and The Tidewater News (Franklin) in 1905. Over time, our region has been home to dozens of daily and weekly newspapers. Many were short-lived, but others circulated for years before going out of print or merging with other papers.

Like nearly all other businesses, newspapers in the American South were once strictly segregated by race. With the exception of the New Journal and Guide, all of the aforementioned papers were originally produced by and for white readers. Many years ago, the Journal and Guide was one of numerous Black papers in our region, although it quickly became the most influential. By the 1930s, the weekly publication had become the most widely distributed Black newspaper in the South and even introduced a national edition.

Newspapers became big business in the late 19th century. Technical advances enabled cheaper and faster printing, and publishers sought to attract a mass audience with exciting headlines, illustrations, puzzles and other popular features. A circulation war between the big-city newspapers of William Randolph Hearst and Joseph Pulitzer famously gave rise to an era of sensational “yellow journalism.”

In towns all over the country, however, a different model of journalism ultimately took hold, governed by emerging professional standards of accuracy, fairness and public accountability. Penelope Muse Abernathy notes that general-interest newspapers “were largely owned by local residents.

These publishers and their editors often had political clout in their states and cities, but – whether conservative or liberal – they had cultural and economic restraints. If they did not serve the interests of their readers and advertisers, they risked losing business to a competing paper.” The early newspaper barons – including Samuel Slover and his nephew Frank Batten Sr. at The Virginian-Pilot and its related newspapers, and P.B. Young Sr. at the Journal and Guide – “established the modern, multi-subject newspaper and became the dominant advertising option for most local businesses.”⁵

As the 20th century progressed, these local newspapers reflected and were shaped by the following key trends:

- *A business model that balanced profit seeking with civic responsibility.* Local newspapers were not charitable enterprises; the most successful owners became quite wealthy and established family dynasties. At the same time, however, most took their civic responsibility seriously. They influenced their communities not only as businessmen, but also as philanthropists, board members and informal power brokers. They sometimes challenged political leaders or took controversial stands (witness The Virginian-Pilot's Pulitzer Prize-winning editorials against lynching in the 1920s, and against massive resistance to racially integrated schools in the 1950s), which ultimately enhanced the papers' reputation as independent truth-tellers.
- *Consolidation and the rise of big newspaper chains.* As radio and later television vied for consumers' attention, entrepreneurial newspaper owners purchased additional media outlets in order to stay competitive. Samuel Slover's purchase of the Portsmouth Star in 1955 led to the establishment of Norfolk-Portsmouth Newspapers Inc., which grew to become the diversified media company Landmark Communications Inc. in 1967. In Newport News, the Daily Press became part of the Tribune media chain in 1986. In all but the largest cities, competing newspapers and morning/afternoon editions merged or went out of business. In Hampton Roads, The Virginian-Pilot's former afternoon publication, The Ledger-Star, ceased operations in 1995. The desegregation of formerly white newspapers ultimately diminished the influence of the independent Black press, which was no longer an exclusive source of news and information for Black communities.

⁵ Penelope Muse Abernathy, “The Rise of a New Media Baron and the Emerging Threat of News Deserts” (2016), 20, at: <http://newspaperownership.com/newspaper-ownership-report/>.

• *De facto monopolies.* By the century's end, most U.S. metropolitan areas were served by a single daily newspaper. This was also true in Hampton Roads, if we consider Southside and the Peninsula two separate metro areas. The Virginian-Pilot and Daily Press covered different localities and largely avoided direct competition. Warren Buffett (whose Berkshire Hathaway conglomerate once included dozens of local papers) described such market-dominant newspapers as "unregulated toll bridges" because their owners "had the relative freedom to increase rates" when and as much as they pleased.⁶ Local employers seeking new talent, movie theaters announcing show times and anyone selling almost anything locally relied on newspaper advertising. Profit margins ranged not uncommonly between 20% and 40%. The "public service of publishing iron core news"⁷ rarely paid for itself, but it didn't have to; it was heavily subsidized by more profitable aspects of the newspaper business.

Local Journalism Today: Are We Losing The News?

This business model came crashing down in the first decade of the 21st century. A very small circle of newspapers with national or even global audiences (The New York Times, The Washington Post and The Wall Street Journal) have successfully reinvented themselves in the digital era, but most other papers are struggling. As Penelope Muse Abernathy notes, "There is simply not enough digital or print revenue to pay for the public service journalism that local newspapers have historically provided."⁸

This dilemma is driven in part by the loss of readers, but even more by the business of digital advertising, which now accounts for more than half of all U.S. advertising spending. Just three companies – Facebook, Amazon and Google – receive nearly two-thirds of all digital advertising dollars, leaving

the news media and all other businesses, large and small, to compete for the rest. Most Hampton Roads newspapers have turned to paywalls, which allow readers a limited number of page views before they must pay for an online subscription.

Since 2004, the United States has lost approximately 2,100 newspapers. A growing number of cities and counties have become "news deserts" – that is, they have no local newspaper and/or "very limited access to the sort of credible and comprehensive news and information that feeds democracy at the grassroots level."⁹ Most news deserts are in rural, economically struggling localities, particularly in the South; their residents tend to be older, poorer and less educated than the U.S. population at large. The University of North Carolina's Center for Innovation and Sustainability in Local Media identifies our region's North Carolina localities (Currituck, Camden and Gates counties) as three of 225 U.S. counties without a local newspaper. The weekly Yorktown Crier-Poquoson Post, which was still listed on the UNC site last year, folded in 2019.

⁶ Margaret Sullivan, *Ghosting the News: Local Journalism and the Crisis of American Democracy* (New York: Columbia Global Reports, 2020), 36.

⁷ Jones, *Losing the News*, 15.

⁸ Penelope Muse Abernathy, "The Expanding News Desert" (2018), 8, at: https://www.cislm.org/wp-content/uploads/2018/10/The-Expanding-News-Desert-10_14-Web.pdf; and Keach Hagey, Lukas Alpert and Yaryna Serkez, "Local News Fades Out: A Divide between Newspaper Haves and Have-Nots," *The Wall Street Journal* (May 4, 2019), at: <https://www.wsj.com/graphics/local-newspapers-stark-divide/>.

⁹ Abernathy, "News Deserts and Ghost Newspapers," 18-20.

The absence of reliable local news is troubling enough, but it has also provided an opening for “imposter” local news websites that promote an ideological agenda. Such sites often have titles that resemble legacy newspapers (Outer Banks Times, South Tidewater News), but their stories are algorithmically generated or repurposed from other sources. They typically have no local address, and most, though not all, have a partisan bent. Hundreds of such sites sprang up in 2020, with “a sharp acceleration in activity in the lead-up to the November elections.”¹⁰ Unsurprisingly, this activity was greatest in swing states; one study found that North Carolina had more partisan local sites than any other U.S. state except Iowa, while Virginia had almost none.



Source: NiemanLab (2020). “Hundreds of hyperpartisan sites are masquerading as local news. This map shows if there’s one near you.”

¹⁰ Priyanjana Bengani, “As election looms, a network of mysterious ‘pink slime’ local news outlets nearly triples in size,” *Columbia Journalism Review* (Aug. 4, 2020), at: <https://www.cjr.org/analysis/as-election-looms-a-network-of-mysterious-pink-slime-local-news-outlets-nearly-triples-in-size.php>; and Jessica Mahone and Philip Napoli, “Hundreds of hyperpartisan sites are masquerading as local news,” NiemanLab (July 13, 2020), at: <https://www.niemanlab.org/2020/07/hundreds-of-hyperpartisan-sites-are-masquerading-as-local-news-this-map-shows-if-theres-one-near-you/>.

A variety of traditional news sources persist in our Virginia localities. Hampton Roads' two daily newspapers, The Virginian-Pilot and Daily Press, have long been key sources of iron core news, particularly in our urban centers. In addition, there are several general-interest newspapers (publishing less than daily) that cover smaller localities. The New Journal and Guide delivers news for Black readers throughout Hampton Roads.

The number and diversity of these sources bode well for the greater Hampton Roads region. However, this comparatively bright news landscape harbors two darker phenomena for the future of regional journalism: first, the transformation of longstanding publications into "ghost newspapers" characterized by less original content, fewer publication days and greatly reduced news teams; and second, these newspapers' acquisition by larger entities with an uncertain commitment to our region. These phenomena are interrelated and driven by the greater economic crisis of the newspaper industry.

When the valuation of newspaper companies plummeted in the early 2000s, independent owners all over the country declared bankruptcy or sold their papers to chains. Many of these chains were themselves acquired by larger chains or various investment entities. Penelope Muse Abernathy estimates that roughly half of all U.S. newspapers changed ownership between 2003 and 2018. In Hampton Roads, almost every legacy newspaper has a different owner now than at the start of 2000: the publicly traded Tribune Publishing (acquired by Alden Global Capital) or one of three smaller LLCs affiliated with Boone Newspapers. (The Daily Press and Virginia Gazette were already Tribune papers.) The Gloucester-Mathews Gazette-Journal and The New Journal and Guide are the last independent legacy papers in our region. The Princess Anne Independent News, established in 2015, serves southern Virginia Beach and the Oceanfront.

Tribune Publishing And Our Regional Dailies: The Virginian-Pilot And Daily Press

The seismic changes in the newspaper industry surely became apparent to Hampton Roads readers no later than January 2008, when Landmark Communications chairman Frank Batten Jr. announced his decision to sell the company. The Slover and Batten families had been at the helm of newspapers in our region for over a century. Soon after Batten's announcement, NBC Universal purchased The Weather Channel, Landmark's most lucrative asset, for \$3.5 billion. The private company has since sold most, but not all, of its media holdings. Today, Landmark Media Enterprises is still the 10th-largest newspaper owner in the country, although it owns none in Hampton Roads. Most of its properties are smaller community papers in Kentucky, Florida and other states.

The sale of The Virginian-Pilot, including its downtown Norfolk headquarters and Virginia Beach printing plant, was finalized in May 2018. (The paper had already downsized substantially under Landmark. Between 2003 and 2009 alone, its newsroom staff shrank from 272 to 193 employees.¹¹) The sale price of The Pilot was \$34 million. Decades earlier, Batten commented, the paper might have been worth "10 or 15 times" more. Indeed, Hampton Roads' other, smaller regional newspaper, the Daily Press, had sold for \$200 million in 1986.

Now both newspapers are owned by the same entity, Tribune Publishing (briefly known as Tronc at the time of sale). In November 2019, Alden Global Capital acquired a 32% stake in Tribune Publishing, becoming its largest shareholder. In February of this year, Alden announced its intent to purchase all remaining Tribune shares. Despite a dramatic, 11th-hour effort spearheaded by Maryland hotel executive Stewart Bainum Jr. to assemble the

¹¹ Roger Chesley, "Alden sets its sights on Tribune and a shudder runs through what's left of two Virginia newspapers," *Virginia Mercury* (Jan. 22, 2021), at: <https://www.virginiamercury.com/2021/01/12/alden-sets-its-sights-on-tribune-and-a-shudder-runs-through-whats-left-of-two-virginia-newspapers/>.

funding for a counteroffer, Tribune shareholders approved the \$633 million sale to Alden on May 21.

Alden Global Capital is a New York City-based hedge fund that was founded in 2007. It began acquiring stakes in the newspaper industry two years later, and it is now the country's second-largest newspaper owner. The financial twists and turns that have informed the recent history of Tribune Publishing and Alden Global Capital are too byzantine to describe here. More important in this context is that both entities are foremost examples of the "new media barons" that have come to dominate the 21st-century newspaper industry. Penelope Muse Abernathy identifies several defining characteristics of the new media barons, including: emphasis on maximizing short-term shareholder return over longer-term investment in local journalism, majority control by a small number of institutional investors (often a private equity company, hedge fund or pension fund), multiple financial restructurings and diverse portfolios with much movement among individual newspapers.

Alden has been called the "ultimate cash flow mercenary," the "grim reaper of American newspapers," and "one of the most ruthless of the corporate strip miners seemingly intent on destroying local journalism."¹² The fund's president, Heath Freeman, asserts that it is rescuing newspapers that would otherwise have folded, although media watchers suspect that it has instead set its sights on a dying industry, calculating that "a lot of money can be made on the way down."¹³ According to the Financial Times, Alden's MediaNews Group achieved "about 20-25 percent operating margins in 2019 ... more

than double that of peers such as Gannett or even The New York Times."¹⁴ Its business model for newspapers is no secret: dramatic cost-cutting through staff layoffs and buyouts, selling off real estate assets such as newsrooms and printing plants, and wringing out profits wherever it can.

This strategy should sound familiar to Hampton Roads residents. In January 2020, The Virginian-Pilot headquarters in downtown Norfolk was sold to an apartment developer for \$9.5 million. All newsroom operations moved to the Daily Press' leased office space in Newport News' City Center – until it, too, closed in September 2020. In June, the landlord had filed a lawsuit against the paper for \$110,000 in unpaid rent. (That same quarter, Tribune Publishing reported a profit of \$1.55 million). This February, editor Kris Worrell told us there are no immediate plans to reopen a newsroom after the pandemic, although the company is still considering what arrangements will make the most sense. The Pilot's Virginia Beach printing plant closed in July 2020. All of Tribune's Virginia publications are now printed in Richmond.

The news staff at the Tribune papers has continued to grow leaner. In February 2020, the company accepted a new round of buyouts from employees with at least eight years of work history in its Virginia news operations. A few months later, reporters making more than \$40,000 a year were required to take three weeks of unpaid furloughs due to the economic effects of COVID-19. In January 2021, former Virginian-Pilot columnist Roger Chesley reported that the blended news team of Tribune's four Virginia papers (including the Virginia Gazette and Tidewater Review, which serves localities north of Hampton Roads) numbered about 70.

Kris Worrell, the papers' shared editor, and Shaun Fogarty, executive director of sales, had a wide-ranging conversation with us in early February, before the announcement of the Alden sale. We spoke about their intent to create a unified news operation, bridging the stubborn divide between Southside Hampton Roads and the Peninsula that has long been a stumbling block for regional cooperation and economic development. We agreed that The Pilot

¹² Jonathan O'Connell and Emma Brown, "A hedge fund's 'mercenary' strategy: Buy newspapers, slash jobs, sell the buildings," *The Washington Post* (Feb. 11, 2019), at: https://www.washingtonpost.com/business/economy/a-hedge-funds-mercenary-strategy-buy-newspapers-slash-jobs-sell-the-buildings/2019/02/11/f2c0c78a-1f59-11e9-8e21-59a09ff1e2a1_story.html; Joe Pompeo, "The hedge fund vampire that bleeds newspapers dry now has the Chicago Tribune by the throat," *Vanity Fair* (Feb. 5, 2020), at: <https://www.vanityfair.com/news/2020/02/hedge-fund-vampire-alden-global-capital-that-bleeds-newspapers-dry-has-chicago-tribune-by-the-throat>; and Margaret Sullivan, "Is this strip mining or journalism?" *The Washington Post* (March 5, 2018), at: https://www.washingtonpost.com/lifestyle/style/is-this-strip-mining-or-journalism-sobs-gasps-expletives-over-latest-denver-post-layoffs/2018/03/15/d05abc5a-287e-11e8-874b-d517e912f125_story.html.

¹³ Sarah Ellison, "Heath Freeman is the hedge fund guy who says he wants to save local news. Somehow no one's buying it," *The Washington Post* (June 11, 2020), at: https://www.washingtonpost.com/lifestyle/media/heath-freeman-is-the-hedge-fund-guy-who-says-he-wants-to-save-local-news-somehow-no-ones-buying-it/2020/06/11/9850a15c-884a-11ea-8ac1-bfb250876b7a_story.html; and Savannah Jacobson, "The most feared owner in American journalism looks set to take some of its greatest assets," *Columbia Journalism Review* (June 29, 2020), at: https://www.cjr.org/special_report/alden-global-capital-medianews-tribune-company.php.

¹⁴ Anna Nicolaou and James Fontanella-Khan, "The fight for the future of America's local newspapers," *Financial Times* (Jan. 21, 2021), at: <https://www.ft.com/content/5c22075c-f1af-431d-bf39-bec9c54758b>.

and Daily Press are an unparalleled resource for regional news and in-depth reporting – more essential than ever in an era of misinformation, as a growing number of citizens and even elected leaders have begun to choose their own “facts.” No other news organization in Hampton Roads has the capacity to produce such consistently high-caliber journalism. Stories about the unjust application of Virginia’s “three strikes” law (Tim Eberly, a Pulitzer Prize finalist for his reporting), strip searches at Virginia prisons (Gary Harki) and an ongoing series on Norfolk’s racial divides (Sara Gregory and Ryan Murphy) are a few recent outstanding examples.

Nevertheless, we would be remiss not to state the obvious – the ability of The Pilot and Daily Press to pursue such in-depth stories, and their everyday coverage throughout our region, has grown much thinner since their operations merged. Under only a few months of full ownership by Alden Global Capital, local reporting has grown thinner still. Two days after the May 21 acquisition, the new owners offered yet another buyout to newsroom employees at all of the Tribune papers. This round has been especially costly for The Pilot and Daily Press. According to NewsGuild statistics, newsroom union staff at the two papers decreased from 46 to 38, a loss of 17.4%, after six weeks of Alden ownership (including two of the reporters mentioned in the previous paragraph).

Three years ago, we had two daily papers. Now we essentially have one that covers a wider region with a smaller and less experienced news staff. The great challenge faced by the Tribune papers is perhaps not only encouraging readers to think regionally but also persuading these readers to pay more for less coverage within their immediate communities.

Boone Community Newspapers In Western Hampton Roads

Hampton Roads’ western localities are not only served by The Pilot and Daily Press, but also by community newspapers that have been in print as long – or longer – than the two larger dailies. Many decades ago, The Tidewater News, The Smithfield Times and Suffolk News-Herald may have looked not all that different from their counterparts in Norfolk and Newport News. Today, these much smaller papers fill a distinct niche in our regional news ecosystem, providing hyperlocal coverage outside our urban core.

The three papers are affiliates of Boone Newspapers, and thus embody a separate ownership trend that has emerged alongside the rise of the new media barons. “As the economy began to recover from the recession in 2013 and 2014,” Penelope Muse Abernathy writes, “Some of the smaller privately owned national and regional chains, which were largely debt-free, began quietly and selectively purchasing papers.”¹⁵ These smaller chains (Adams, Boone, Hearst, Ogden, and Paxton) are family businesses and in some ways resemble the newspaper chains of an earlier era. Jim Boone, current chairman of Boone Newspapers, succeeded his father as the publisher of the Tuscaloosa News in 1968. (Coincidentally, he had also served as the publisher of the Suffolk News-Herald before returning to Tuscaloosa.)

Abernathy observes that the smaller media chains “operate their newspapers as small businesses, with a singular focus on the bottom line and cash flow. In contrast to the mega-chains, they have lean corporate staffs and tend to keep low levels of debt. So, when hard times hit, they do not have to worry about paying off loans on ‘underwater’ properties. As a result, they tend to buy and hold properties, instead of trading them.”¹⁶ Many of their properties are community newspapers that publish less than daily and appeal to local advertisers within their smaller coverage areas.

¹⁵ Abernathy, “News Deserts and Ghost Newspapers,” 34.

¹⁶ Abernathy, “News Deserts and Ghost Newspapers,” 35.

When Boone Newspapers began managing the Suffolk News-Herald in 2000, the company presided over 34 newspapers. Its network has since nearly doubled in size, to include 65 newspapers by 2019. The Tidewater News, owned and published by Hanes Byerly for 46 years (1960-2006), joined the Boone newspaper group in 2006. John and Anne Edwards owned The Smithfield Times for 33 years before selling the paper in 2019. Today, these three community papers are owned by separate limited-liability corporations with various ties to Boone Newspapers. Members of the Boone family are the majority owners of Suffolk Publications LLC, while Tidewater Publications LLC is part of Carpenter Newsmedia (which is owned by Todd Carpenter, president and CEO of Boone Newspapers). Steve Stewart, a Boone vice president (and former publisher of the Suffolk News-Herald), is the new majority owner of Smithfield Newsmedia LLC. When we spoke to Stewart this February, he was in the process of relocating from Frankfort, Kentucky, to Smithfield, Virginia, where he intends to put down roots.

Stewart explained to us that the LLCs pay a management fee to Boone Newspapers, and that the papers share accounting services, health insurance and numerous back-end functions (similar to the efficiencies enjoyed by the Tribune papers). He said that the community papers try to “be smart about how we share content,” with each maintaining its own point of view and distinct area of coverage. Each newspaper has its own physical workspace, although some staff members are shared. The Suffolk News-Herald and a new startup, the Windsor Weekly, are available for free at various locations, while the other two papers have a traditional newsstand price; all can be obtained through online or paper subscriptions.

These newspapers are lean operations, and they have grown leaner in the past few years. A spike in the cost of newsprint following the introduction of a tariff on Canadian paper and the loss of advertisers during the pandemic have posed particular challenges to the small newsrooms. The Suffolk News-Herald reduced publication from six to five days a week in 2018, and again to two days a week in 2020. The Tidewater News became a weekly (down from two days a week) in 2020. A young Boone startup elsewhere in our region, the Yorktown Independent, and the older Gates County Index have recently ceased publication.

The Boone newspapers do not seek to compete with the regional or larger stories that The Virginian-Pilot and Daily Press regularly produce. However, as the two daily newspapers have reduced their footprint in western Hampton Roads, their smaller counterparts have become more essential. Steve Stewart pointed us to two recent stories by writer Stephen Faleski – about a Franklin wood-pellet producer’s longstanding air-quality violations, and a mismanaged decision to end curbside recycling in Smithfield – that might not have attracted public attention without the community papers.



The Hard Road For Independent Papers

Stand-alone newspaper ownership in the year 2021 is hard, but not impossible. Hampton Roads is home to three independent newspapers that have persisted against the odds.

NEW JOURNAL AND GUIDE

Brenda Andrews joined the staff of our region's prominent Black newspaper in 1982, and she is now its publisher and editor-in-chief. She has shepherded it through numerous storms – including Chapter 11 bankruptcy in the late 1980s, and an unprecedented six-week publishing hiatus in the spring of 2020 due to the upheavals of the coronavirus pandemic. The weekly New Journal and Guide is once again available at sites throughout Hampton Roads and via USPS delivery; it maintains a minimal online presence. When we spoke with Andrews in February, she underscored the important role the revitalized paper has played in disseminating information about COVID-19 and vaccinations and in covering ongoing racial disparities that have been widened by the pandemic. Environmental racism, food deserts in Black neighborhoods and the redevelopment of St. Paul's Quadrant in Norfolk are among the issues the paper actively follows. Advocacy for the Black community is central to its mission.

GLOUCESTER-MATHEWS GAZETTE-JOURNAL

Formed by a merger of the Gloucester Gazette and Mathews Journal in 1937, this weekly newspaper has covered news in the two counties for more than 80 years. Its longtime president and publisher was the late John Warren Cooke, who also was a speaker in the Virginia House of Delegates. His daughter Elsa Verbyla succeeded him in 2009. The Gazette-Journal is now the only Hampton Roads paper that still owns its own press; the newspaper's printing business provides a steady source of additional revenue. Editor Charlie Koenig told us by email that "while TV stations and large daily newspapers only seem to find Gloucester and Mathews on the map when something major (and usually horrendous) happens, we are there week in and week out covering stories

about what the school board or the county supervisors are doing, the exploits of our young people when they excel in school and on the sports field, and when a resident does something noteworthy."

THE PRINCESS ANNE INDEPENDENT NEWS

Editor and publisher John-Henry Doucette jokes that he founded The Princess Anne Independent News in 2015 because it's "the sort of thing middle-aged people fall into when they cannot afford a hot rod and are scared of buying marijuana."¹⁷ In truth, he is a seasoned journalist who cares deeply about local news, and he was concerned about the dearth of coverage in his home community of Pungo and other parts of southern Virginia Beach. The Princess Anne Independent News is now distributed for free at more than 300 locations throughout Virginia Beach and Currituck County. The bimonthly newspaper specializes in stories about local government, rural life and agriculture, occasionally tackling larger issues that have gone uncovered by other news outlets. Its past reporting has shone a light on the campaign-related spending of political action committees and nonprofit organizations in Virginia Beach.



GLOUCESTER-MATHEWS
GAZETTE-JOURNAL

THE PRINCESS ANNE INDEPENDENT NEWS
Serving southern Virginia Beach and the Oceanfront.

¹⁷ John-Henry Doucette, "From the Editor: Toward a Virginia Beach Task Force on Local Journalism," *The Princess Anne Independent News* (Feb. 1, 2021), at: <http://princessanneindy.com/2021/02/01/from-the-editor-2/>.

Can Local Journalism Survive? Models For The Future

The current local journalism crisis presents us with an opportunity to rethink how news operations are organized and how they might function better. Here, we highlight some of the proposals that have gained the most traction. None are mutually exclusive. Elements of all of these proposals can and should play a role in shaping our regional news landscape in the years ahead.

PUBLIC SUPPORT

The desperate situation faced by many local newspapers has reinvigorated discussions about public funding for public-interest journalism. The federally funded Corporation for Public Broadcasting (CPB) already provides grants to local public media stations, which in turn purchase national news and other programming from the Public Broadcasting Service (PBS) and National Public Radio (NPR). CPB funding in the future could conceivably play a larger role in supporting local news, whether broadcast or online. NPR launched a small team earlier this year to assist local stations with investigative reporting.

Hampton Roads' public broadcaster, WHRO Public Media, established its own local news team in 2020, covering the core costs of the new initiative by leasing out parts of its broadcast spectrum. Its five-person news team now produces original local reporting that punctuates the station's broadcasts. Longer stories are available on the WHRO website. Given its expansive broadcast area, WHRO has wisely chosen to focus less on breaking news than on contextual, explanatory reporting, with special emphasis on three areas: sea level rise and the environment, inequity and social justice, and military and veterans affairs. President and CEO Bert Schmidt tells us that WHRO is fundraising and exploring ways to grow the young program.

Public support for local journalism can take many forms. One widely discussed federal legislative proposal, the Local Journalism Sustainability Act, would provide tax credits to local news subscribers, relieve employers of some payroll

taxes for the journalists they employ and subsidize small business advertising with local news outlets. The bill has more than 70 congressional co-sponsors from both political parties. Other proposals seek to address the imbalance of power between tech giants Google and Facebook and local news providers. A "safe harbor" antitrust exemption, for example, would allow newspapers to "come together to bargain with platform companies like Google and Facebook to get paid for the use of their news content."¹⁸ In short, if we as a society agree that local journalism is essential to the functioning of democracy and our civic institutions, there is no shortage of public policy options that could be employed to sustain it.

NEW COMMERCIAL MODELS

Can local newspapers still make money? The answer seems to be yes, but their operations will look quite different from those of generations past. Most observers agree that newspapers must depend less on traditional advertising and more on reader subscriptions and other kinds of revenue. Penelope Muse Abernathy has suggested that commercial newspapers can remain viable in communities with "average or growing economies or population," as long as these papers are finely attuned to local needs – and thus, most likely, locally owned.¹⁹

Successful business models will necessarily vary from place to place. The Arkansas Democrat-Gazette moved readers from paper to digital subscriptions by lending them iPads, "smothering" them with customer service and keeping its local coverage as robust as possible; it now delivers a print newspaper only on Sunday. Other newspaper companies have created new revenue streams by holding in-person events, such as interviews with journalists, or panels and roundtables that discuss current topics; operating complementary businesses; or publishing lifestyle and business magazines.²⁰ We note that under the banner of Virginia Media, Tribune not only presides over an array

18 Rick Edmonds, "How many plans to save local journalism are too many?" *Poynter* (Oct. 27, 2020), at: <https://www.poynter.org/locally/2020/how-many-plans-to-save-local-journalism-are-too-many/>. See also Anya Schiffrin, "Saving Journalism: A Vision for the Post-Covid World," Konrad Adenauer Stiftung (January 2021), 11-14 and 24-25, at: <https://www.kas.de/en/web/usa/single-title/-/content/saving-journalism>.

19 Waldman, "A Replanting Strategy," 14.

20 Mark Jacob, "The Arkansas Gamble: Can a Tablet and a Print Replica Rescue Local News?" *Medill Local News Initiative* (Jan. 13, 2020), at: <https://localnewsinitiative.northwestern.edu/posts/2020/01/13/arkansas-democrat-gazette-tablet/>; and Lauren Harris, "The context for the crisis: A Q&A with Penny Abernathy," *Columbia Journalism Review* (Aug. 19, 2020), at: https://www.cjr.org/business_of_news/the-context-for-the-crisis-a-qa-with-penny-abernathy.php.

of specialized publications (including Inside Business, The Flagship military newspaper and niche publications in Richmond and the Outer Banks), but also offers website development, marketing research and other digital services to clients. The Boone newspapers in our region publish three accompanying lifestyle magazines: Suffolk Living, Western Tidewater Living and A Slice of Smithfield.

Owners of successful newspapers must be willing to make tough decisions, such as cutting back print days or laying off staff – but they also must be prepared to invest in their papers' future. Tribune Publishing sold off its legacy newspapers' valuable real estate assets and radically cut staff expenses, but the proceeds appear to have flowed largely to nonlocal shareholders. Had this money been reinvested in Hampton Roads newsrooms or expanding local coverage, our two daily papers would surely be in a better place today.

"BIG HEARTS AND BIG WALLETS"

Can struggling newspapers be saved? Jim Friedlich of The Lenfest Institute for Journalism answers bluntly: "Where local interests have successfully retaken control of major regional news properties from newspaper-group or hedge-fund owners, it has invariably been a single, monied individual offering an aggressive price and surety of closing the deal, rather than a community group passing the hat. These buyers have two things in common: Big hearts and big wallets."²¹

Jeff Bezos, who purchased The Washington Post in 2013, is surely the most famous billionaire newspaper owner. Glen Taylor, a former Minnesota state senator and owner of two professional basketball teams, bought the Minneapolis Star Tribune in 2014. Earlier this year, hotel magnate Stewart Bainum Jr. first sought to acquire The Baltimore Sun and other Tribune-owned papers in Maryland in a side arrangement with Alden that subsequently broke down. Not every billionaire newspaper owner succeeds (witness Equity Group Investments chairman Sam Zell's ill-fated tenure at the Tribune Co.). However, Bezos, Taylor and a small circle of other very wealthy individuals now own commercial newspapers that have become at least moderately profitable (before COVID-19, anyway) through creative digital strategy and thoughtful

²¹ Jim Friedlich, "Tribune Blues," *Columbia Journalism Review* (Jan. 12, 2021), at: https://www.cjr.org/first_person/tribune-blues.php.

investment. Media entrepreneur Gerry Lenfest purchased The Philadelphia Inquirer from Alden and another investor in 2014, and later gifted the paper to The Lenfest Institute for Journalism, a nonprofit organization (that he established) dedicated to promoting new models of sustainable journalism.

"Big hearts and big wallets" can also take the form of philanthropy. The people of Hampton Roads have benefited immensely from gifts to our region's hospitals, colleges and universities, fine arts institutions and various charitable causes by generous leaders of our region. Some of the very largest of these gifts have come from the Batten family, who made their fortune in the newspaper business. Journalism has not traditionally been considered a charitable cause. Steven Waldman notes that U.S. donors "increased their commitment to journalism from \$123 million in 2009 to \$370 million in 2018,"²² but this is still a tiny fraction of the hundreds of billions that are given charitably each year. The Hampton Roads Community Foundation and other grant-giving organizations and donors should consider if and how supporting local journalism could enhance the well-being of our region. This kind of philanthropy need not occur on a massive scale; underwriting even a single journalist could make a tremendous difference at a small newspaper.

NONPROFIT JOURNALISM

A small but growing number of nonprofit organizations such as The Lenfest Institute explicitly support local journalism. Other examples include The GroundTruth Project, which supports journalists in underserved areas, most notably through the national service program Report for America and the American Journalism Project, a "venture philanthropy organization" that seeks "to inject one billion new dollars on an annual basis that goes directly toward supporting local news gathering," using an impact investment model that has previously been adopted in fields such as education and international development.²³

Some legacy newspapers have reinvented themselves as nonprofit organizations. The Salt Lake Tribune is perhaps the most prominent example.

²² Steven Waldman, "The Coming Era of 'Civic News,'" *Washington Monthly* (November/December 2020), at: <https://washingtonmonthly.com/magazine/november-december-2020/the-coming-era-of-civic-news/>.

²³ "Losing the News: The Decimation of Local Journalism and the Search for Solutions," PEN America (Nov. 20, 2019), 56-60, at: <https://pen.org/wp-content/uploads/2019/12/Losing-the-News-The-Decimation-of-Local-Journalism-and-the-Search-for-Solutions-Report.pdf>.

The Philadelphia Inquirer is now a Public Benefit Corporation (owned by The Lenfest Institute). Earlier this year, the nonprofit Corporation for New Jersey Local Media (CNJLM) announced that it would work together with the New Jersey Hills Media Group to convert 14 weekly newspapers to nonprofit ownership. In the aftermath of the Tribune shareholders' vote on May 21 to accept the Alden deal, Stewart Bainum announced that he was "busy evaluating various options, all in the pursuit of creating locally-supported, not-for-profit newsrooms that place stakeholders above shareholders and journalistic integrity above all."²⁴ Steven Waldman has outlined an ambitious, two-part strategy for transforming commercial newspapers into nonprofit organizations – first, by establishing a private, nonprofit "replanting fund" that would identify and support likely candidates, and second, by instituting public policy changes "to make replanting more likely and to curb the deleterious effects of local news consolidation in general."²⁵

More than 300 digital-first, nonprofit local news websites have been established throughout the U.S. These organizations have much lower expenses than legacy newspapers, although they do not have the advantages of a longstanding subscriber base and must vie for readers' attention. The Institute for Nonprofit News provides a helpful support network; its members must be "transparent about funding sources" and committed to independent, nonpartisan "investigative and/or public-service reporting." Its three member organizations dedicated to local journalism in Virginia are Charlottesville Tomorrow, Foothills Forum (based in Rappahannock County) and the Virginia Center for Investigative Journalism (VCIJ). Founded by Virginian-Pilot alumni Chris Tyree and Louis Hansen, VCIJ produces in-depth, investigative stories and offers them to local news outlets free of charge. The reporting is currently done on a contract basis; VCIJ has no office or full-time staff. Tyree told us that an initial goal is to produce "one good story a month." The first VCIJ story, which appeared in September 2019, revealed that the U.S. Navy had been dumping toxic firefighting chemicals into tributaries of the Chesapeake Bay for decades, contaminating wells on and near Hampton Roads military bases.

Virginia Mercury, which covers state government and policy, is another notable news nonprofit. It fills the gap that arose after daily newspapers closed their Richmond bureaus and reduced their General Assembly coverage. Virginia Mercury maintains a robust, user-friendly website and offers its stories to other news outlets free of charge. Its core funding for five full-time journalists and additional freelancers is provided by States Newsroom, a national nonprofit that oversees a growing network of similar state-based outlets. In 2020, NiemanLab initially included States Newsroom affiliates on its map of "hyperpartisan sites masquerading as local news" because the nonprofit "previously received backing from the liberal Hopewell Fund and did not begin disclosing its donors until this year." NiemanLab has since issued a correction, noting that sites such as Virginia Mercury are run by journalists with longtime newspaper experience and distinguished professional records.²⁶ Nevertheless, the incident is a useful reminder that readers should approach all news outlets critically, particularly those online, and consider their funding sources and professional ethics.



²⁴ Robert Channick, "Hedge fund Alden's bid to buy Chicago Tribune, other papers approved by Tribune Publishing shareholders" (May 21, 2021), at: <https://www.chicagotribune.com/business/ct-biz-chicago-tribune-publishing-alden-shareholders-approve-20210521-2awcpedkfrvovx7gfsqpm45ua-story.html>.

²⁵ Waldman, "A Replanting Strategy," 2-3.

²⁶ See Mahone and Napoli, "Hundreds of hyperpartisan sites." A list of all States Newsroom donors who have contributed more than \$500 is available here: <https://statesnewsroom.com/support/>.

Final Thoughts

Our local news organizations are doing very good work, but there is much less of it than just a few years ago. A flood of information (and misinformation) is available at our fingertips, but we know less about the local issues and institutions that directly affect our quality of life. In 2021, we may no longer need newspapers to perform many of the functions they once did – such as providing weather reports, sport scores, movie times and so forth. However, we urgently need fact-checked, contextual reporting that can dispel misinformation, shine a light on corruption and injustice, and help us better understand our own communities. We agree with Penelope Muse Abernathy that, “Ultimately, it doesn’t matter whether local news is delivered through ink-on-paper or over a mobile phone. What matters is that a local news organization reports on important issues and provides context and analysis so citizens can make informed decisions and hold their public officials accountable.”²⁷

We are accustomed to thinking about the news as a purely commercial enterprise. However, events of the past two decades – and the more recent tide of misinformation and conspiracy theories surrounding the COVID-19 pandemic and the insurrectionist violence of Jan. 6, 2021 – have shown us that public-interest journalism should also be considered a public good. Focused, investigative journalism produces benefits to the public by shining the proverbial spotlight on the misdeeds of public and private actors. Without journalists asking hard questions and persisting in getting answers from politicians and others who prefer to obfuscate or remain silent, the big question is: Who will do the work? We have ample evidence that social media is ill-equipped to step into this role and often misinforms rather than informs.

The old model of commercial journalism that long sustained general-interest newspapers and provided a reliable source of iron core news is no longer viable. The challenge for regional and community newspapers today is not merely “going digital” – although successful news organizations must certainly maintain a robust and thoughtful online presence – but also finding a new economic model that will allow the reporting and delivery of high-quality local

news to continue into the future. As citizens of Hampton Roads, we all have a stake in this challenge. Unexamined institutions and the absence of a common basis for dialogue diminish us all. The better informed we are, the better we will be at making decisions that improve our quality of life and the state of Hampton Roads.



²⁷ Abernathy, “The Rise of a New Media Baron,” 39.

Securing Release: Cash Bail in Hampton Roads



SECURING RELEASE: CASH BAIL IN HAMPTON ROADS

Virginia's current system of cash bail too often determines who has money, not who is dangerous, and we can't have a justice system that determines fairness and freedom based on wealth and means.

- Virginia Attorney General Mark Herring, October 2018

In 2018, Virginia Attorney General Mark Herring called for cash bail reform in a letter to the Virginia State Crime Commission (VSCC). He argued that the current bail system too often leaves low-risk defendants in jail based solely on their inability to pay. Following Herring's letter, at least five Virginia commonwealth's attorneys, including Norfolk's Greg Underwood, changed local policies with the intent of reducing or eliminating cash bail. In January 2021, commonwealth's attorneys from Newport News, Portsmouth, Norfolk and Hampton joined eight other Virginia prosecutors in calling for an end to cash bail.¹

Cash bail, also known as secured bonds, is a form of pretrial release where defendants must secure bonds with cash or property in order to be released from jail while awaiting trial. Cash bail provides an incentive for defendants to return for their court appearance, since the surety is not reimbursed unless the defendants return to court in accordance with the terms of their release. Proponents of the cash bail system argue that it provides a financial incentive for defendants to appear, lowers jail populations and increases accountability.

Critics, however, contend that the cash bail system often leaves low-risk defendants in jail for unduly long periods of time. The ability to pay determines whether one remains in confinement or is released into society. A 2013 study by the Virginia Department of Criminal Justice Services (DCJS) found that 11% of defendants were still in jail seven days from their first appearance, simply because they could not afford to post a secured bond. Of those defendants, 92% were held on bonds valued at \$5,000 or less. Opponents contend that cash bail exacerbates racial disparities, as Black defendants are more likely to be denied bail and face higher bond amounts.² Advocates for reform also note that cash bail raises constitutional concerns, since the unequal burden placed on indigent defendants is inconsistent with the Fourteenth Amendment's equal

protection clause. From this viewpoint, the arbitrary nature of bail decisions runs against the right to due process.

In October 2020, Corey Hunter was held in a Fairfax jail for almost a week on a \$2,500 secured bond for a DUI - a first offense that would not likely result in additional jail time. Unable to afford the bond, Hunter appealed the court's decision. Fairfax Circuit Court Judge David Bernhard ruled that the use of cash bail in this case "would only be the product of resort to custom, instinct and arbitrary action and thus would be an unconstitutional application of Virginia's statutory bail bond scheme and in derogation of the Due Process Clause of the United States Constitution." Bernhard appeared to be the first Virginia judge to issue an opinion opposing the practice of cash bail.

Recent research has found that pretrial detention for as little as two days can disrupt employment, child care and housing.³ Pretrial detention is associated with an increased likelihood of conviction, as detained defendants face additional pressure to accept an unfavorable plea bargain in order to be released with time served. Pretrial detention may also lead to higher rates of recidivism; research has found that detaining low- and moderate-risk defendants for a short time can increase their likelihood to reoffend during the

¹ A PDF copy of the letter is available at: <https://www.pilotonline.com/news/crime/vp-nw-progressive-prosecutors-20210104-i3zgfbrvqjag5nxzkuaalu52ny-story.html>.

² David Arnold, Will Dobbie and Crystal S. Yang, "Racial Bias in Bail Decisions," *The Quarterly Journal of Economics*, vol. 133, issue 4, November 2018, pages 1885-1932, <https://doi.org/10.1093/qje/qjy012>.

³ Will Dobbie, Jacob Goldin and Crystal S. Yang, 2018, "The Effects of Pre-trial Detention on Conviction, Future Crime, and Employment: Evidence from Randomly Assigned Judges," *American Economic Review*, 108 (2): 201-40.

pretrial and post-trial periods.⁴ Indigent defendants are less likely to secure release and are therefore more likely to face the negative consequences of pretrial detention.

There appears to be a growing movement questioning the need for cash bail and seeking ways to reform the cash bail system without compromising public safety. Since 2017, New York, New Jersey, Alaska and Maryland, among other states, have passed legislation, and in some cases, constitutional amendments, with the intent of reducing the reliance on cash bail. On Feb. 22, 2021, Gov. J.B. Pritzker of Illinois signed legislation making Illinois the first state to eliminate cash bail. In Virginia, and in particular, Hampton Roads, a number of commonwealth's attorneys have publicly signaled a desire to significantly reduce (if not eliminate entirely in most cases) the use of cash bail.

On any given day in 2019, there were over 3,154 pretrial inmates in Hampton Roads local and regional jails. While some of these inmates were not released due to the severity of their crimes or risks posed to the public, others languished in pretrial detention, unable to find enough collateral to gain release through a secured bond. Even though violent and property crimes have decreased since 1990, incarceration rates have increased in Hampton Roads, Virginia and the United States. From 2000 to 2018, the Hampton Roads pretrial inmate population rose by approximately 1.6% per year. In some cities and counties in our region, the pretrial population grew by more than 3% per year.

The most recent national data on pretrial detainees provide comparisons among Hampton Roads, Virginia and the United States. In 2019, on average, there were more pretrial inmates per 100,000 residents in Hampton Roads (183.5) than Virginia (135.9) or the United States (146.4).⁵ The conversation about how to reduce the pretrial population includes advocates of equity in the justice system, those concerned about the

⁴ Christopher T. Lowenkamp, Marie VanNostrand and Alexander Holsinger, "The Hidden Costs of Pre-trial Detention," National Institute of Corrections, November 2013.

⁵ We use data from the Virginia State Compensation Board Local Inmate Data System for Hampton Roads and Virginia and data from the Bureau of Justice Statistics for the United States.

relatively high rates of incarceration in the United States and taxpayers concerned about the cost of housing, feeding and supervising the incarcerated.

We estimate that if Virginia were to enact cash bail reform, the average daily pretrial population in Hampton Roads would decline between 5% and 20%. Incarceration costs for cities and counties in Hampton Roads would decline between \$5 million and \$21 million a year. Cash bail reform would also reduce costs for those awaiting trial, not only in terms of having to pay for bail bond services, but also increasing defendants' ability to work while awaiting trial. Every day in confinement is a potential day of lost wages for those who have not yet been convicted of a crime. We estimate that the economic impact of cash bail reform, assuming that those awaiting trial are released, could approach \$80 million annually for Hampton Roads.

In this chapter, we look at the use of cash bail, its prevalence in bail conditions, average bond amounts and cash bail's impact on pretrial detention. We cite statistics on the number of people in pretrial detention in Hampton Roads and consider who among them might be affected by bail reform. We examine the cost of pretrial detention to taxpayers in the region and determine whether there would be significant savings if cash bail were eliminated.

History Of The Cash Bail System

While the origins of cash bail can be traced back to the Romans, America's notion of bail primarily has English roots.⁶ The early American bail system embraced most of England's bail practices, including the protection against excessive bail. In 1789, Congress passed the Judiciary Act, requiring defendants for all noncapital federal offenses to be considered for bail. The

⁶ Timothy R. Schnacke, Michael R. Jones and Claire M.B. Brooker (2010), "The History of Bail and Pre-trial Release," Pretrial Justice Institute.

right to bail under the Judiciary Act and the protection against excessive bail as laid forth in the Eighth Amendment of the U.S. Constitution became two of the central principles of the U.S. bail system.

America's early cash bail system also adopted the English bail practice of personal sureties.⁷ What would be considered an unsecured bond today, a personal surety is a promise by a family member or associate of the defendant to pay the debt in the event of default. The practice of personal sureties declined in the 1800s as fewer people wanted to take on the obligation of defendants without payment. In the absence of personal sureties, judges began utilizing secured bonds as a means of ensuring court appearance. The use of secured bonds changed the traditional American bail practice from release conditional on a promise to pay if default occurs, to release conditional on payment. The shift led to the rise of the commercial bail bond industry in the early 20th century.

Criticism of the cash bail system began as early as the 1920s with rising concern about the impact of secured bonds on low-income defendants.⁸ Throughout the 1950s and 1960s, research highlighted the disproportionate share of low-income defendants in jail awaiting trial. The 1966 Bail Reform Act was the first legal revision to bail since the Judiciary Act of 1789.⁹ This act instructed judges to favor the least restrictive form of bail conditions for noncapital federal defendants and to use bail only if release on recognizance was not feasible.

The 1984 Bail Reform Act required judges to consider the degree of danger defendants posed to public safety when determining bail. The U.S. Supreme Court, in *U.S. v. Salerno* (1987), upheld the constitutionality of this decision, resulting in a shift in bail practices. Before *U.S. v. Salerno*, the purpose of bail was to ensure a defendant's court appearance. Following this ruling, most states, including Virginia, amended their bail statutes to instruct judges to use two main criteria when determining bail conditions: court appearance and public safety.

7 Muhammad B. Sardar (2019), "Give Me Liberty or Give Me . . . Alternatives? Ending Cash Bail and Its Impact on Pretrial Incarceration," *Brooklyn Law Review*, vol. 84, issue 4.

8 Timothy R. Schnacke (2014), "Fundamentals of Bail: A Resource Guide for Pre-trial Practitioners and a Framework for American Pre-trial Reform," National Institute of Corrections, <https://s3.amazonaws.com/static.nicic.gov/Library/028360.pdf>.

9 Hayley E. Miller (2016), "Taming the Wild West: Using Unsecured Bail Bonds in Nevada's Pretrial-Release Program," *Nevada Law Journal*, <https://scholars.law.unlv.edu/cgi/viewcontent.cgi?article=1688&context=nlj>.

Bail statutes in the Commonwealth have since set forth a general presumption to grant bail unless the defendant poses a risk to public safety or court appearance. The Virginia General Assembly amended its bail statutes in 1996 to require a presumption against bail for certain felony offenses and circumstances. In 2000, the General Assembly required the use of secured bonds in certain circumstances. Virginia Code 19.2-123 states: "Any person arrested for a felony who has previously been convicted of a felony, or who is presently on bond for an unrelated arrest in any jurisdiction, or who is on probation or parole, may be released only upon a secure bond." The provision can only be waived with the approval of both the presiding judge and local commonwealth's attorney.

The Pretrial Process

Bail conditions are one part of the entire pretrial process, which encompasses the various stages of a criminal case from arrest to trial and/or sentencing. If an arresting officer has probable cause to believe that someone has broken the law, the officer can issue a summons or take the person into custody.¹⁰ A summons is simply a written promise to appear in court. Once signed, the accused is free to go. If taken into custody and brought to jail, the defendant first receives a bail hearing. In Virginia, the local magistrate conducts bail hearings.

At the end of the bail hearing, the magistrate can deny bail (finding the defendant to be too high a risk to public safety or court appearance) or grant bail based on specified terms and conditions. There are three main forms of pretrial release. Release on personal recognizance requires a written promise to appear and compliance with any bail conditions imposed by the court. In the case of unsecured bonds, where a bond is issued in exchange for bail but does not need to be secured before release, the judge can forfeit the bond and enter judgment if the defendant fails to appear in court.

The final form, secured bonds, or "cash bail," requires the bond amount to be secured with either a cash deposit or solvent surety. If defendants do not have

10 "Criminal Case Procedures," General District Court Manual, <http://www.courts.state.va.us/courts/gd/resources/manuals/gdman/chapter03.pdf>.

sufficient cash or collateral, they can use a third party. A third-party surety can be either a private surety who owns real property, such as a family member or friend, or a bail bondsman. Bail bondsmen guarantee the bond amount and charge the defendant a nonrefundable fee. The Virginia Code requires that the fee be no less than 10% and no more than 15% of the bond amount. In 2018, there were 375 actively licensed bail bondsmen in Virginia.¹¹

Risk Assessment Tools

Other than the presumptions against bail for some offenses and the requirement of secured bonds for certain circumstances, magistrates have wide discretion in determining bail. At a bail hearing, the job of a magistrate is to conduct a risk assessment of the defendant. Judges in the Commonwealth are required to consider a list of factors when making this assessment, such as the character of the accused, the nature of the offense and the defendant's ability to pay the bond. The weight of these factors in determining bail, however, is left to the judge's calculation. With no standardized system, judges must use their discretion to predict and mitigate a defendant's risk with the right release conditions. The result of such a system not only creates disparate outcomes, but also relies on wealth to mitigate risk.

Risk-assessment tools are used to replace the subjective nature of bail with a data-driven empirical system based on risk. These tools measure a defendant's risk of pretrial failure (new arrest and court appearance) based on a series of risk factors. The goal of risk instruments is to reduce pretrial detention rates by properly identifying low-risk defendants for release, while also detaining fewer defendants based solely on their inability to pay by "replacing wealth with risk."¹²

In a 2019 national survey, 2 in 3 cities and counties used a risk-assessment tool, and more than half reported implementing an instrument over the last five years.¹³ Virginia was the first in the country to implement a statewide research-

based, pretrial risk-assessment tool in 2005. Known nationally as the Virginia Model, the Virginia Pretrial Risk Assessment Instrument (VPRAI) has since been implemented in jurisdictions in 10 states and statewide in Maine. The VPRAI examines eight risk factors that are weighted to create a risk score. Results from the VPRAI are shared with the judge, prosecutor and defense attorneys.

In 2017, the VPRAI was revised and supplemented with Praxis, a decision tool that incorporates the revised VPRAI and the defendant's current charges to provide a recommendation of whether to deny or admit bail and, in the case of pretrial release, the level of supervision needed for the defendant.¹⁴ Where the VPRAI measures the risk of pretrial failure, the Praxis tool manages that risk by recommending the most efficient bail conditions.

Risk Factors Scored on VPRAI-Revised¹⁵

1. Active community criminal justice supervision
2. Current charge is felony drug, felony theft or felony fraud
3. Pending charge at time of arrest
4. One or more adult criminal convictions
5. Two or more failures to appear
6. Two or more violent convictions
7. Unemployed at the time of arrest
8. History of drug abuse

In recent years, some criminal-justice advocates who once supported the use of risk-assessment tools have argued that the tools themselves can perpetuate racial disparities.¹⁶ Critics argue that the data and methodology used to derive risk scores, such as a defendant's criminal history, reflect the structural and institutional racism inherent and only exacerbate existing disparities. Pretrial

11 The Virginia State Crime Commission's 2018 Annual Report, <http://vsc.virginia.gov/2019/VSCC%202018%20Annual%20Report.pdf>

12 "Making Sense of Pretrial Risk Assessments," National Association of Criminal Defense Lawyers, <https://www.nacdl.org/Article/June2018-MakingSenseofPre-trialRiskAsses>.

13 University of Pretrial, Pretrial Justice Institute, 2019, <https://university.pre-trial.org/viewdocument/scan-of-pre-trial-practices-pji-20>.

14 Virginia State Crime Commission, 2017 Annual Report, <https://rga.lis.virginia.gov/Published/2018/RD207/PDF>.

15 Virginia State Crime Commission, 2017 Annual Report, <https://rga.lis.virginia.gov/Published/2018/RD207/PDF>.

16 "Making Sense of Pre-trial Risk Assessments," National Association of Criminal Defense Lawyers, <https://www.nacdl.org/Article/June2018-MakingSenseofPre-trialRiskAsses>.

risk-assessment tools have been around for some time, yet there is a lack of consensus on their efficacy in reducing cash bail and pretrial detention.¹⁷

New Jersey implemented a risk-assessment tool as part of its cash bail reform legislation in 2017. While the jail population in New Jersey declined, racial disparities persisted. Jail data for Virginia from the Vera Institute for Justice show that, on average, there were 1,388 Black or African American and 283 white jail inmates for every 100,000 residents in 2005.¹⁸ In 2015, 10 years after the implementation of the VPRAI, the jail population rates for Black or African American and white individuals were 1,115 and 352, respectively. Relative to 2005, there was improvement in the incarceration rates for Black inmates relative to the Black population in Virginia. Yet, significant disparities in incarceration rates persist, as there were still roughly three times more Black inmates than white inmates per 100,000 residents in the Commonwealth.

Pretrial Services Agencies

In Virginia, pretrial services agencies (PSAs) serve two main functions: to collect and deliver information to assist judges in determining bail, and to supervise defendants on pretrial release to monitor compliance with bail conditions such as electronic monitoring, drug testing or maintaining employment. Established in the 1990s, PSAs are locality-based agencies, administered and funded by the Virginia Department of Criminal Justice Services and localities. As of 2019, 75% of Virginia's cities and counties had a PSA. Only 4 of the 16 Hampton Roads cities and counties – Franklin, Southampton, Isle of Wight County and Suffolk – do not have one.

Pretrial supervision is touted as a possible alternative to cash bail and pretrial detention for defendants deemed too high-risk for a personal recognizance bond. However, data from the Virginia Pre-trial Data Project (VPDP) show that in fiscal year 2019, approximately 53% of all defendants placed on

pretrial supervision were also ordered to post a secured bond. The data do, however, show a high pretrial success rate. In 2019, 93% of defendants on pretrial supervision returned for their scheduled court appearance and did not have their bail revoked due to a new arrest.

The Commonwealth has long been recognized as a leader in bail system reform. States such as Illinois and New Jersey, which in recent years passed comprehensive legislative reforms aimed at eliminating cash bail, have made risk tools and pretrial supervision a central part of reform. These tools have been in place in Virginia for more than a decade. Nevertheless, as we show in the next few sections, cash bail remains a common form of pretrial release in the Commonwealth, and pretrial detention rates in Virginia and Hampton Roads are not far from the national average. The answer as to why cash bail persists as a method of pretrial detention comes down to judicial discretion, not enough oversight on the effectiveness and take-up rate of these reform tools, and statutory requirements that in some cases require secured bonds for bail.

Pretrial Detention

From 1990 to 2018, property and violent crimes in the United States trended down, while incarceration rates increased (1990-2008) and then declined back to levels observed near the turn of the century (Graph 1). From 1990 to 2018, the rate of violent and property crimes per 100,000 Americans declined 52.5% and 43.6%, respectively, while the jail incarceration rate increased by 36.9%. As of May 2021, the United States had one of the highest reported incarceration rates in the world, with 639 inmates per 100,000 residents.¹⁹

Americans not yet convicted of a crime make up an increasing proportion of the jail population. From 1990 to 2019, the number of convicted inmates in local jails increased by almost 30% (Graph 2). Over the same period, the number of pretrial inmates increased by approximately 132%. Pretrial inmates accounted for 66% of the U.S. jail population in 2019. The U.S.

¹⁷ Evan Lowder, Carmen Diaz, Eric Grommon and Bradley Ray, "Effects of Pre-trial Risk Assessments on Release Decisions and Misconduct Outcomes Relative to Practice as Usual" (2021), *Journal of Criminal Justice*, vol. 73, March-April 2021, https://www.sciencedirect.com/science/article/abs/pii/S0047235220302488?dgcid=rss_sd_all.

¹⁸ "Virginia Incarceration Trends," Vera Institute for Justice, <https://trends.vera.org/rates/virginia>.

¹⁹ "Countries with the most prisoners per 100,000 inhabitants, as of May 2021," Statista Research Department, June 2, 2021.

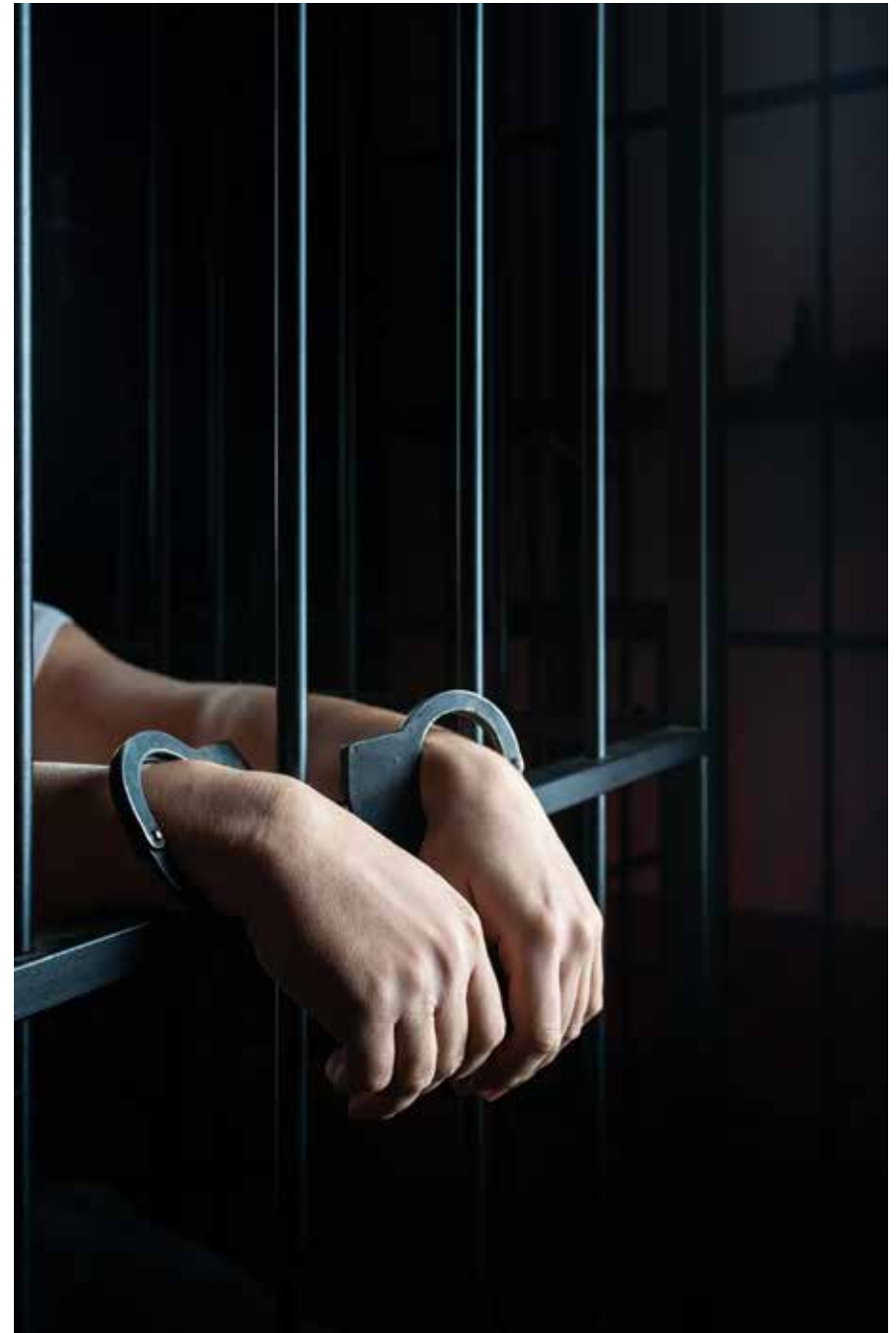
leads the world in terms of the number of pretrial detainees, with nearly twice as many as any other country in the world. On an average day in 2019, more than 480,000 Americans confined in local jails had not yet been convicted of a crime. While some were deemed a flight risk or threat to public safety, other pretrial inmates remained in jail due to their inability to post bail.

Virginia mirrors national trends in the pretrial population. While the share of pretrial inmates in the total jail population in Virginia in 2018 (52%) was below that of the nation (65%), the rate of increase was faster in the Commonwealth than for the nation (Graph 3). For Hampton Roads in 2018, almost half of the inmates were pretrial detainees, a lower rate than that of Virginia or the nation. This share remained relatively constant over the previous decade.

On an average day in 2019, half of the 11,600 inmates in Virginia jails had yet to be convicted of a crime. Of these 11,600 inmates, 3,154 were confined in Hampton Roads jails. To better understand the types of charges for those held pretrial, we can look to statistics provided by Virginia's Department of Criminal Justice Services (DCJS). These data capture the most serious offense types for the 170,000 pretrial commitments to Virginia jails in 2019.²⁰ In half of these, the most serious charge was a misdemeanor. Approximately 12% were detained for a violent felony (Graph 4). In misdemeanor cases especially, pretrial detention can pose a significant problem, as defendants are more likely to plead guilty to gain release from jail.²¹

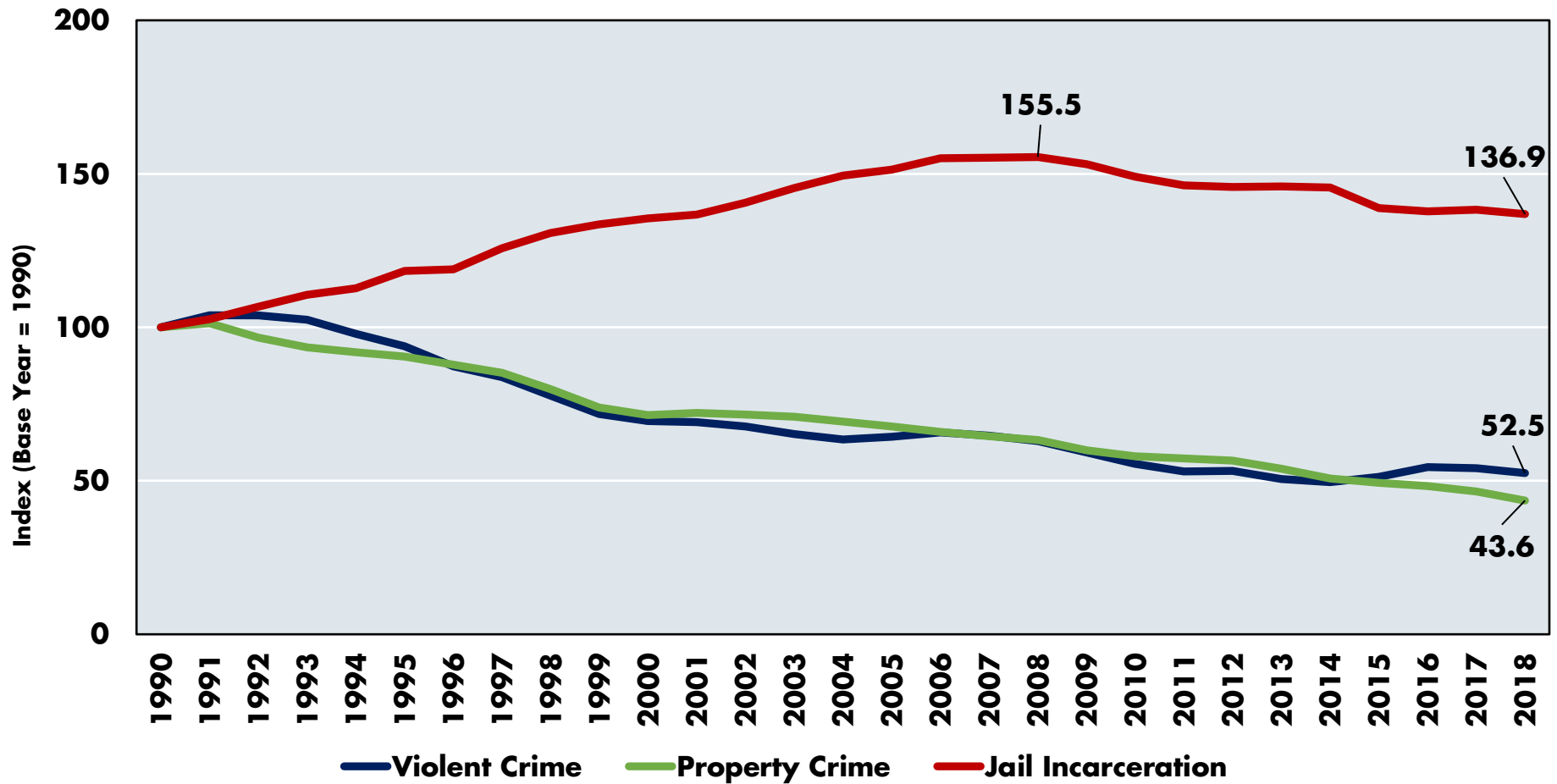
²⁰ Pretrial commitments reflect the number of pretrial commitment events. This is not a count of unique people, as some individuals may be committed multiple times for the same or different offenses, if they were released and then returned to jail. The average daily pretrial population totaled 11,587 in 2019.

²¹ Paul Heaton, Sandra G. Mayson and Megan Stevenson, "The Downstream Consequences of Misdemeanor Pre-trial Detention," 69 *Stanford Law Review* 711 (2017).



GRAPH 1

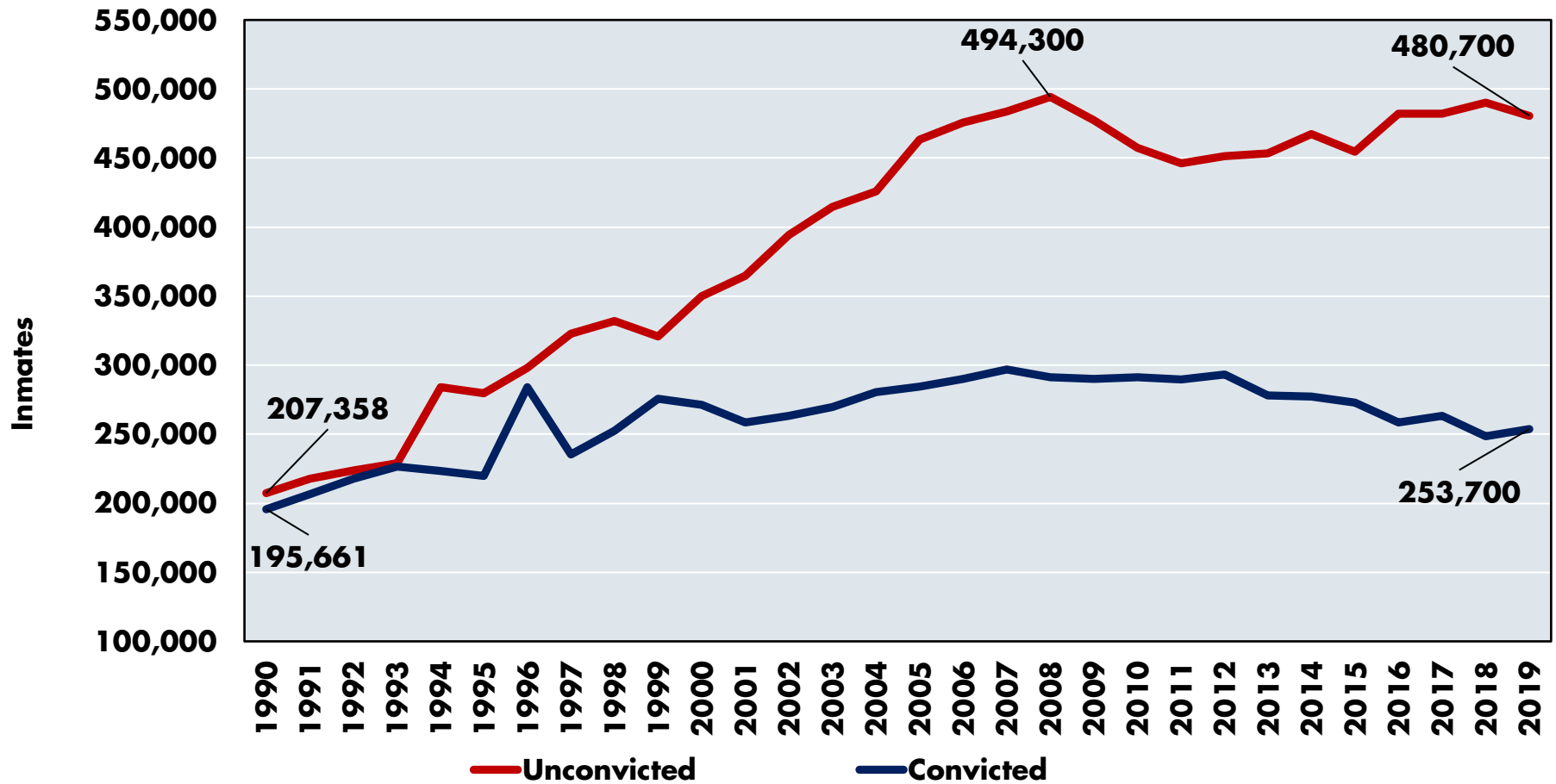
CHANGE IN VIOLENT CRIME, PROPERTY CRIME AND JAIL INCARCERATION RATES:
UNITED STATES, 1990-2018



Sources: Vera, Incarceration Trends (2018), FBI Uniform Crime Reporting (2019) and the Dragas Center for Economic Analysis and Policy, Old Dominion University

GRAPH 2

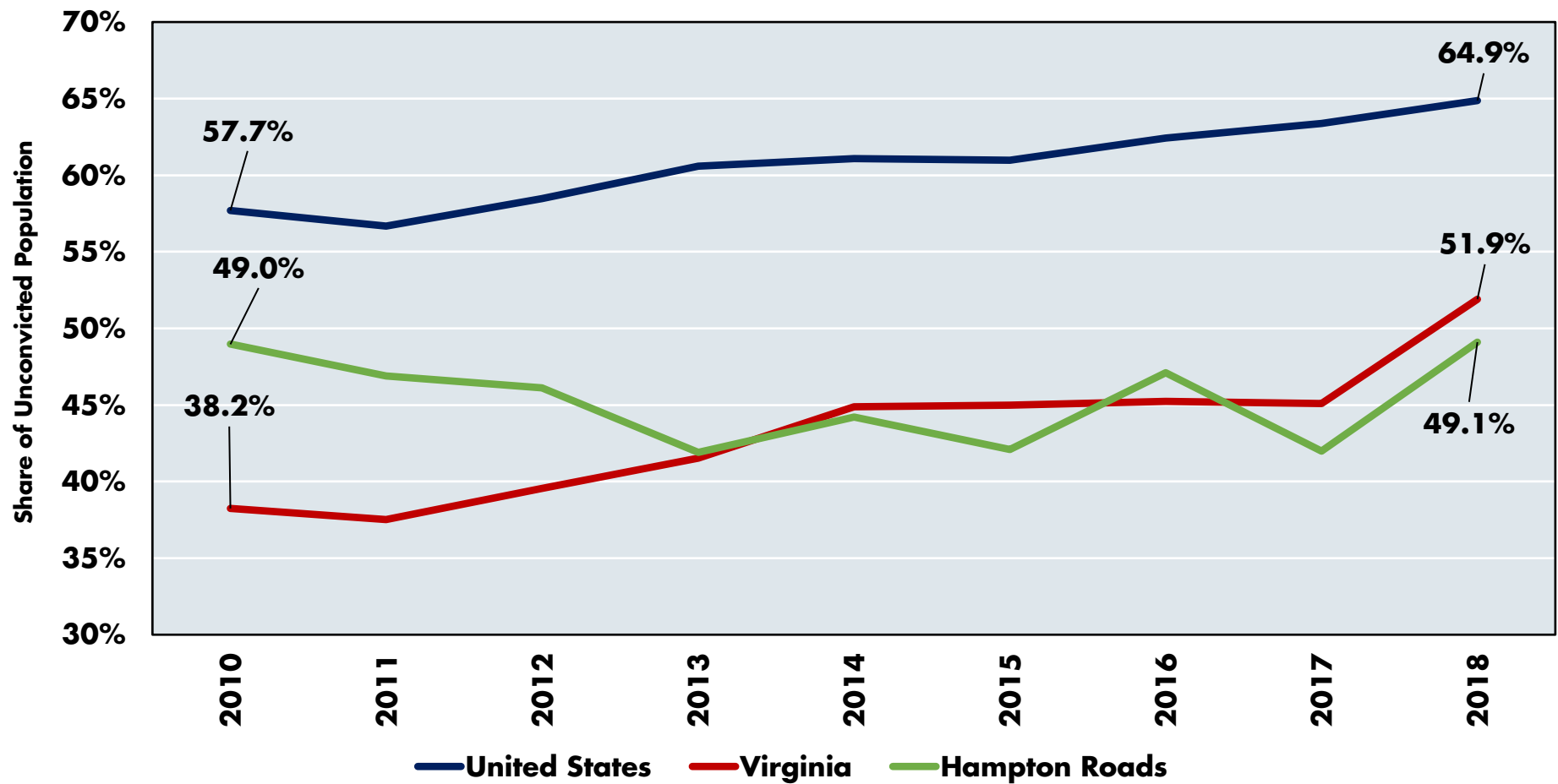
JAIL INMATE POPULATION BY CONVICTION STATUS:
UNITED STATES, 1990-2019



Sources: Bureau of Justice Statistics, Jail Inmates, and the Dragas Center for Economic Analysis and Policy, Old Dominion University. Estimates for population are from either the last weekday in June or Dec. 31.

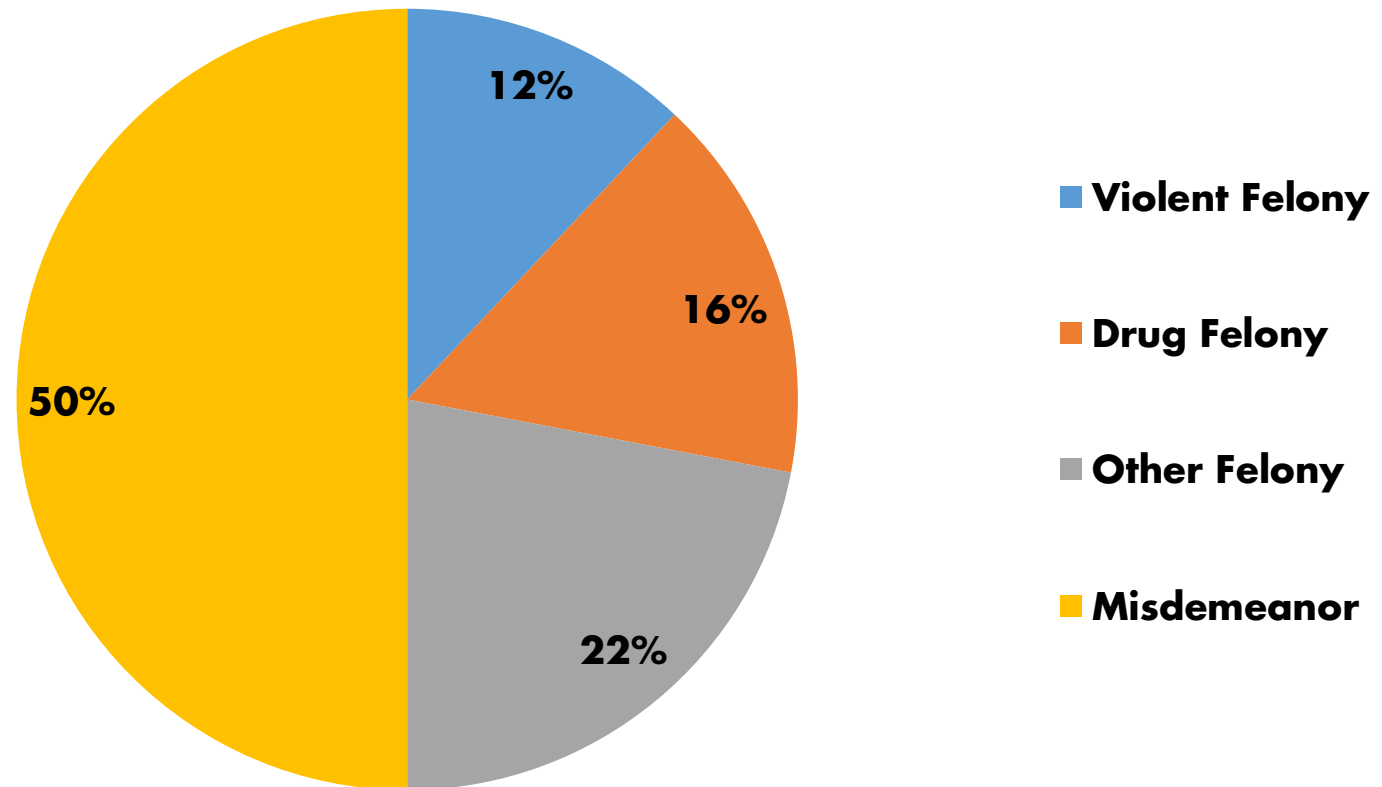
GRAPH 3

SHARE OF UNCONVICTED JAIL INMATE POPULATION:
UNITED STATES, VIRGINIA AND HAMPTON ROADS, 2010-2018



Source: Vera, Incarceration Trends (2018)

GRAPH 4
SHARE OF PRETRIAL COMMITMENTS BY MOST SERIOUS OFFENSE TYPE:
VIRGINIA, 2019



Source: Virginia Department of Criminal Justice Services

The Use Of Cash Bail

Unfortunately, data on pretrial release conditions at the national, state and local level are sparse at best. In a 2009 Bureau of Justice Statistics survey (the latest national data available), of the country's 40 most populous counties, more than 40% of felony defendants were assigned monetary bail conditions, up 11% since 1990. Over the same period, the share of defendants released on recognizance declined 13%. Fortunately for the Commonwealth, a 2021 study by the Virginia State Crime Commission (VSCC) provided insight on the use of different pretrial release mechanisms. We draw on this work in this section.

The Virginia Pre-Trial Data Project (VPDP) tracked a cohort of defendants who were arrested and charged with an offense in October 2017 to the final disposition of their case. The purpose of the project, which will be replicated on an annual basis, was to address the lack of statewide data on bail conditions and pretrial outcomes in Virginia. Graph 5 shows the final pretrial mechanism for the 15,653 defendants in the 2017 VPDP cohort.²²

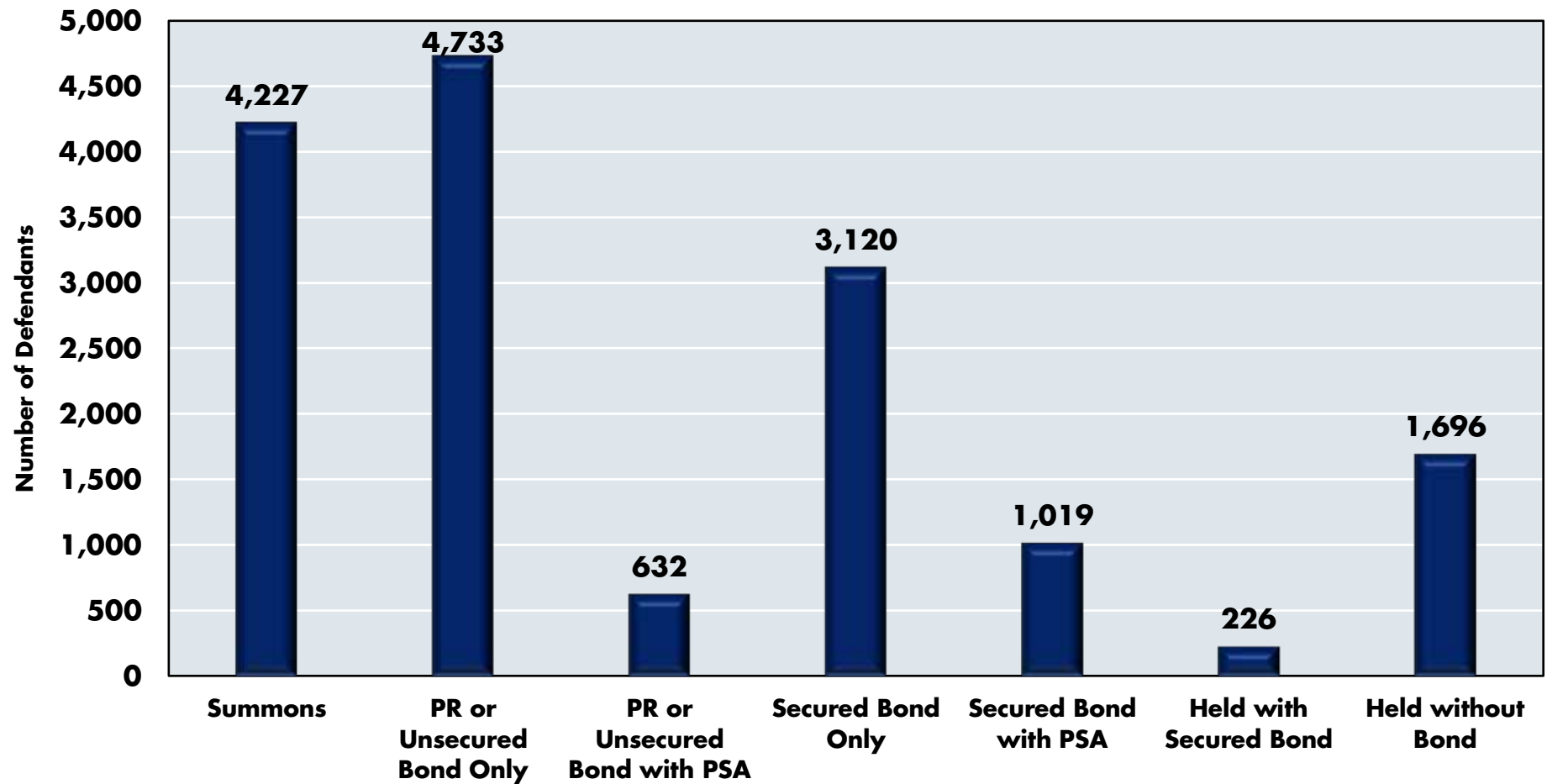
Of these 15,653 defendants, 4,227 received a summons and were released on their own recognizance and 11,426 were taken into custody. Graph 6 shows the final bail type or detainment status for the 11,426 defendants taken into custody. Almost half (47%) were released on personal recognizance or an unsecured bond. Over a third (36%) were released on a secured bond. Almost 15% were denied bail, while 2% of the defendants were held with a secured bond the entire pretrial period. In other words, out of the 11,426 defendants, 226 were unable to scrape together enough resources to secure a bond to obtain release from confinement for the entire pretrial period.



²² The study cohort consisted of 22,933 defendants. Descriptive statistics are available only on the 15,715 defendants whose October 2017 arrest was the result of a new arrest, not related to a prior charge. Sixty-two of these defendants were excluded from the analysis, as the information could not be verified.

GRAPH 5

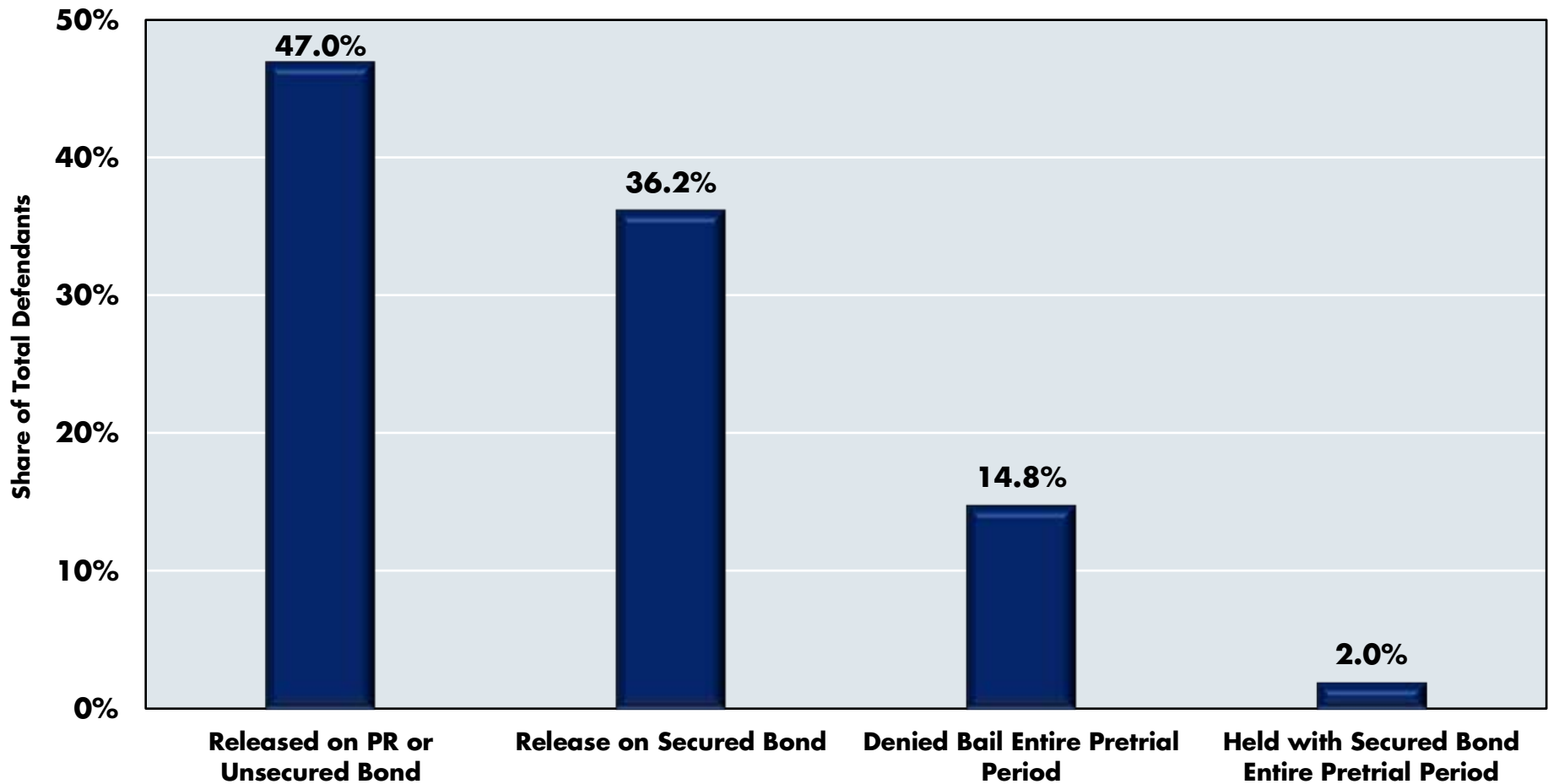
**VSCC VIRGINIA PRE-TRIAL DATA PROJECT: STATEWIDE DESCRIPTIVE STATISTICS OF DEFENDANT COHORT,
FINAL PRETRIAL RELEASE MECHANISM AND DETAINMENT STATUS OF DEFENDANT COHORT**



Source: Virginia State Crime Commission's Virginia Pre-trial Data Project (2021), statewide descriptive findings. Statistics reflect the outcomes of 15,715 total defendants charged with a new arrest in the study cohort, excluding 62 defendants whose bond type could not be determined. (PR is personal recognizance and PSA is pretrial supervision.)

GRAPH 6

**VSCC VIRGINIA PRE-TRIAL DATA PROJECT: STATEWIDE DESCRIPTIVE STATISTICS OF DEFENDANT COHORT,
PERCENT OF TOTAL DEFENDANTS BY PRETRIAL RELEASE MECHANISM AND DETAINMENT STATUS**



Source: Virginia State Crime Commission's Virginia Pre-trial Data Project (2021), statewide descriptive findings. Statistics reflect the outcomes of 15,715 total defendants charged with a new arrest in the study cohort, excluding 4,277 defendants released on a summons and 62 defendants whose bond type could not be determined. Released on personal recognizance (PR) or unsecured bond and released on secured bond includes unsupervised release and release with pretrial (PSA) supervision.

Pretrial Release Conditions May Change

Where defendants start in the pretrial release process does not necessarily define where they will end up. A magistrate may hold a defendant without bond or with a secured bond, or determine that a personal-recognizance or unsecured bond is appropriate. However, the decision can be (and often is) revisited, and the bail conditions modified, in due course. Turning again to the VPDP data, we note that of the 15,715 defendants shown in Graphs 5 and 6, 4,227 were released at the time of arrest through the issuance of a summons, and 334 had incomplete data on initial or final bond or release status.

We turn our attention now to the 11,154 defendants whose initial and final status was known (Graph 7). Of the 3,591 defendants who were initially held without bond, 1,696 (47.2%) remained in custody, 1,379 (38.4%) were later released on a secured bond, and 516 (14.4%) were released on personal recognizance or unsecured bond. For the 3,180 held initially on a secured bond, only 226 (7.1%) were not released, 2,665 (83.8%) were released on a secured bond and 289 (9.1%) were released on personal recognizance or unsecured bond. Of the 4,383 defendants held on personal recognizance or unsecured bond, almost all (99.7%) were released under the same conditions.

A majority of defendants (52.8%) who were initially held without bond were later released on bond. For defendants held initially on a secured bond, 92.9% were released on bond at some point. Of the 11,154 defendants in the VPDP sample, 82.7% were released on some type of bond, and the remainder (17.3%) were held without bond until their trial.

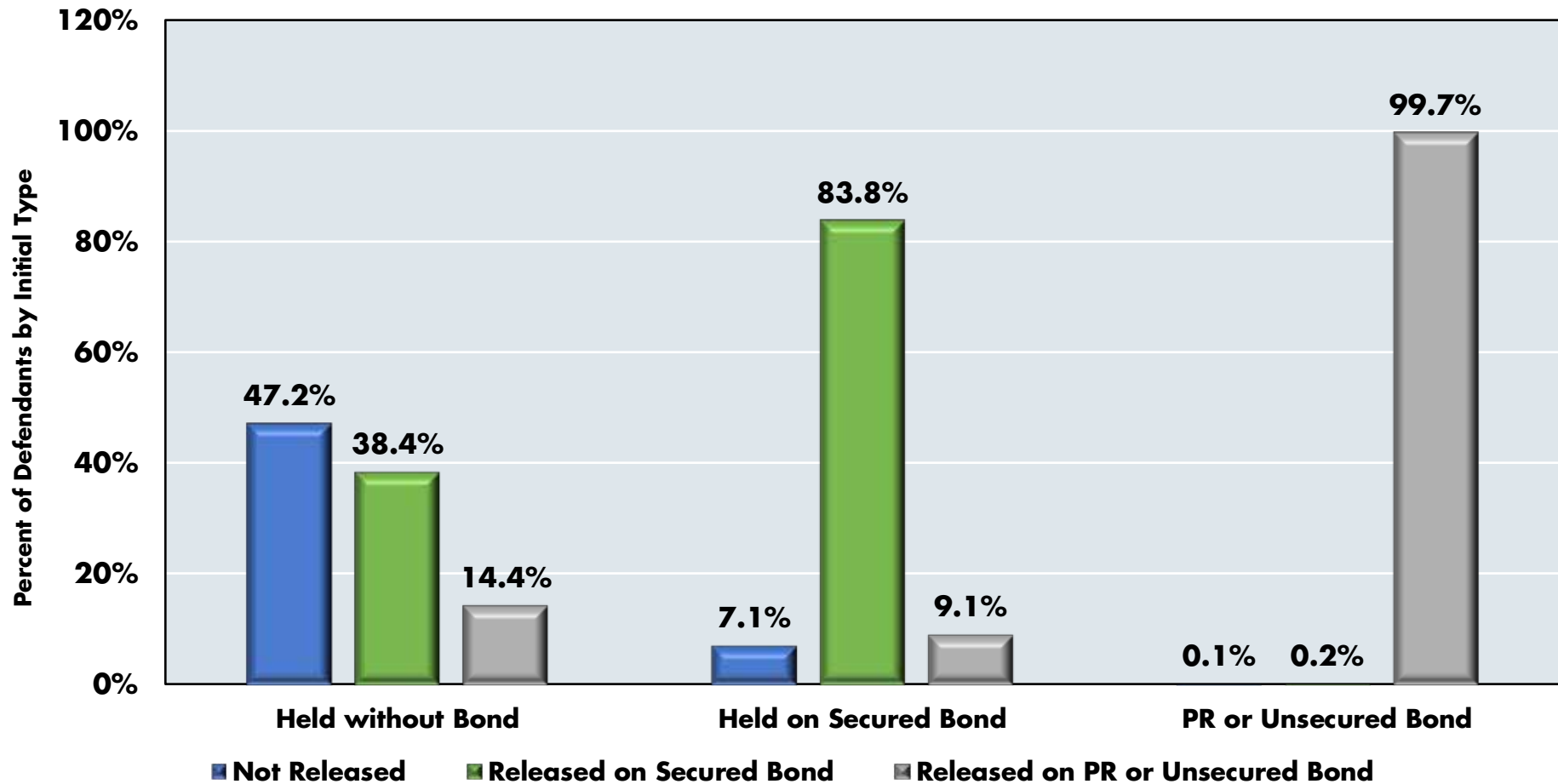
A defendant's charge is one of the most significant factors in deciding bail. The most serious offense for roughly half of the defendants in the cohort was a jailable nonfelony charge. If judges are employing the least restrictive conditions, we should expect those charged with less serious, nonfelony offenses to be more likely to be issued personal recognizance or unsecured bonds. This distribution is illustrated in Graph 8. Among defendants in the cohort charged with a jailable nonfelony, 65% were released on a personal-

recognizance or unsecured bond followed by 27% released on a secured bond. A secured bond was the most common bail type for defendants charged with at least one felony.



GRAPH 7

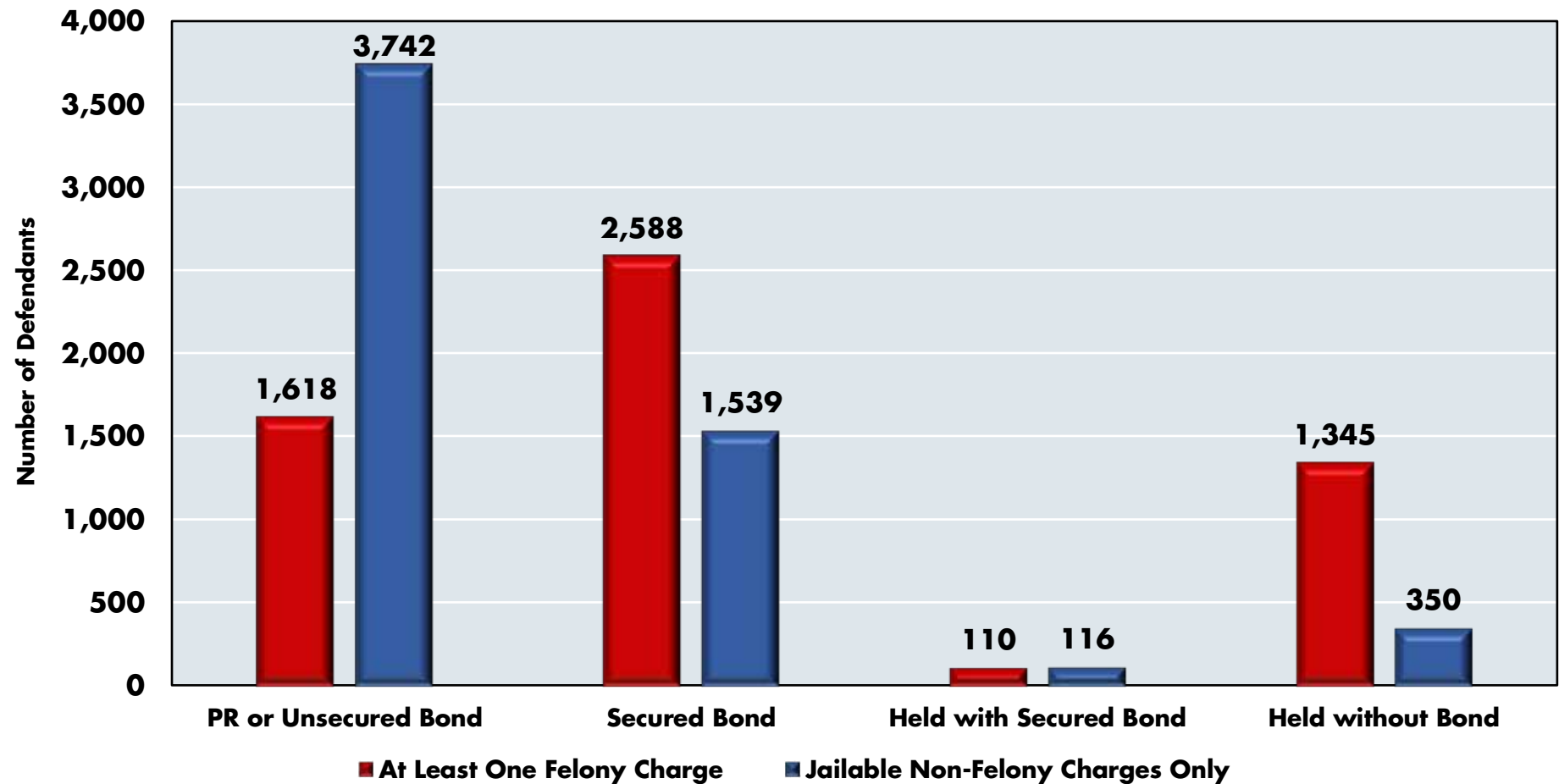
VSCC VIRGINIA PRE-TRIAL DATA PROJECT: STATEWIDE DESCRIPTIVE STATISTICS OF DEFENDANT COHORT,
ULTIMATE RELEASE OR DETENTION TYPE BY INITIAL CONDITIONS



Source: Virginia State Crime Commission's Virginia Pre-trial Data Project (2021), statewide descriptive findings for 11,154 defendants. (PR is personal recognizance.)

GRAPH 8

VSCC VIRGINIA PRE-TRIAL DATA PROJECT: STATEWIDE DESCRIPTIVE STATISTICS OF DEFENDANT COHORT,
MOST SERIOUS CHARGE CLASSIFICATION BY ULTIMATE RELEASE OR DETENTION TYPE



Source: Virginia State Crime Commission's Virginia Pre-trial Data Project (2021), statewide descriptive findings, Table 3. Excludes 19 defendants with undetermined charge classification and defendants released on a summons. (PR is personal recognizance.)

How Many Days Does Someone Spend In Jail Pretrial?

Graph 9 shows the number of days in pretrial detention for the 9,406 defendants released on bond.²³ Over 8 in 10 defendants released on personal recognizance or unsecured bond were released on the same day of their arrest. Only 44% released on a secured bond were released on the same day as their arrest. Approximately 4.3% of defendants ultimately released on personal recognizance or unsecured bond remained in jail more than 10 days. For those ultimately released via a secured bond, this climbed to 18.1%.

Recent research has shown that even a day or two of pretrial detention can disrupt employment, housing and child care.²⁴ Approximately 39% of defendants released on a secured bond were detained at least two days, and more than 1 in 4 secured-bond defendants were still in custody six days after the initial arrest. The longer time secured-bond defendants spend in jail, either scraping together the money or appealing for lighter bail conditions, lies at the heart of the cash bail debate.

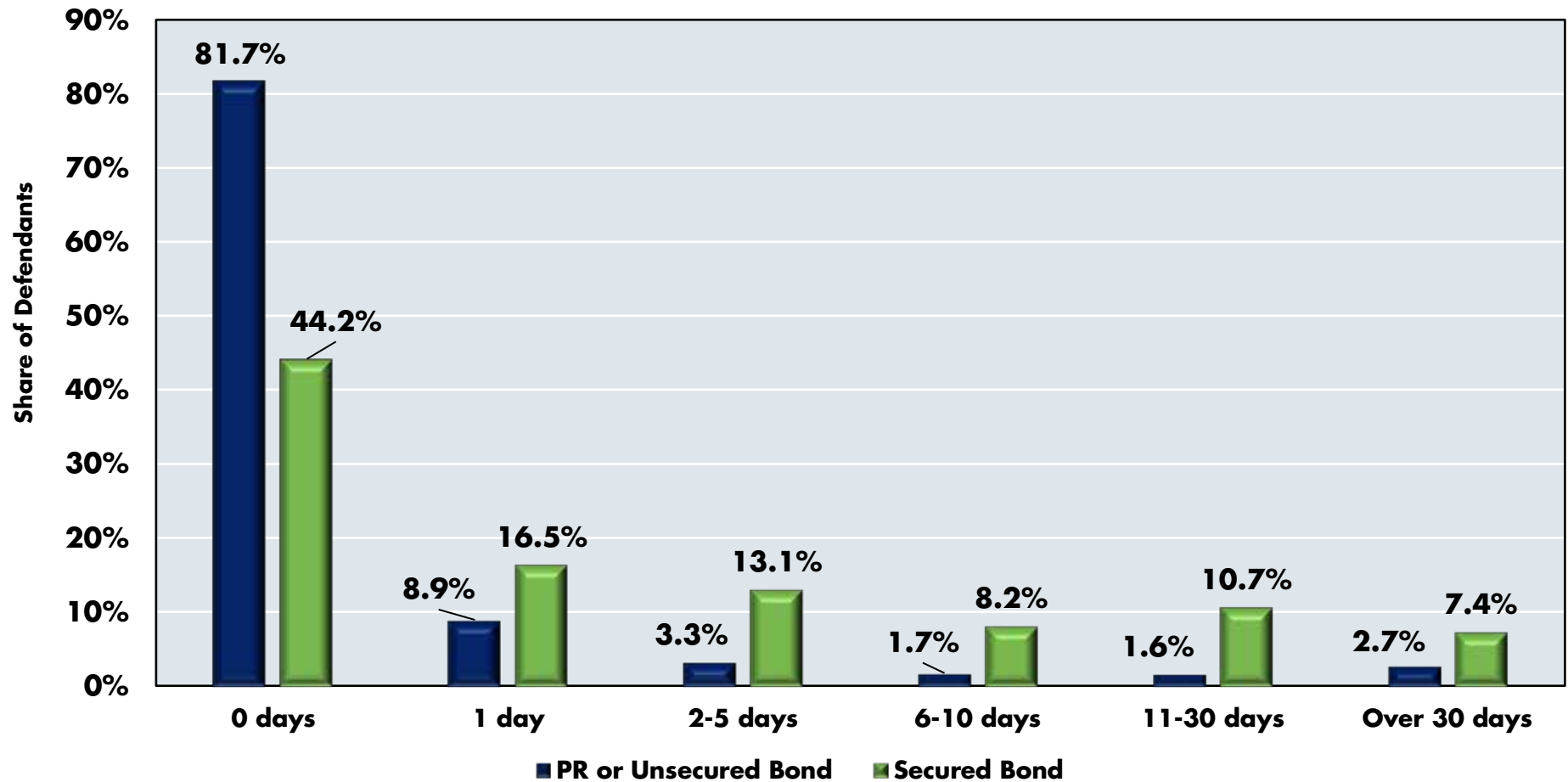


²³ Of the 11,426 defendants in Graphs 5 and 6, 98 had missing information, 1,696 were held without bond and 226 were held the entire period with a secured bond. Removing these defendants from the analysis reduced the sample size to 9,406 defendants.

²⁴ Will Dobbie, Jacob Godin and Crystal S. Yang, "The Effects of Pre-trial Detention on Conviction, Future Crime, and Employment: Evidence from Randomly Assigned Judges," 2018, *American Economic Review*, vol. 108, no. 2, available at: <https://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.20161503>.

GRAPH 9

VSCC VIRGINIA PRE-TRIAL DATA PROJECT: STATEWIDE DESCRIPTIVE STATISTICS OF DEFENDANT COHORT
DAYS FROM ARREST TO RELEASE, PERCENTAGE OF TOTAL DEFENDANTS BY BOND TYPE



Source: Virginia State Crime Commission's Virginia Pre-trial Data Project (2021), statewide descriptive findings. Released on personal recognizance (PR) or unsecured bond and released on secured bond includes unsupervised release and release with PSA supervision.

Bond Amounts: Are They Affordable?

While more than 1 in 3 defendants released on a secured bond spent at least two days in jail, the average bond amount was less than \$5,200. As illustrated in Graph 10, the average secured bond amount for nonfelony defendants in the sample was \$2,928 and \$5,182 for felony defendants. Bond amounts ranged from \$100 to \$200,000. Among defendants issued a secured bond, the average bond amount for those held the entire pretrial period was lower than for released defendants. This suggests that detention for the entire period was, in part, a function of income rather than risk to the community or the likelihood to appear in court.

A defendant issued a secured bond has two main options to post bond: pay the entire bond amount in cash or use a solvent surety such as a family member, friend or bail bondsman. Defendants with the financial means to post the bond outright are fully refunded at the end of their case. Defendants without sufficient means could use a bail bondsman, but they must pay a nonrefundable fee ranging from 10% to 15%. Among the defendants in the cohort released on secured bond, 89% used a bail bondsman to post bond. The widespread use of bail bondsmen could be the result of the lower incomes of defendants and incarcerated people in general, the relative unaffordability of bonds or maybe even the low savings rate of average Americans.

Given the relationship between crime and socioeconomic status, we would expect, on average, incarcerated individuals to have lower average incomes relative to the population. A Prison Policy Initiative (PPI) report in 2015 found that inmates prior to incarceration had a median annual income of \$19,185 in 2014 dollars, 41% less than the nonincarcerated population in a similar age group.²⁵ The statistics from the Virginia Pre-trial Data Project do not provide us with income information for defendants. However, as a proxy for income, the data show that roughly half of all defendants in the sample were represented by a public defender or court-appointed attorney. The presence of a public defender was highest among defendants held on a secured bond the entire

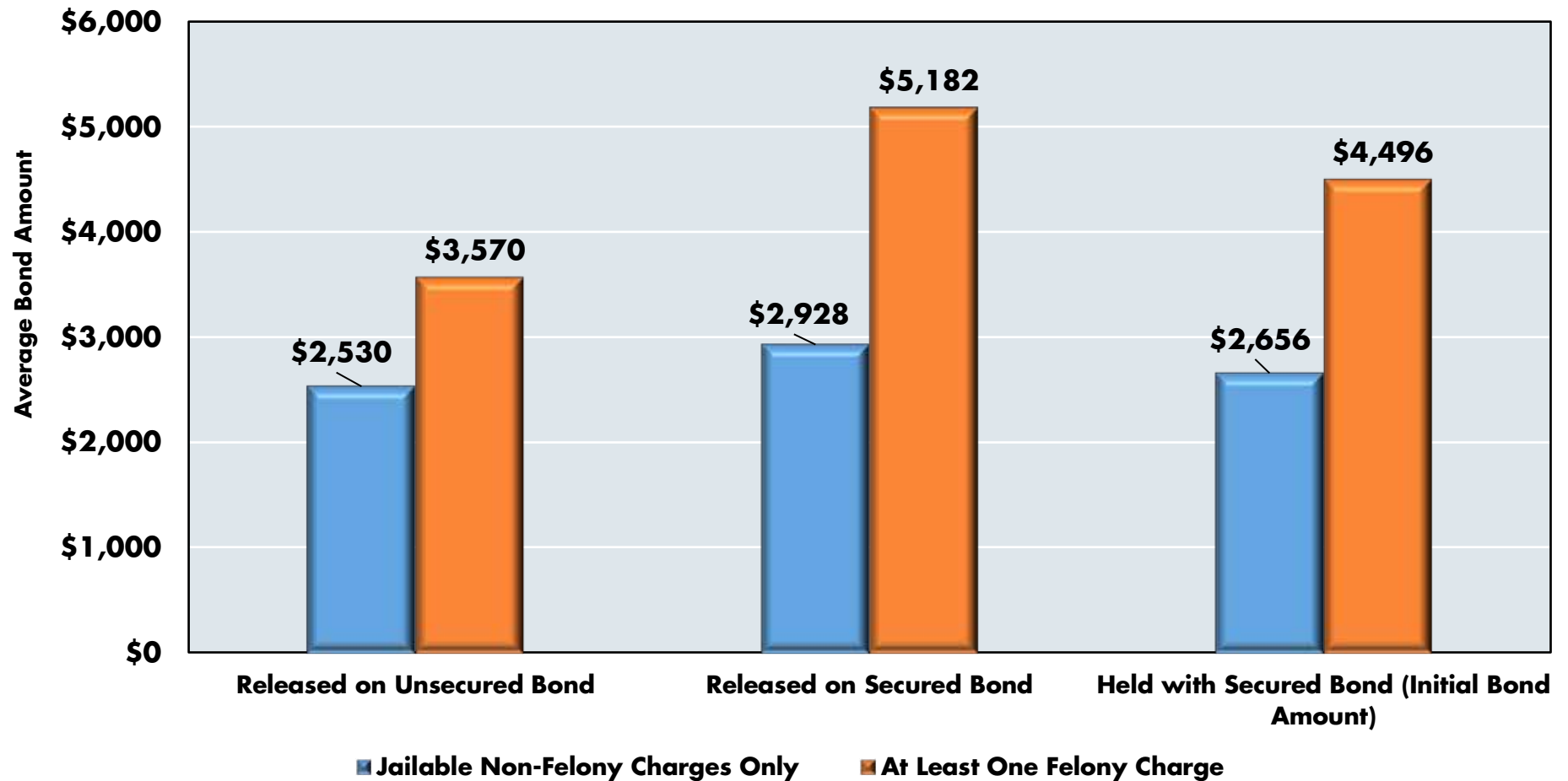
pretrial period (83.2%), followed by defendants released on secured bonds (61.8%) and personal recognizance or unsecured bond (50.5%).



²⁵ "Prisons of Poverty: Uncovering the pre-incarceration incomes of the imprisoned," Prison Policy Initiative, 2015, <https://www.prisonpolicy.org/reports/income.html>.

GRAPH 10

VSCC VIRGINIA PRE-TRIAL DATA PROJECT: STATEWIDE DESCRIPTIVE STATISTICS OF DEFENDANT COHORT
AVERAGE BOND AMOUNT BY ULTIMATE BOND TYPE AND OFFENSE CLASSIFICATION



Source: Virginia State Crime Commission's Virginia Pre-trial Data Project (2021), statewide descriptive findings, Table 6. Average bond amounts for defendants released with and without a pretrial service agency. Does not include 235 defendants who were released on a personal recognizance bond only.

Failure To Appear Or Flight Risk?

Failure to appear is one of the more contentious issues surrounding the cash bail reform debate. After cash bail reform in Harris County, Texas, 43% of defendants who were released without cash bail failed to appear for court between June and December 2017. In 2018, prosecutors in Atlanta claimed that bail reform *doubled* the rate of people failing to appear in court.²⁶

One problem is that the definition of failure to appear differs from state to state, if not jurisdiction to jurisdiction. If a person misses 10 court appointments, is this counted once or 10 times? The answer depends on local rules and preferences. Failure to appear, however, is not just a problem in the justice system. Estimates suggest that Americans, on average, fail to keep medical appointments between 15% and 30% of the time.²⁷

Is cash bail meant to encourage court appearance or reduce flight risk? This is an important question. Court appearance rates may suffer because defendants cannot take time off work, are indigent, lack transportation or have health care issues. Accommodating the needs of these defendants is in the interests of the defendant, the justice system and taxpayers. Incarcerating a low-risk defendant because of a missed court appointment is akin to having your car repossessed because you missed an appointment at the car dealership.

Flight risk, however, is an attempt to evade justice. These defendants typically need resources to flee. Flight risk is likely to be positively correlated with income. Monitoring these individuals is expensive and time-consuming, and thus identifying who is a flight risk is important. Indiscriminately using cash bail to prevent flight risk is likely to produce the unintended consequence of increasing the pretrial detention rates of lower-income defendants. Available evidence suggests that likelihood of flight risk is low, especially when compared to the frequency of nonappearance.²⁸

²⁶ <https://theappeal.org/the-failure-to-appear-fallacy/>.

²⁷ <https://pubmed.ncbi.nlm.nih.gov/7010402/>.

²⁸ Lauryn P. Gouldin, "Defining flight risk," *The University of Chicago Law Review*, vol. 85 (2018).

A Bureau of Justice Statistics (BJS) report sheds light on the difference between nonappearance and flight risk (or remaining a fugitive from justice). Surveying 40 of the 75 largest U.S. counties between 1990 and 2004, the BJS found that approximately 75% of defendants appeared in court on schedule. Of those defendants that missed at least one court hearing (failing to appear), 94% appeared in court within a year of their missed court date. Only 6% remained fugitives from justice. This study suggests that the actual risk of flight is significantly overstated by the use of failure to appear statistics.²⁹

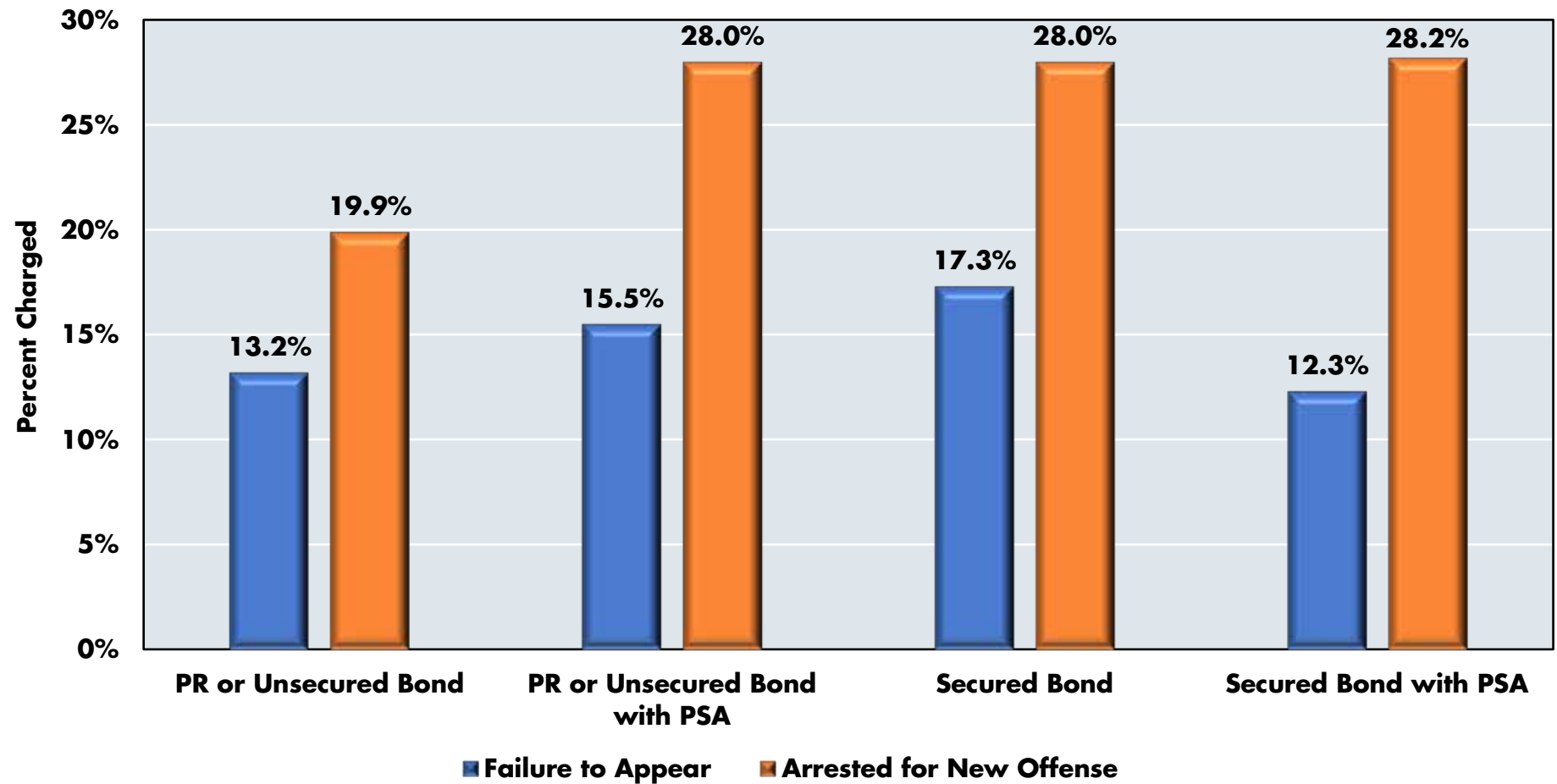
Graph 11 presents data from the Virginia Pre-Trial Data Project regarding whether defendants were charged with failure to appear or were arrested for a new in-state offense punishable by incarceration. On average, 13% of defendants were charged with failure to appear, with the highest rates of charges being observed among those released with a secured bond only. However, the more relevant question is whether those released committed new crimes at different rates. Approximately 1 in 5 defendants released on personal recognizance or an unsecured bond were charged with a new in-state offense that was punishable by incarceration. Among those released on more stringent types of bonds and supervision, almost 3 in 10 were arrested for a new in-state jailable offense. The argument that changing bail conditions would result in increases in criminal activity appears to be undermined by the data, which suggest that defendants released under some form of supervision were arrested at approximately the same rate.

From our perspective, cash bail reform would increase the number of defendants who miss court appointments. One way to address this potential problem is to divert some portion of savings from incarcerating low-risk defendants to helping these defendants keep (or reschedule) their court appearances. Developing tools and support systems to reduce the administrative burden on these defendants and the courts would be a boon to taxpayers also. Courts could then more keenly focus on those defendants who pose risks to public safety or who may flee justice.

²⁹ <https://www.bjs.gov/content/pub/pdf/prfdsc.pdf>.

GRAPH 11

VSCC VIRGINIA PRE-TRIAL DATA PROJECT,
PERCENT OF DEFENDANTS CHARGED WITH FAILURE TO APPEAR OR ARRESTED FOR NEW OFFENSE



Source: Virginia State Crime Commission's Virginia Pre-trial Data Project (2021), statewide descriptive findings. (PR is personal recognizance and PSA is pretrial supervision.)

Cash Bail In Hampton Roads

From 1990 to 2018, violent crimes and property crimes in Hampton Roads declined by 39.5% and 58.4%, respectively (Graph 12). Over the same period, the incarceration rate increased 80.3%, well above the national average of 36.9%. In 2018, an average of 425 inmates per 100,000 Hampton Roads residents were in local jails, almost twice the national average of 226 per 100,000 Americans. On any given day in 2018, an average of 209 pretrial inmates per 100,000 Hampton Roads residents were in local jails, a higher rate than that for Virginia (186.5 per 100,000) and the nation (146.2 per 100,000) (Graph 13).

Unfortunately, there are not enough reliable data to examine the use of cash bail at the local level. We can, however, examine the role of pretrial detention within Hampton Roads to better understand the potential impact of cash bail reform. To examine pretrial detention at the local level, we must first discuss Virginia's system of local and regional jails. Responsibilities are spread across state and local agencies. While localities provide a majority of the funding for jails, the state's share is not insignificant, accounting for roughly 40% of total funding for jails in the eastern region in 2019.³⁰ Not all localities have their own jail, opting to use a regional jail. Other cities and counties have their own jail but also use a regional jail to house inmates.

Table 1 lists the local and regional jails in Hampton Roads and the corresponding localities that house inmates at each jail in 2019. Of the 16 cities and counties in the region, eight have their own local jail. For the most part, the distribution of inmates across jails was representative of the corresponding localities' shares of the region's total population. Virginia Beach City Jail (20.5%) and Norfolk City Jail (14.7%) housed the largest shares of Hampton Roads jail inmates.

³⁰ Virginia State Compensation Board, Jail Cost Report (2019). The eastern region includes Hampton Roads local and regional jails (Table 1) as well as Northampton, Sussex and Accomack county jails and Southside Regional Jail.

In April 2021, the Virginia Board of Local and Regional Jails issued a recommendation to close Hampton Roads Regional Jail. The decision followed the deaths of at least 22 inmates since 2015 and a 2016 U.S. Department of Justice (DOJ) investigation of the jail. The DOJ found the jail's inadequate medical care and mental health care, and overuse of solitary confinement violated the prisoners' constitutional rights.

The primary purpose of local and regional jails is to house pretrial defendants, those with a misdemeanor sentence, felony sentence of 12 months or less, or local ordinance violation. These inmates accounted for 71% of the total Hampton Roads jail population in 2019. Federal prisoners and state-responsible inmates comprise the other 29%; they are usually awaiting transfer to a prison or other state facility. On a typical day in 2019, approximately 6,713 inmates were incarcerated in Hampton Roads local and regional jails, 47% of whom had not yet been convicted of a crime.

As illustrated in Graph 14, the pretrial inmate population in the region's local jails ranged from 30.6% in Southampton County Jail to 59.7% in Newport News City Jail. It also appears that city jails have higher shares of pretrial inmates relative to county or regional jails. There are several factors, such as different rates in arrest or criminal activity across jurisdictions or differences in the use of secured bonds, that could influence the share of pretrial inmates. The mixing of inmates from multiple jurisdictions, however, makes it difficult to say much about the differences in pretrial practices across localities in the region.

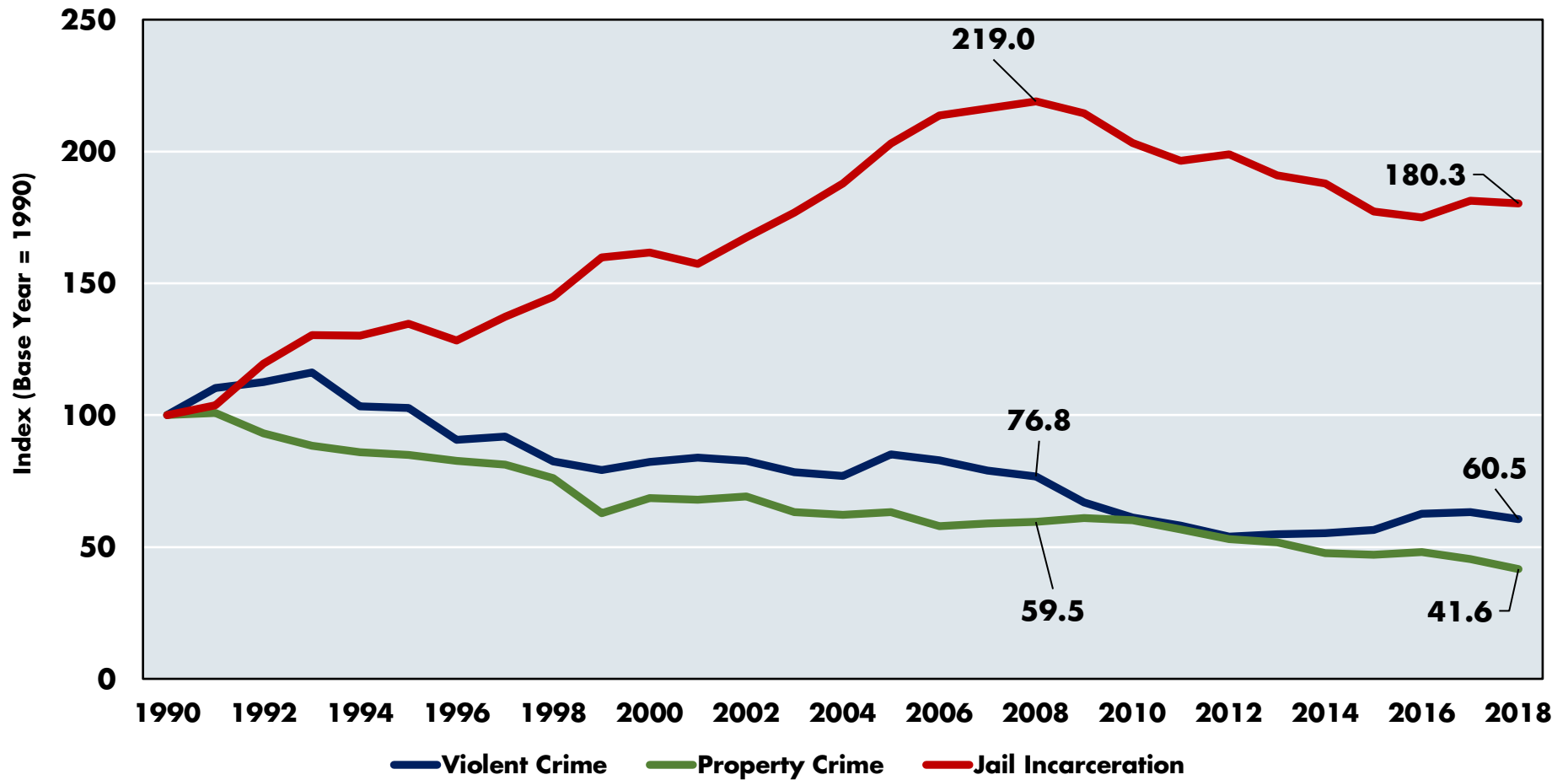
To examine pretrial detention at the county level, we can look at jurisdiction-level jail data from the Vera Institute of Justice. On an average day in 2018, there were approximately 209 pretrial detainees for every 100,000 residents in the region (Table 2). The highest rate of pretrial detention in 2018 was in Portsmouth (768.2), followed by Mathews County (308.0) and Norfolk (259.8). From 2000 to 2018, the pretrial detention rate rose the fastest in James City County, increasing at an average annual rate of 5%. For the

majority of the region's counties, the annual growth rate of pretrial detainees from 2000 to 2018 averaged above 3%, while in several of the region's largest cities, pretrial detention declined over the same period.

TABLE 1			
HAMPTON ROADS LOCAL AND REGIONAL JAILS, 2019			
Jail Name	Jail Member Jurisdiction	Jail Share of Hampton Roads Inmate Population	Jurisdiction Share of Hampton Roads Resident Population
Chesapeake City	Chesapeake	14.0%	14.2%
Gloucester County	Gloucester County	0.6%	2.2%
Hampton City	Hampton	4.1%	7.8%
Newport News City	Newport News	7.0%	10.4%
Norfolk City	Norfolk	14.7%	14.1%
Portsmouth City	Portsmouth	3.6%	5.5%
Southampton County	Southampton County	1.1%	1.0%
Virginia Beach City	Virginia Beach	20.5%	26.2%
Hampton Roads Regional*	Chesapeake, Hampton, Newport News, Norfolk, Portsmouth	14.3%	52.1%
Middle Peninsula Regional	Mathews County	2.4%	0.5%
Virginia Peninsula Regional	James City County, Williamsburg, Poquoson, York County	6.4%	10.0%
Western Tidewater Regional	Suffolk, Franklin, Isle of Wight County	11.3%	8.0%
Sources: Virginia State Compensation Board, Local Inmate Data Systems, and the U.S. Census Bureau Intercensal Population Estimates, 2019. *As of April 2021, Chesapeake, Norfolk and Portsmouth had pulled their inmates out of the Hampton Roads Regional Jail.			

GRAPH 12

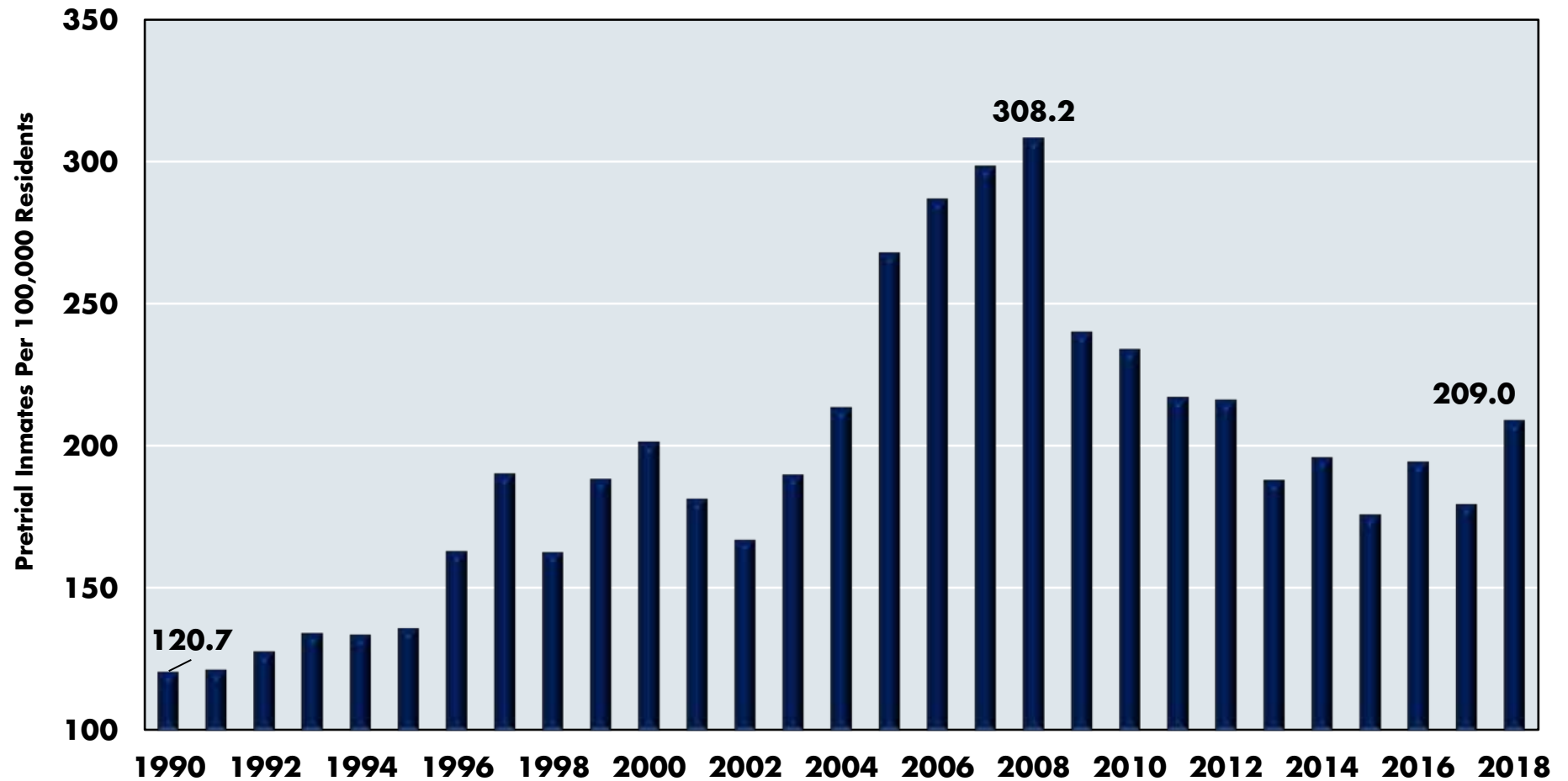
GROWTH IN VIOLENT CRIME, PROPERTY CRIME AND JAIL INCARCERATION RATE:
HAMPTON ROADS, 1990-2018



Sources: Vera Institute of Justice, Incarceration Trends (2018), FBI Uniform Crime Reporting (2019) and the Dragas Center for Economic Analysis and Policy, Old Dominion University

GRAPH 13

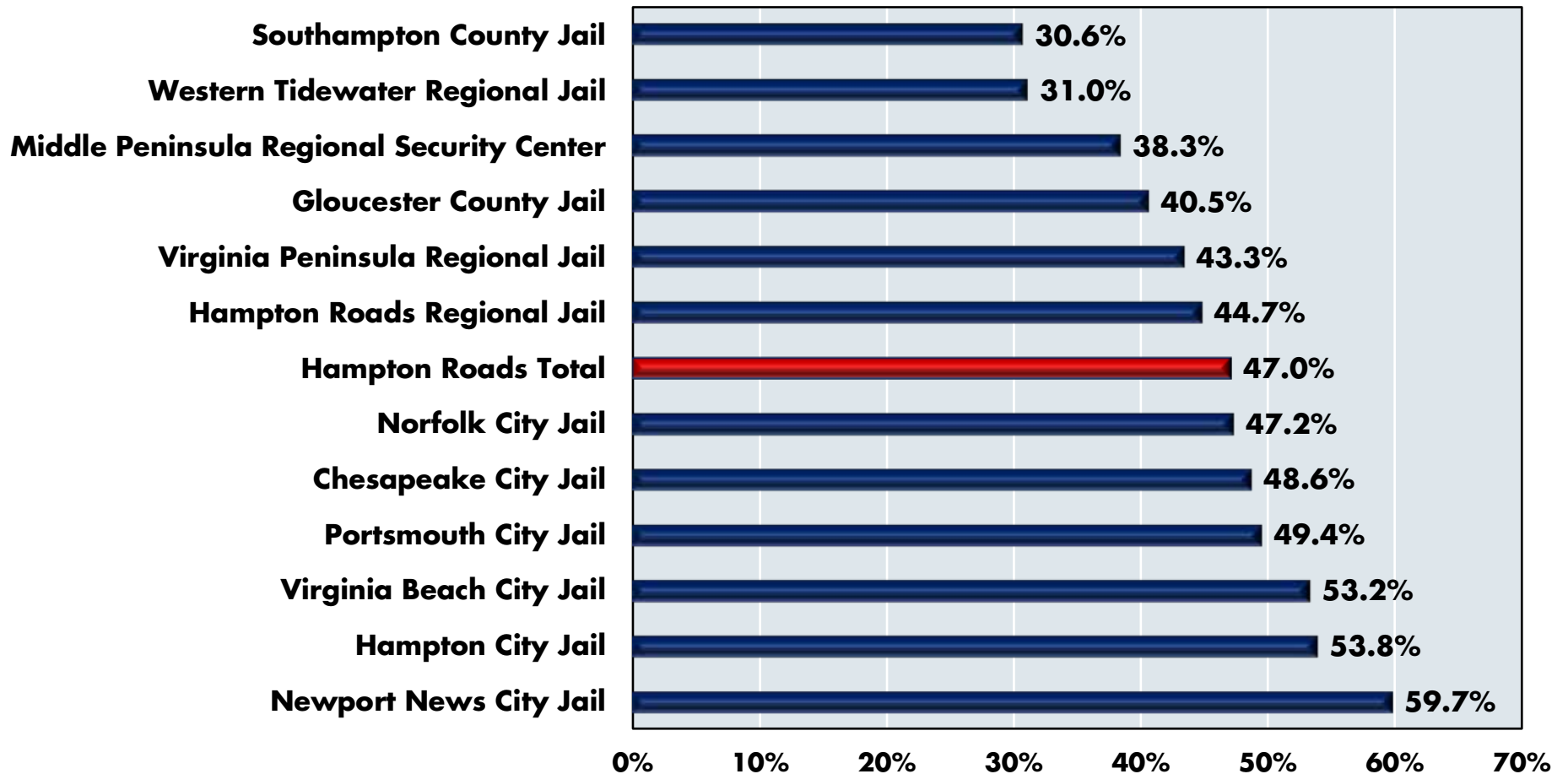
PRETRIAL INMATE POPULATION PER 100,000 RESIDENTS:
HAMPTON ROADS, 1990-2018



Sources: Vera Institute of Justice, Incarceration Trends (2018), FBI Uniform Crime Reporting (2019) and the Dragas Center for Economic Analysis and Policy, Old Dominion University

GRAPH 14

SHARE OF PRETRIAL INMATE POPULATION:
HAMPTON ROADS LOCAL AND REGIONAL JAILS, 2019



Source: Virginia State Compensation Board, Local Inmate Data Systems

TABLE 2

**AVERAGE ANNUAL GROWTH IN PRETRIAL INMATE POPULATION:
HAMPTON ROADS CITIES AND COUNTIES, 2000-2018**

	2000 Pretrial Population Rate Per 100,000 Residents	2018 Pretrial Population Rate Per 100,000 Residents	Average Annual Growth Rate
Chesapeake	137.8	220.1	3.7%
Gloucester County	93.9	155.3	3.2%
Hampton	167.1	149.7	-1.1%
Isle of Wight County	157.8	82.6	-2.4%
James City County	94.9	146.1	5.0%
Mathews County	127.5	308.0	4.8%
Newport News	194.7	172.4	-0.7%
Norfolk	294.9	259.8	-0.5%
Poquoson	99.5	157.0	2.9%
Portsmouth	541.2	768.2	1.6%
Suffolk	154.1	84.6	-1.4%
Virginia Beach	165.8	148.4	-0.3%
Williamsburg	119.6	185.7	3.7%
York County	99.9	161.5	3.7%
Hampton Roads Total	201.4	209.0	1.6%

Sources: Vera Institute of Justice (2020) and Incarceration Trends Dataset, county- and jurisdiction-level jail data (1970-2018). Data for Franklin and Southampton County were not available. Average annual growth represents the compound annual growth rate.

Cash Bail Reform: What Would It Look Like?

Cash bail reform can take many forms. As of April 2021, no state had implemented legislation to completely strip judges of the ability to issue secured bonds. Illinois passed legislation to this effect in 2021, but the reform will not go into effect until 2023. Other states have imposed restrictions on a judge's ability to rely on secured bonds. These restrictions include amending court rules to set forth a presumption in favor of release on the least restrictive conditions, requiring judges to consider a defendant's ability to pay, and expanding the types of offenses eligible for citations or summons. While Virginia already instructs judges to consider the financial means of the defendant, Attorney General Mark Herring and the Virginia Department of Criminal Justice Services have both recommended expanding the use of citations and adding a presumption favoring the least restrictive conditions as possible reforms to reduce the reliance on cash bail.

New Jersey, for example, enacted similar legislation, largely eliminating cash bail in 2017. In the year following implementation, less than 1% of Criminal Justice Reform-eligible defendants³¹ were issued monetary bail, and 71% of defendants were issued a summons with or without pretrial monitoring, without first going to jail.³² New York eliminated cash bail for offenses covering 90% of total arrests in January 2020 but has since expanded the number of offenses eligible for cash bail after the New York Police Department reported an increase in criminal activity. Besides putting limits on judicial decision-making, another key aspect of recent legislative reforms to end cash bail is the statewide implementation of a pretrial risk assessment tool and pretrial services. Both reform tools are already in place in more than two-thirds of Virginia's cities and counties.

31 A Criminal Justice Reform-eligible defendant is defined in statute as "a person for whom a complaint-warrant is issued for an initial charge involving an indictable offense or disorderly persons offense."

32 2018 Report to the Governor and the Legislature, New Jersey Judiciary, submitted by Glenn A. Grant, acting administrative director of the courts, available at: <https://www.njcourts.gov/courts/assets/criminal/2018cjrannual.pdf>.

Cash Bail Reform: What Are The Projected Benefits?

The potential benefits of cash bail reform are alluring. Proponents argue there is minimal risk to public safety or court appearance and that eliminating cash bail would lower costs for poor and minority defendants and taxpayers. Cities and counties in Hampton Roads spend an average of \$90.32 per day to house one inmate. On any given day in 2019, 3,154 inmates were detained pretrial in the region, an estimated cost to taxpayers of more than \$104 million per year, or about 45% of the \$233 million spent on corrections and detentions in the region.³³

Advocates point to the potential cost savings of a risk-based system as a key benefit to reform. Herring noted, "It costs about \$3 a day to keep someone on pretrial services, versus about \$85 per day if they are jailed, so if we make smart reforms, we could be talking about millions in savings while still meeting our public safety goals." Yet, with the preponderance of defendants released within 48 hours of arrest, the question is how much money could cash bail reform actually save?

The key question in the cash bail reform debate, we argue, is by how much would the pretrial population in Hampton Roads decline on a daily basis? When New Jersey reformed its cash bail system, the pretrial population declined by 19% in the first year of implementation.³⁴ Assuming a similar impact of a 20% decline in Hampton Roads would reduce the average daily pretrial population by about 630 inmates. This daily decline in the pretrial population would save approximately \$57,000 a day, or approximately \$20 million a year (Table 3). Given that cash bail reform could take a number of forms, we provide a range of estimates in Table 3.

One might argue that \$20 million of savings a year from cash bail reform is not worth the increased risk to public safety. On the other hand, if the daily pretrial population were reduced by 630 inmates, there would be benefits

33 Virginia State Compensation Board, Local Inmate Data Systems and Virginia State Compensation Board, FY 2019 Jail Cost Report. Annual estimate = average daily population X cost of inmate per day X 365.

34 2018 Report to Governor and the Legislature, New Jersey Judiciary. <https://njcourts.gov/courts/assets/criminal/2018cjrannual.pdf#c=taP>.

in terms of alleviating crowding in local jails and conserving public safety resources. There are also the direct benefits to people who are not jailed. Every

day in confinement is a potential day of lost wages for those who have not yet been convicted of a crime.

TABLE 3
HAMPTON ROADS LOCAL AND REGIONAL JAILS:
PRETRIAL DETENTION AND TOTAL EXPENDITURES PER DAY AND ESTIMATED COST SAVINGS PER YEAR, 2019

Jail Name	Total Expenditures Per Inmate Per Day	Average Daily Pretrial Population	Total Pretrial Expenditures Per Year	Savings Per Year from 5% Decline in Pretrial Population	Savings Per Year from 10% Decline in Pretrial Population	Savings Per Year from 20% Decline in Pretrial Population
Chesapeake City	\$90.80	458	\$15,179,036	\$758,952	\$1,517,904	\$3,035,807
Gloucester County	\$141.06	15	\$772,304	\$38,615	\$77,230	\$154,461
Hampton City	\$91.92	149	\$4,999,069	\$249,953	\$499,907	\$999,814
Newport News City	\$78.81	280	\$8,054,382	\$402,719	\$805,438	\$1,610,876
Norfolk City	\$68.09	466	\$11,581,428	\$579,071	\$1,158,143	\$2,316,286
Portsmouth City	\$119.71	120	\$5,243,298	\$262,165	\$524,330	\$1,048,660
Southampton County	\$119.50	22	\$959,585	\$47,979	\$95,959	\$191,917
Virginia Beach City	\$80.76	731	\$21,547,979	\$1,077,399	\$2,154,798	\$4,309,596
Virginia Peninsula Regional	\$58.14	186	\$3,947,125	\$197,356	\$394,712	\$789,425
Western Tidewater Regional	\$56.73	235	\$4,866,016	\$243,301	\$486,602	\$973,203
Hampton Roads Regional	\$94.79	428	\$14,808,094	\$740,405	\$1,480,809	\$2,961,619
Middle Peninsula Regional Security Center	\$83.92	62	\$1,899,110	\$94,955	\$189,911	\$379,822
Hampton Roads Total	\$90.35	3,154	\$104,011,824	\$5,200,591	\$10,401,182	\$20,802,365

Sources: Virginia State Compensation Board, Local Inmate Data Systems and the Virginia State Compensation Board, FY 2019 Jail Cost Report. Total expenditures per inmate per day represent operating expenditures minus capital account-operating and other jail indirect expenditures.

In Table 4, we model the economic impact on Hampton Roads if cash bail reform were enacted and the daily pretrial population declined by 630 inmates. To examine the potential (maximum) gains from this policy change, we assume that the defendants are employed in retail trade and estimate the annual economic impact of adding these jobs to the regional economy. We find that the potential gain to regional gross domestic product approaches \$51 million annually, and that more than 880 jobs in total would be added to Hampton Roads. Of course, these benefits might also be reduced if reform were to result in increased criminal activity. However, we note (again) that data from the Virginia State Crime Commission support the conclusion that defendants on more stringent types of release (secured bonds, secured bonds with supervision) were arrested at the same rate as those released on personal recognizance or unsecured bond with supervision. In other words, criminals who are going to commit crimes are going to do so, regardless of how they obtain release from pretrial detention.

TABLE 4				
PROJECTED ECONOMIC IMPACT: EMPLOYMENT GAIN OF 630 INDIVIDUALS, HAMPTON ROADS				
	Direct	Indirect	Induced	Total
Employment	630	129	124	883
Value Added (Millions)	\$29.3	\$10.8	\$10.8	\$50.9
Compensation (Millions)	\$18.9	\$7.1	\$5.3	\$31.4
Sources: Dragas Center for Economic Analysis and Policy, Old Dominion University, and IMPLAN Group. Estimates may not sum due to rounding.				

Final Thoughts

The decision of whether to maintain the status quo, reduce or eliminate cash bail undoubtedly continues to be debated in Hampton Roads and in Virginia. Maintaining the status quo is a policy choice under increasing pressure at the state and local levels. The no cash bail policy implemented by the commonwealth’s attorney from Norfolk, and the calls from prosecutors in Newport News, Hampton and Portsmouth to end cash bail statewide, are signals that, much like marijuana decriminalization and then legalization, cash bail reform may be on the horizon.

If, as evidenced by the increasing number of states reducing or eliminating cash bail, change does come to Virginia and Hampton Roads, what would it mean? **First, simply eliminating cash bail would not release all or even most pretrial inmates.** New Jersey is the only state to successfully implement a policy, in 2017, that largely eliminated cash bail. After declining 20% in the first year, the number of pretrial inmates in 2020 remained largely unchanged.³⁵ Data show that many of those arrested in Virginia either receive a summons or, if transported to jail, are released within 24 hours of confinement.

Second, an efficient and just pretrial system would require more than just eliminating cash bail. Judges must still have an effective way to ensure court appearance and public safety, while at the same time identifying defendants eligible for release in a quick and efficient manner. While Virginia already has much of the necessary framework in place, it would require more than simply expanding pretrial services. The Virginia Pre-trial Data Project review of court practices in pretrial services agency localities found in many instances that judges do not receive any information from pretrial services, and that several defendants are placed on pretrial supervision without first receiving a risk assessment. Any reform should ensure that sufficient resources are available and properly utilized.

Third, eliminating cash bail would not result in the cost savings to local governments some might expect. More importantly, while

³⁵ New Jersey Courts Criminal Justice Reform Statistics, Jan. 1 to Dec. 31, 2020, <https://njcourts.gov/courts/assets/criminal/cjrreport2020.pdf?c=481>.

the cost of pretrial services is significantly lower than detention, a wider implementation would almost certainly mean cost increases. The burden on localities to fund nearly half of the program could also lead to inequities in funding and outcomes. The state would almost certainly have to increase its aid to the cities and counties unable to finance the program on their own. Even the most optimistic estimates suggest the savings would constitute a fraction of public safety budgets.

Fourth, care must be taken to differentiate between defendants who do not pose a risk to the community and those who may engage in criminal behavior or flee justice. More than 3 in 10 defendants released on more stringent conditions (supervision and/or secured bond) in the 2017 VPDP cohort were arrested on a new charge after being released from confinement while awaiting trial. Differentiating between these

defendants and those who fail to appear because of scheduling conflicts, lack of transportation or other issues would be a continuing challenge.

Lastly, shifting the pretrial system from wealth-based to risk-based would likely be a more equitable form of pretrial justice; but the impact of eliminating cash bail on racial disparities remains to be determined. A 2019 report on the performance of New Jersey's cash bail reform showed that in the two years since implementation, racial disparities in arrests and the jail population persist. **Cash bail reform is not a panacea for all that ails the criminal justice system, but taking a risk-based approach that reduces subjectivity and potential bias, and applying patience and objective analysis, is a step in the right direction.**



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Page 107, 110, 121, 132 and 141: Shara Weber

