

# Supplemental Notes

## *Bold New Directions*

### ABC

“Government figures show alcohol consumption is down about 20 percent nationwide since the early 1980’s, reflecting both tougher laws and tamer tastes. The decline also reflects an aging population that’s drinking less.”

“Abstinence from alcohol is growing, too, among younger Americans, according to the latest annual study of high school teens released Dec. 19.”<sup>1</sup>

### Boat Tax

“The race to have the lowest boat tax in Hampton Roads has left all the cities in the region worse off...”

“The taxes...have failed to draw new boats to the region while giving what amounted to a tax cut for ‘a select group of the region’s more wealthy citizens’...”

“Portsmouth started the rush to the bottom in 1991 by dropping boat taxes to a penny per \$100 of value, hoping to draw more waterfront development. Several years ago, an attempt by several cities to raise the rate to \$1 per \$100 of assessed value failed when Portsmouth refused to budge.”

“But now, several Portsmouth officials say the issue is one that needs to be re-examined, with rates eventually raised to a fair level.”

“Stephen E. Heretick... ‘Giving preferential tax treatment to owners of large boats with the thought that it’s going to bring us some spin-off economic development simply doesn’t work.’”

“According to boat registration numbers from the Virginia Department of Game and Inland Fisheries, the entire Hampton Roads region has seen a 1.5 percent drop-not an increase-in the number of boats housed here from 1998 to 2004, the State of the Region report said.”

“Portsmouth Vice Mayor William E. ‘Bill’ Moody Jr. said a regional discussion about the situation is necessary. But he added that if other cities didn’t agree to raise their taxes, he didn’t want to put Portsmouth at a lonely disadvantage.”<sup>2</sup>

### Cigarettes

“‘I think we’re reaching a tipping point, where the image of tobacco is that it’s unhealthy and dangerous, and not glamorous like years ago or neutral like the cigarette companies say now,’ Tom Miller, Iowa’s attorney general, told The Post.”<sup>3</sup>

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“Americans smoked fewer cigarettes last year than at any time since 1951, and the nation’s per capita consumption of tobacco fell to levels not seen since the early 1930s, the association of state attorneys general reported Wednesday.”

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<sup>1</sup> Greve, Frank, *Still Partying, But Not As Heartily*, The Virginian Pilot, December 24, 2005, A5.

<sup>2</sup> Hoyer, Meghan, *Economists: In Race for Lowest Local Boat Tax, Every City Loses*, The Virginian-Pilot, November 2, 2005, B1.

<sup>3</sup> Our Opinions, *Joe Camel is Over the Hill*, The Virginian-Pilot, March 13, 2006, B10.

“...the group found a 4.2 percent decline in 2005 and an overall decrease of more than 20 percent since tobacco companies reached a national settlement with the states in 1998. National Association of Attorneys General leaders and other tobacco control advocates hailed the decline as a sign that sometimes controversial developments triggered by the \$246 billion settlement have been effective. The decrease was a result, they said, of factors including the sharply higher cost of cigarettes, restrictions on cigarette advertising, and a shift in public perceptions as the dangers of smoking were more aggressively publicized.”

“...about 21.7 percent of high school students still smoke, as do 20.9 percent of adults-about 45 million Americans older than 18.”

“...it is a result of fewer people starting the habit, more people quitting, and many smokers cutting back on the number of cigarettes they smoke.”

“...the sharp increase in the price of cigarettes since the settlement-from an average of \$1.74 a pack in 1997 to \$3.16 in 2004-has been especially important in reducing the number of young people who start smoking.”

“The association’s study found that about 378 billion cigarettes were sold in the United States last year. That was the lowest number in 54 years, when the population was half of what it is today.”

“...the message that many young people are getting dramatically different from the one of 10 years ago.”<sup>4</sup>

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“Tobacco, historically Virginia’s top cash crop, has lost its crown to soybeans.”

“Tobacco dropped to No. 2, with \$112.9 million cash receipts.”

“Tobacco acreage has contracted in Virginia for decades, and production has spiraled downward in recent years for several reasons, including lower U.S. smoking rates. In 1997, Virginia farmers brought in about \$191 million in cash receipts from 53,000 acres of tobacco.”

“By 2004, tobacco dropped to about 30,000 acres.”<sup>5</sup>

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“...state (cigarette) taxes range from 5 cents to \$2.46 per pack; the federal tax is 39 cents.”<sup>6</sup>

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“...Despite the sharp advertising restrictions agreed to by cigarette marketers in 1998 and a dramatic rise in state excise taxes since 2002, Marlboro is galloping ahead of the competition. The brand, which commands an average \$3.28 per pack, now owns more than 40% of the market, up more than 2 1/2 percentage points in as many years...”

“...it’s holding on to that spot with a blend of tactics for the new age: so-called ‘buzz’ marketing at live events and bars that spur Internet chatter and sign-ups for promotional offers; a Web site where smokers sign up for a chance at discounts and bling; plus a healthy dollop of price promotions and direct mail. Philip Morris does not disclose how much it spends promoting the brand, but the company says it has been spending less on marketing in general each year. That’s in contrast to the rest of the industry. In 2003, more than \$15 billion was spent on marketing cigarettes in the U.S., according to the most recent data from the Federal Trade Commission – a 21% jump over 2002.”

“One hot spot in Marlboro’s marketing is a growing database of 26 million smokers to whom it sends everything from birthday coupons to the chance to attend events like November’s birthday concerts. Indeed, Marlboro isn’t just a brand, it’s an exclusive club for its devotees, who wouldn’t miss an opportunity for a discount and often feel victimized by social pressure and no-smoking laws...”

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<sup>4</sup> Kaufman, Marc, *Use of Tobacco Smolders Down to 1930s’ Levels*, The Virginian-Pilot, March 9, 2006, A1.

<sup>5</sup> Daily Briefing, *Tobacco No Longer State’s Top Cash Crop*, The Virginian-Pilot, November 25, 2005, D1.

<sup>6</sup> Will, George, *States Can’t Break Cigarette Addiction*, The Virginian-Pilot, January 3, 2006, B7.

“...Back in 1998 the Master Settlement Agreement (MSA) with the state attorneys general ended tobacco advertising in most of its traditional forms...”

“...Even after the cost of defending the myriad lawsuits against it, the tax bite the government takes, and the billions tobacco companies are paying to states for medical costs under the MSA, cigarette makers can charge a high enough price to earn a healthy profit...”<sup>7</sup>

## Energy

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“Attacks on the oil industry in the Niger Delta already had shut down 455,000 barrels per day in crude production, nearly 20 percent of the country’s daily output of 2.5 million barrels per day. Daukoru said production would increase to 4 million barrels per day by 2008 and to 4.5 million barrels per day by 2010-a level he estimated could be sustained for at least a decade.”

“...Nigeria (is) the world’s seventh-largest producer of crude.”

“Niger Delta: Despite sitting atop most of Nigeria’s crude oil, the region remains desperately poor.”<sup>8</sup>

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“At a time of sky-high oil prices, Sasol Ltd., Secunda’s owner, churns out 160,000 barrels of gasoline, diesel fuel, and jet fuel a day, enough to cover 28% of South Africa’s needs, without using a single drop of crude oil, imported or otherwise.”

“...Sasol,...is already enjoying huge commercial success in an arena that has eluded U.S. companies-making fuel from coal.”

“They’ve been doing <synfuels> longer than anyone else.”

“Sasol’s technology for making gasoline from coal is named Fischer-Tropsch, after the Germans who developed it in the 1920s. The Third Reich used the process-which employs heat, pressure, and catalysts to transform carbon monoxide and hydrogen into fuels-to make diesel during World War II.”

“Making money out of coal-to-liquids is tougher, since the plants cost more.”<sup>9</sup>

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“...a new chapter in the increasingly ugly rivalry between Japan and China could start soon.”

“At the center of the dispute is the boundary between Japan and China, an imaginary line that runs through the narrow East China Sea. The two countries have haggled over the exact shape of the line dividing them for years. Four oil and gas fields were discovered and first mapped in the late 1980s. Japanese geologists think the fields may hold some 7 trillion cubic feet of natural gas and close to 100 billion barrels of oil...if the estimates are correct, the fields hold more oil than either Japan or China would consume in 50 years, and more gas than Japan could use in 80 years and China in 240...”<sup>10</sup>

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“New reserves from non-OPEC countries aren’t materializing. Countries with big reserves such as Iraq and Iran are either unable or unwilling to develop them. Spare capacity in the world’s oil fields is almost nonexistent, as demand continues to soar.”

“...fast-growing consumption is outstripping the industry’s storage and distribution system.”

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<sup>7</sup> Byrnes, Nanette, *Leader of the Packs*, Business Week, October 31, 2005, pp. 56-58.

<sup>8</sup> Foss, Brad, *High oil prices OK if world economy grows, OPEC chief says*, The Virginian-Pilot, March 2, 2006, D1.

<sup>9</sup> Reed, Stanley, *What the U.S. Can Learn From Sasol*, Business Week, February 27, 2006, p. 46.

<sup>10</sup> Rose, Brady, *The Japan-China Oil Slick*, Business Week, November 7, 2005, p. 58.

“...spare capacity is a razor-thin 1.5 million to 2 million barrels a day, nearly all of it in Saudi Arabia. That’s around 2.5% of world production, a very small margin for error.”

“The best way to boost world output would be through increases in production from Iraq and Iran, which have large reserves. If these two countries were producing a combined 10 million barrels per day rather than the current total of 5.6 million barrels, prices would likely be a lot lower.”

“...world demand grew by 1.52 million barrels a day.”<sup>11</sup>

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“Both of Asia’s rising powers desperately need energy. China today imports roughly half its oil. Consumption rose by 15% last year and is forecast to jump by an additional 9% this year. By 2025, China will burn through 14.2 million barrels a day, double this year’s energy level, the U.S. Energy Dept. predicts. India’s oil imports are expected to rise to some 5 million barrels a day by 2020, from around 1.4 million barrels at present.”<sup>12</sup>

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“China’s dependence on foreign oil is expected to jump from about 42% now to 67% by 2020.”<sup>13</sup>

..... **Automotive Impact. .... Automotive Impact ..... Automotive Impact. .... Automotive Impact .....**  
“The Saturday after gas prices topped \$3 in Hampton Roads, Hall’s sales staff parked all six Civic Hybrids on the “front line” of the lot along Virginia Beach Boulevard. “That day, all the hybrids sold.... It was the fastest they have moved at his dealership since the car’s release, he said. At the same time, customer after customer has asked to trade in a pickup truck.”

“Sales of the Toyota Prius, the first gas-electric car offered in the United States, have more than doubled this year through August.”<sup>14</sup>

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“In the first report on post-Katrina auto sales, J.D. Power & Associates said on Sept. 7 that large SUVs and pickups together accounted for 38% of retail sales on Aug. 31, vs. an average of 46% in the first week of the month. At the same time, fuel-efficient vehicles have flown out of showrooms: One week into the month, five Honda dealerships in the Philadelphia area were completely sold out of the hybrid Civics and were running low on conventional Civics with good mileage ratings.”

“...the shock of Karina may be a tipping point, forcing many consumers out of the status quo. “For a long time we were below the threshold of awareness on energy. We’re now crossing that threshold of visibility, and that’s showing up in the consumer reaction,” says Peter J. Garforth, the principal of Garforth International LLC, an energy productivity consultancy based in Toledo.”

“...some pleasure boaters are putting their vessels in dry-dock early and don’t plan to take them out next season.”

“Prices of used SUV’s, for example, had started to soften before the hurricane.”

“In the resale market, prices of large SUVs fell 5% and prices of large pickup trucks fell nearly 4% in August from a year earlier, while prices of compact cars rose 10%, according to Tom Webb, chief economist FOR Atlanta-based Manheim, the nation’s largest clearinghouse for used vehicles.”

“...for many upper-income people, even today’s high energy prices are nowhere near the choke point.”

“Says Cornell’s Frank: “Energy is suddenly pretty high on the mental agenda.”<sup>15</sup>

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<sup>11</sup> Reed Stanley, *Oil Prices: The New Reality*, Business Week, February 6, 2006, p. 48.

<sup>12</sup> Bush, Jason, *China and India: A Rage for Oil*, Business Week, September 5, 2005, p. 52.

<sup>13</sup> Roberts, Dexter, Brian Bremner and Stan Crock, *Mr. Hu Comes to Washington*, Business Week, September 12, 2005, pp. 58-60.

<sup>14</sup> Shapiro, Carolyn and Linda McNatt, *Costs at the Pump Prompting Adjustments in Spending Habits*, The Virginian-Pilot, September 22, 2005, D1.

<sup>15</sup> Coy, Peter, David Welch, Lauren Young, Rishi Chhatwal and Dave Lindorff, *It’s Easier Being Green*, Business Week, September 19, 2005, pp. 50-51.

.... Canada .... Canada ....Canada ....Canada ....Canada ....Canada ....Canada .... Canada ....Canada  
“...the hard-to-reach and less-exploited geological formations known collectively as unconventional gas: so-called tight-gas sands, shale gas, ice like gas hydrates, and most of all coal bed methane, or CBM. Development of CBM reserves could hardly be hotter right now, particularly in Canada, where unconventional sources still produce less than 10% of gas output, vs. about one-third south of the border...”

“...Development of unconventional sources of oil, such as Alberta’s Athabasca tar sands, seemed a distant prospect just four years back. Since then tar sands producers have flourished...”

“...companies producing CBM...are in the early stages of exploiting this resource...(which) could stretch out over many years...”

“...He (Mike Dawson, Canadian Society for Unconventional Gas President) expects 2006 will bring even more CBM drilling with up to 5,000 new CBM wells...”

“...Alberta’s Energy Minister, noted that his province to date has produced some 130 trillion cubic feet of gas and counts an additional 100 trillion cubic feet in conventional reserves. Alberta’s coal bed methane reserves are estimated at 500 trillion cubic feet...”<sup>16</sup>

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“...BP PLC, the largest producer of oil and gas in the U.S., is already spending \$14.5 billion this year on exploration and production and other capital projects...”

“Could we expand our investment upstream?...”

“The answer is we have plenty of opportunities to do that. But we can’t find the rigs, the service contracting, all the things we need to get it done.”

“...Browne wants to rapidly expand BP’s Rocky Mountain gas project in Wamsutter, Wyo. But BP can’t find enough drilling rigs for hire, so it’s having new ones built. That, however, will take about a year.”

“The fact that oil companies are enjoying record profits when consumers are paying record prices does not sit well with people,” says Tyson Slocum, research director of the pro-consumer group Public Citizen.”

“...it takes years to find the oil, build the refineries, and construct the pipelines that will turn a shortage into a surplus. The spending is now surging. But no quick relief is in sight...”

“...the oil companies have made their own bed. In the late 1990s, as prices sank to a low of close to \$10 per barrel, they played to Wall Street, slashing veteran exploration and production staffers and gobbling each other up through acquisitions, often instead of drilling for new oil. All this has led to a lean industry that has delivered strong financial results, but rollercoaster pricing for consumers. It is the penny-pinching of the past that has led to a shrunken drilling and refinery sector. Skilled workers are no longer around to make the steel that goes into building new rigs, man them, and more.”

“With demand surging this dearth of equipment and talent has led to a doubling of day rates for drilling rigs in the past 18 months-to \$200,000 for sizable offshore rigs and as much as \$400,000 for jumbos.”

“...the majors failed to anticipate the surge in global demand that has overtaken the industry.”

“With predictions way off, the industry didn’t prepare for the explosion in consumption.”

“...200 oil companies have roughly doubled exploration spending to a combined \$180 billion for this year. “They’re certainly spending a lot more...says research director Nicholas Cacchione.”

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<sup>16</sup> Barker, Robert, *Hot Bets in the Cold North*, Business Week, December 19, 2005, p. 24.

“...Saudi Arabia and Iran and their national oil companies, ...now control 78% of global reserves.”

“...the Saudis, who have hired some 70 international drilling rigs for a 2.5 million barrel-per-day expansion- a boost the size of a key producer like Kuwait- will turn out to have plenty of crude, eventually driving prices down.”

“The cost of finding new reserves has soared from \$4.94 a barrel in 2000 to \$8.61 today as prices for everything from rigs to steel pipe have jumped.”

“No new refineries have been built in the U.S. since 1976, because of a combination of regulatory hurdles and local opposition. And the majors still see refining as a poor business, although profits on refining are now very lucrative at \$20 per barrel, vs. under \$5 per barrel as recently as the fourth quarter of 2004.”<sup>17</sup>

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“Eventually, because of scarcity, terrorist attacks, market shocks, and foreign manipulation, the high price of oil will lead to enormous investment in, and political support for, alternatives. The problem is that such investment won’t happen overnight. Even if it did, building supporting infrastructure and changing behavior could take decades. In other words, by the time a sustained energy crisis fully motivates the market, the resulting investment will come too late to prevent the dire consequences of our oil fixation. This is the very essence of a problem requiring government action.”<sup>18</sup>

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“It has been a good year for most companies that pull oil out of the ground, with crude at \$60-plus a barrel. But it has been an especially rewarding time for Apache Corp., which is reaping the benefits of one of the most aggressive strategies in the industry...”

“...Apache is emblematic of the so-called independent oil companies. Larger more cautious majors, such as Exxon Mobil Corp., look for huge fields that can take a long time to develop but will then go on to produce steady returns for years. By contrast, independents often drill smaller prospects in mature fields that produce the fastest possible payback...”

“...the Apaches of the world are playing a crucial role in global energy markets by quickly ramping up drilling budgets to boost output. According to energy research firm John S. Herold Inc., independent oil companies boosted their worldwide oil-and-gas production by 38% over the past five years, to 2.6 million barrels a day. The majors increased their output at less than half that rate, to 12.6 million barrels.”

“Apache has been able to outperform its peers by creating a culture that values quick decision-making and risk-taking...”

“...Many energy producers focus on the largest fields first. Once they strike oil and gas, they start building the pipelines and compressor stations to bring it to market. Not Apache. It takes the opposite approach – looking for the nearest infrastructure, then drilling the prospects closest to it”

“Apache has also devised a variety of strategies to speed oil recovery. Often it will start drilling before it has finished the seismic work on a particular field – as many as four wells at a time. It also uses flexible drilling pipe rather than the rigid sections of pipe many operators still use. Not having to stop to attach the pipe sections makes Apache drilling process more continuous. Brian Schmidt, President of Apache’s Canadian operations, says his average well takes 61 days to bring online – twice as fast as others on similar terrain...”<sup>19</sup>

“...At last report, the U.S. was importing record levels of gasoline – 1.4 million barrels per day, or 56% more than a year ago...”<sup>20</sup>

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<sup>17</sup> Reed, Stanley, Christopher Palmeri, and Eamon Javers, *Open Season on Big Oil*, Business Week, September 26, 2005, pp. 38-40.  
<sup>18</sup> Lugar, Senator Richard G., *Thinking Outside the Barrel*, Business Week, March 27,2006, p. 124.  
<sup>19</sup> Palmeri, Christopher, *The Fastest Drill in the West*, Business Week, October 24, 2005, pp. 86-88.  
<sup>20</sup> Barker, Robert, *Valero’s Sweet Spot*, Business Week, October 24, 2005, p. 30.

..... Earning Reports ..... Earning Reports ..... Earning Reports. .... Earning Reports ..... Earning Reports

“Oil executives sought to justify their enormous profits under tough questioning Wednesday, but they found little sympathy from senators who said their constituents are suffering from high energy prices.”

“The executives represented five major companies that, along with their global parent corporations, earned more than \$32.8 billion during the July-September quarter.”

“...Exxon Mobil, whose \$9.92 billion third-quarter profit was more than any U.S. company has ever earned in a single quarter...”

“Shell earned \$9 billion in the third quarter...”<sup>21</sup>

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“...the energy sector is on a pace to rack up a 65% earnings advance from the year before...”<sup>22</sup>

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“...costlier energy may be a permanent part of the economic landscape. If oil holds at \$65 for the rest of the year, the 2005 price will average about \$59. The rise of China and India-and their oil needs-is a big reason. In the past four years, China’s share of world oil demand has risen from 6.3% to 8%, or by some 2 million barrels of oil per day. That rate is equivalent to Iraq’s entire production.”

“The inflation-adjusted price of oil has doubled in less than two years. The last time that happened was in 1980...”

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“Investment banking firm Goldman Sachs predicts that gas prices would have to hit \$4.30 a gallon in the United States to change the gas-guzzling culture.”<sup>23</sup>

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“With less than 5% of the world’s population, the U.S. consumes 25% of its oil and will spend about \$320 billion on oil imports this year. Most of the world’s oil is concentrated in places either hostile to U.S. interests or vulnerable to political upheaval or terrorism.”

“Foreign governments control up to 77% of world oil reserves via national oil companies, which set prices through production decisions-and can easily shut off the taps for political reasons.”

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“...(James J.) Mulva (ConocoPhillips CEO) vows to boost production 3% annually. To that end, he’s jacking up the company’s share of Russian energy producer Lukoil to 20% (from 15% now), pushing ahead on drilling projects from Alaska and Australia to Venezuela and Vietnam, preparing to splurge on liquefied natural gas projects, and even spending big to expand investment-starved U.S. refineries. Next year, Mulva will hike ConocoPhillips’ capital budget to \$11.1 billion, up 16% from 2004...”

“...the company is also hoping to return to troubled countries such as Libya and Iraq as soon as possible...”

“...(in) a joint venture...with Lukoil, (they will be) drilling two potentially major new fields in Northern Russia...”

“...He’ll spend \$4 billion over the next five years to add capacity to ConocoPhillips’ refining operation – already the second biggest in the U.S....”<sup>24</sup>

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“...for ExxonMobil and for consumers, it appears that its production is indeed rising again. Analyst Daniel L. Barcelo of Banc of America Securities in New York estimates that its output will grow around 5% in 2006, with increased flow from Angola, Nigeria, Azerbaijan, the U.S. Gulf of Mexico, and Norway.”

“...Britain whacked the oil majors last year, increasing taxes on North Sea oil.”<sup>25</sup>

<sup>21</sup> From Wire Reports, *Oil Executives Defend Their Huge Profits to Capital Hill*, The Virginian-Pilot, November 10, 2005, A1.

<sup>22</sup> Cooper, James C. and Madigan, Kathleen, *How Companies are Keeping the Midas Touch*, Business Week, November 14, 2005, pp. 35-36.

<sup>23</sup> Yetiv, Steve, *High Oil Prices have Benefits*, The Virginian-Pilot, February 10, 2006, B11.

<sup>24</sup> Morrison, Mark, *The Making of an Oil Major*, Business Week, December 12, 2005, pp. 72-74.

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“The oil industry says crude will be plentiful for at least another generation. But some experts argue reserves are overstated, oil technologies are limited and demand, sharply boosted by the needs of China and India, could soon outpace supply.”

“Although oil companies have searched intensively for new oil finds, ‘results have been disappointing’...”

“The U.S. Geological Survey has predicted that a peak in recoverable oil production won’t come until 2037...”

“...global energy demand will grow by nearly 60 percent by 2030 and oil will remain the fuel of choice.”

“Proponents of plentiful oil disagree, saying the world’s proven reserves amount to 1,277 billion barrels and expected technological advances will soon open up supplies now impossible or unprofitable to exploit. There will be an increase of production for the next 20 to 25 years.”<sup>26</sup>

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“...No one knows how high oil prices can go. And no one is sure just how much oil we have left.”

“Some of the world’s most unstable or despotic nations sit atop of vast oil reserves: Saudi Arabia, Iran, Venezuela, Nigeria and even Russia. Strife in any of them can send prices skyrocketing. Even a refinery fire can raise prices.”

“The world consumes more than 84 million barrels. Just one million barrels or less are ‘excess capacity,’ meaning there’s almost no extra oil in the system.”

“...We are setting new records for how much oil we import, now more than 10 million barrels a day. But other nations are catching up. ‘There’s been a shift in world wide demand,’ says Michael Humphries, head of the energy analysis group at Ferris Baker Watts, an investment firm. China and India are squaring off against the U.S. and Europe for oil. In China, demand is rising at double digits.”

“...there are signs that there is less oil to be found: ‘Big oil companies, like Shell, are struggling to replace reserves. For every barrel they sell. They aren’t discovering a new barrel.’”

“We are years away from tapping Alaska’s remaining oil and natural gas reserves, and we need an extensive pipeline system to get them south. Some of that oil will simply offset the decline of other oil fields...”

“As for Iraq, right now it can’t even refine enough oil to meet its own needs (the American military has to import fuel to run its vehicles). Significant Iraqi oil production is probably five years off and we’ll have to buy it on the world market, like everyone else.”

“Yergin believes that technology will change oil and energy too. Not only will we be able to extract more oil from the ground (right now, most fields give up only about 30% to 40% of total oil) and in more places, like the deep ocean, but there also will be lots of innovations in how we use energy.”

“According to the CSIS’s Frank Verrastro, the military-which was using up to 500,000 barrels a day during the war in Iraq-is trying to modify its armored vehicles to make them lighter and able to go farther on less fuel.”

“‘We are going to see an upward creep in retail gas prices,’ says Jake Bournazian of the U.S. Department of Energy. ‘Demand keeps growing, and any price decline won’t offset the overall run-up each year.’”<sup>27</sup>

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<sup>25</sup> Coy, Peter, *Exxon’s Silver Lining Has a Cloud*, Business Week, February 13, 2006, p.36.

<sup>26</sup> Jahn, George, *Experts to World: Better Check Your Oil*, The Virginian-Pilot, September 17, 2005, D3.

<sup>27</sup> Winik, Lyric Wallwork, *How High Can It Go?*, Parade, October 2, 2005, p.p. 4-7.

“Analysts attribute the (crude oil price) run-up partly to the intensifying diplomatic battle between Iran and U.S., Britain, France and Germany over Iran’s nuclear ambitions...”

“Iran holds more than 10% of the world’s oil reserves and is the second-largest oil producer, after Saudi Arabia, in the Organization of Petroleum Exporting Countries.”

“...about half of Iran’s output of about four million barrels a day could be replaced by other producers should the nation’s oil exports be disrupted.”

“Iran has never used oil exports as a political weapon, though its political problems have repeatedly threatened, and sometimes upset, the delicate balance of world markets.”

“At its peak in the 1970s, Iran produced more than six million barrels of oil a day. But efforts to revive its oil fields, many of which have high decline rates, were stymied by the lack of internal consensus on attracting foreign oil companies and by continuing U.S. sanctions limiting investment in Iran. For a decade now, Iranian output has stagnated at around four million barrels a day even as domestic consumption has risen to leave less for export. Iranian exports are estimated at around 2.5 million barrels a day, or nearly 3% of global demand. The world is now consuming some 85 million barrels a day.”

“...oil exports account for as much as 90% of Iran’s total export revenue, and as much as half of the government budget.”

“...the world’s spare oil-pumping capacity is just shy of two million barrels a day. Almost all of this is in Saudi Arabia.”<sup>28</sup>

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“...For months global markets have fretted that the Saudis can’t or won’t produce enough oil to keep a lid on soaring prices. Politicians around the world are blasting the kingdom for failing to open the taps more. And Houston investment banker Matthew R. Simmons has captured headlines with his book *Twilight in the Desert*, which says that Saudi production may be peaking and an oil shock bigger than the current one is on the way...”

“...Some 70 drilling rigs are now operating in the kingdom, up from 5 in 2004 and about 20 in the mid-1990s. By next year, Aramco (the Saudi national oil company) aims to have 110 rigs drilling, although that may be unreachable because of fierce competition for equipment.”

“It’s all part of a massive effort to add some 3 million barrels per day of production capacity – comparable to a large producer such as Kuwait or Venezuela. That would be a more than 30% leap over the roughly 9.5 million bbl. per day Saudi Arabia is now producing, although in a pinch it claims that it could get output up to 11 million bbl...A spokesman for Saudi Aramco says the national oil company is even looking at ‘scenarios to bolster [production] to even 15 million barrels per day’ if demand warrants.”

“If the Saudis succeed, the tightness that has plagued the world’s oil market may ease for the medium term, relieving prices. New Saudi oil would join increases from West Africa, Brazil, Central Asia, and the Gulf of Mexico...Saudi production combined with the others could lead to ‘a pretty good supply bulge’ over the next few years, he (Jamal Qureshi, PFC Energy analyst) says...the Saudis may dial back on both production and expansion plans if they think a glut is developing...”

“...The surge in demand from the U.S., China, and elsewhere seems to have convinced them that it is worth pouring money into expanding production...”

“...the key to future markets and to how fast the Saudis add production is how fast demand grows...”<sup>29</sup>

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<sup>28</sup> Bahree, Bhushan, *Oil Surges Amid Geopolitical Jitters*, The Wall Street Journal, January 18, 2006, A2.

<sup>29</sup> Reed, Stanley, *Saudi Arabia: A Whole New Drill*, Business Week, October 10, 2005, pp. 38-39.

..... Middle East ..... Middle East. .... Middle East ..... Middle East ..... Middle East. .... Middle East  
“Iraq’s exports of oil in December hit their lowest level since the war, and the country’s oil minister resigned Monday in the wake of protests and riots over soaring gas prices and lengthening lines at the pump. Only 34.4 million barrels were exported last month, or about 1.1 million barrels per day-the lowest average since Iraq resumed exports after the U.S.-led invasion in March 2003...”<sup>30</sup>

..... Refineries ..... Refineries. .... Refineries. .... Refineries. .... Refineries ..... Refineries ..... Refineries ..... Refineries  
“Years of shrinking refining capacity caught up with U.S. oil and gas producers in 2005. Rebuilding refineries and energy distribution centers in the Gulf will account for some of the largest outlays this year, especially if low long-term interest rates persist. Henry “Chip” Dickson, chief U.S. strategist at Lehman Brothers Inc., estimates that the sector will boost its capital spending by 15% in 2006.”<sup>31</sup>

.....  
“...the real problem is the refineries that aren’t operating. As of Aug. 31 up to 1.8 million barrels a day of refining capacity were offline, taking as much as 45 million gallons of gasoline a day out of a national fuel system that was pumping as hard as it could before Katrina. Until those refineries are running again, all the extra crude in the world can’t be turned into gas.”

“...seven refineries had lined up with initial requests for at least 1.5 million barrels.”

“...refiners will repay oil loans within six months with up to 5% “interest” in the form of added crude.”

“...the EPA’s easing of clean-air rules will let refineries squeeze more gallons of gas from a barrel of oil and ship gasoline tailored for one region’s pollution limits into other areas.”<sup>32</sup>

..... Retail Gas ..... Retail Gas. .... Retail Gas. .... Retail Gas ..... Retail Gas ..... Retail Gas ..... Retail Gas. ...  
“Volume is down maybe 40 percent. People just aren’t buying. Despite higher prices on gas pumps, independent gas station owners and the fuel distribution companies that stock them say they have been hit hard by the run-up.”

“Analysts and industry insiders agree that the higher pump prices that followed the storm may not trickle down significantly to many stations’ bottom line.”

“No new refineries have been built in the United States since 1976...”

“Capacity to refine crude oil into gasoline and other products in the U.S. fell by about 9.3 percent between 1981 and 2004, from a peak of 18.6 million barrels per day to 16.9 million, according to the association. Many refineries have been upgraded to improve productivity. But refineries in the gulf region were running at between 95 and 97 percent before the storm in an effort to satisfy demand for gasoline and other fuels.”

“Overall, Katrina knocked out a quarter of the nation’s oil production capacity and more than 10 percent of its refining operations. Before the storm, offshore facilities in the Gulf Coast region had produced 1.5 million barrels of crude oil per day, or 29 percent of total U.S. capacity...”

“Gulf Coast refineries also accounted for about 8 million barrels of refined oil products such as gasoline, or 47 percent of total U.S. production. About 95 percent of Gulf Coast crude oil production was shut down on Aug. 30.”<sup>33</sup>

.....  
“Retailers, in particular, are feeling the effects of soaring gas prices because their customers are having to divert more of their disposable income to gasoline. Even before Katrina, ‘some retailers noticed decreases in shopper traffic’...”

“Trucking companies, for example, have resorted to fuel surcharges for the goods they deliver.”

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<sup>30</sup> Juhi, Bushra, *Oil Exports Hit Lowest Level Since War*, The Virginian-Pilot, January 3, 2006, A6.

<sup>31</sup> Farzad, Roben and Justin Hibbard, *Don’t be Thrown by the Yield Curve*, Business Week, January 16, 2006, p. 40.

<sup>32</sup> McNamee, Mike and Lorraine Woellert, *You Can’t Feed the Oil Monster with a Dixie Cup*, Business Week, September 12, 2005, p. 40.

<sup>33</sup> McWilliams, Jeremiah, *Independent Gas Stations, Distributors are Hit Hard*, The Virginian-Pilot, September 14, 2005, D1.

“...construction companies are likely to ask for reasonable adjustments in their future negotiated contracts to cover spikes in fuel prices...”<sup>34</sup>

.....  
“...for independent (gasoline) retailers, which make up the vast majority of stations, (they) are subject to complex contracts in which they’re charged the daily wholesale price. To maintain their own profit margins, they must raise prices as soon as wholesale prices start rising—even for gasoline that’s already on hand.”<sup>35</sup>

..... **Venezuela . . . . Venezuela . . . . . Venezuela . . . . . Venezuela . . . . . Venezuela . . . . . Venezuela . . . . . Venezuela**  
“...Oil companies with operating contracts in Venezuela, such as Chevron and BP PLC., have been ordered to set up joint ventures controlled by state oil company Petroleos de Venezuela (PDVSA), and royalties have been hiked from 16.7% to 30%...”

“...His (Venezuelan President Hugo Chavez) Petrocaribe initiative offers 196,000 barrels of oil a day to 13 Caribbean countries...with long-term financing options. He has set up the Petrosur alliance with Venezuela, Brazil, and Argentina to work on joint oil exploration and development. A similar alliance could be forged with Columbia, Peru, Bolivia, and Ecuador. PDVSA is looking to invest in half a dozen of the region’s oil refineries...”<sup>36</sup>

## Health Care

“...the employment cost index for benefits has slowed sharply during the past year, from a 7.1% yearly pace to only 4.1% last quarter, reflecting mainly a tight reining-in of health-care costs. Greater control over benefits will give companies more leeway to grant hikes in regular pay in order to attract workers with the particular skills companies need.”<sup>37</sup>

.....  
“By 2015, one in every five dollars spent in the United States will go toward medical costs.”

“The projections estimate that collective public and private spending for health care will average about \$12,320 per person in 2015, compared with \$6,683 per person in 2005. Total health spending is expected to grow 7.2 percent a year in the next 10 years, more than 2 percentage points faster than projected growth in gross domestic product...”<sup>38</sup>

.....  
“...companies have focused on health-care costs. They grew 6.3% in the year that ended in the second quarter, vs. 8.1% in the same period in 2004 and 10.3% in 2003...”<sup>39</sup>

.....  
“Over the past five years, employers have hiked workers’ annual contributions for family health coverage by 68%.”<sup>40</sup>

.....  
“...your employer is paying an average of 8% more, an extra \$600, for your health insurance in 2006, according to human resource consultant Towers Perrin...your tab will go up even higher: an average \$155 more for health care in 2006, up 10% from 2005. There’s a good chance you’ll be offered the option of a high-deductible plan that let’s you choose how you spend your health-care dollars. You can also expect to see higher costs for prescription drugs and larger deductibles...More companies are offering financial incentives to participate in wellness studies...”

“...20% of employers offer a high-deductible plan...”

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<sup>34</sup> Shean, Tom, *Sharp Jump in Gas Prices Hurts Retailer, Construction*, The Virginian-Pilot, September 3, 2005, D1.

<sup>35</sup> Foust, Dean, *Just Making an Honest Buck?*, Business Week, September 19, 2005, p.52.

<sup>36</sup> Ixer, Stephen, *Chavez’ Oil-Fueled Revolution*, Business Week, October 10, 2005, p. 57.

<sup>37</sup> Cooper, James C., *Low Unemployment Raises An Old Inflation Debate*, Business Week, February 20, 2006, pp. 29-30.

<sup>38</sup> Pugh, Tony, *Health care spending expected to double in the next 10 years*, The Virginian-Pilot, February 22, 2006, A3.

<sup>39</sup> Cooper, James C. and Madigan, Kathleen, *GM Adds One More Brake on Inflation*, Business Week, October 31, 2005, pp. 27-28.

<sup>40</sup> Kaiser Family Foundation/Health Research & Educational Trust 2005 Employer HEALTH Benefits Survey, *Health Hazards*, Business Week, September 26, 2005, p. 13.

“...employees can expect to pay deductibles of at least \$1,000 for individuals and \$2,000 for families...”

“...Those \$15 or \$20 co-payments you shell out for your point-of-service or preferred provider organization plan every time you visit the doctor may disappear for some plan participants. Instead, you’ll be required to pay an up-front deductible of about \$300. After you meet that deductible, expect your insurer to pay 90% of any costs if your doctor is within the plan’s network...”

“...Co-payments for brand name drugs (typically \$20 to \$30 each time you fill a prescription) will be about \$5 higher in 2006, although generic-drug co-payments (\$10 to \$15) should be about the same...”

“...More companies are asking their employees to fill out online health assessments with financial incentives...”<sup>41</sup>

## Telecommunications

.... Cable TV ..... Cable TV ..... Cable TV ..... Cable TV ..... Cable TV ..... Cable TV.....

“Consumers will get more information and see more competition as a result of bills that passed the General Assembly this year.”

“...SB706, sponsored by Sen. Kenneth W. Stolle, R-Virginia Beach, increases competition among cable providers.”

“This landmark legislation offers more companies the opportunity to operate in areas that were not competitive in the past.”<sup>42</sup>

.....  
“Competition for cable television has begun in Texas with FiOS TV, the new service delivered through the fiber-optic network by phone giant Verizon Communications Inc.”

“Verizon has secured local franchise agreements in Herndon, Fairfax County and could begin offering service in those Northern Virginia communities this year or early next year...”

“FiOS TV provides all-digital programming with an Expanded Basic package of more than 180 video and music channels for a monthly fee of \$39.95. A smaller Basic tier, with 15 to 35 channels including local network affiliates, weather and community programs, will cost \$12.95 per month. The digital service requires rental of a set-top box for \$3.95 a month for standard definition and \$9.95 a month for high definition. A converter that includes a digital video recorder costs \$12.95 per month. Customers can receive Basic service through any analog signal without using a set-top box.”

“The cable company that serves most of Hampton Roads, Cox Communications Inc., charges a monthly fee of \$43.35 for its standard cable package, 8.5 percent more than Verizon’s rate for Expanded Basic. With the standard package, Cox customers receive the Limited and Expanded services, with 69 analog channels. Cox charges a minimum of \$6.95 per month for some digital channels and digital music and requires a subscription at least to Limited service. A full digital load of more than 100 channels cost \$13.45 per month, in addition to Limited or the standard package. The price of Limited service alone, which carries local network affiliates, government access and a few other channels, is \$11 per month in most municipalities but ranges from \$9.31 in Norfolk to \$12.40 in Newport News. Cox subscribers also pay a monthly rental fee of \$5.50 for an analog or digital set-top box or \$9.95 for a high-definition box. A digital video recorder, which doubles as a converter box, costs \$9.95 to rent, plus a \$4.95 service fee, each month.”

“...Verizon’s offerings vary little from the current cable pricing and program structure, and the company has no plans to bring those so-called “a la carte” services to the marketplace...”

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<sup>41</sup> Young, Lauren, *A Bad Case of Sticker Shock*, Business Week, October 24, 2005, pp. 118-119.

<sup>42</sup> Staff Writers, *Consumer Issues*, The Virginian-Pilot, March 12, 2006, A14.

“FiOS TV does offer premium tiers similar to cable. For 14 channels of HBO programs or 12 Cinemax channels, FiOS subscribers would pay an additional \$14.95 per month, or \$24.95 for both. FiOS also offers a 15-channel sports package for an additional \$5.95 per month or a movie package with 45 channels of Starz, Encore, Showtime and The Movie Channel for \$11.95 per month. Cox charges \$12 a month for HBO and \$11.45 for Cinemax, Showtime and The Movie Channel, or Starz and Encore. Both FiOS TV and Cox’s digital service include video-on-demand, which allows customers to rent a movie from the service’s database for 24 hours. Both companies charge \$3.95 for new movie releases.”<sup>43</sup>

.....  
“...Verizon and Cavalier Telephone...”

“The two telephone companies plan to offer television services in Virginia in competition with regional cable companies.”<sup>44</sup>

.....  
“A recent study by the American Consumer Institute concluded that, over the next five years, competition could save consumers \$107 billion on their cable TV bills, with older consumers saving nearly \$1,200 per household.”

“...a recent Federal Communications Commission report found that wire-line competition-competition from new cable providers like Knology, RCN, SBC and Verizon-lowers cable TV prices by a whopping 27 percent.”

“When cable TV first came on the scene, it was given an exclusive franchise to provide cable TV services.”

“In many cases, cable companies were given decades to build out their networks without competitive pressures.”

“The playing field is already significantly tilted in favor of the cable TV monopolies. That is good for the monopolies, but bad for cable TV consumers.”<sup>45</sup>

.....  
“We are talking about rewiring the world, or at least a good chunk of the U.S., and the telcos are girding for a very long war. The time frame may be a decade. The spending of just one major player-Verizon Communications-is expected to exceed \$15 billion.”

“...even in a broadband world, telcos face ludicrously difficult terrain. They’re entering a field full of established players-and, via satellite providers like DirecTV, established challengers-in a zero-sum market in which growth equals pilfering rivals’ customers. Cable outfits such as Time Warner now offer cable telephony, speeding erosion of telcos’ cornerstone business. Then there’s the \$15 billion-plus Verizon has earmarked to rebuild its network all the way down to individual households, with Fiber-optic lines to allow two-way interactivity.”

“Verizon expects its redone network to be available to 3 million homes-around 10% of its current customer base-by yearend.”

“Verizon plans to underprice cable, and next-generation technologies may open next-generation revenue streams.”<sup>46</sup>

.....  
“...In (Chase) Carey’s two years as CEO of DirecTV Group Inc., the...exec has delivered, siphoning off 2 million customers from rival cable operators, bringing DirecTV’s total to 15 million...”

“...The problem at the heart of DirecTV’s model is that it can’t yet offer the two-way technologies that are so hot now – from Voice over Internet Protocol to VOD (video-on-demand). Satellite’s one-way feed can

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<sup>43</sup> Shapiro, Carolyn, *TV Competition Looms*, The Virginian-Pilot, October 17, 2005, D1.

<sup>44</sup> Nuckols, Christina, *Phone Firms Call on Cable Users in Fight for Expansion*, The Virginian-Pilot, December 3, 2005, D1.

<sup>45</sup> Pociask, Steve, *Cable Market Wants Competition to Fail*, The Virginian-Pilot, January 11, 2006, B11.

<sup>46</sup> Fine, John, *An Ugly Battle for the Clicker*, Business Week, September 5, 2005, p. 26.

send shows to TVs, but there's no path back to the satellite, making its pay-per-view offerings much less popular since they start at scheduled times..."

"...satellite's (national average household) penetration (is) 20%..."<sup>47</sup>

..... General..... General ..... General ..... General ..... General ..... General ..... General ..... General

"...Cable companies and Internet upstarts are swiping millions of customers from SBC and other old-line phone companies..."

"...Pressed on the threat from these Web upstarts, (Edward E.) Whitacre (CEO SBC Communications Inc.). 'They don't have any fiber out there. They don't have any wires. They don't have anything... They use my lines for free – and that's bull'..."

"...Thanks to their string of mega deals, SBC and Verizon have become far and away the largest telecom players in the land, together controlling nearly two-thirds of all residential phone lines in the U.S..."

"...a flock of rivals, including Skype, is threatening to wipe out the value of all those phone lines. They're using Internet technology to offer comparable calling services at half the price, without owning a single foot of telephone wire...they (SBC) could lose 40% of their land-line residential customers over the next 10 years..."

"...The companies' chief executives don't deny the seriousness of the threat...their traditional phone businesses are history...their futures depend on how well they perform in broadband, wireless, video, and corporate services..."

"...Wireless and broadband services have been more than enough to replace the decline in traditional voice. But the slide in voice is expected to accelerate in the years ahead, and the wireless business is growing more challenging..."

"...Researcher Sanford C. Bernstein & Co. expects annual wireless growth to drop from an average of 15% over the past five years to 6% annually over the next five..."

"...'We're fixing to get into [Internet phone service] big time once the AT&T acquisition is done,' says Whitacre. Competition with Verizon, he adds, 'will pick up a lot'..."

"...Comcast and other cable companies have swiped 4.4 million phone customers, and the figure continues to rise..."

"...Whitacre is running fiber into neighborhoods and using the copper from there to deliver video. He figures that'll let him get into the television business more quickly and cheaply than Verizon. Whitacre expects to hook up about 18 million homes over the next three years for \$5 billion..."

"...SBC and Verizon are getting more aggressive. Both companies have dropped their prices for broadband...SBC is the No. 2 broadband provider in the country, with 6.5 million customers, behind Comcast. Verizon has 4.1 million broadband subscribers..."<sup>48</sup>

.....  
"The fiber-optic lines Verizon is building eventually will carry as much as 100 megabits of data per second, enough to download an entire movie in seconds. That's about 20 times as fast as the typical cable line. The speed will give Verizon the ability to offer services that cable and Internet companies can't match, Seidenberg thinks."

"So far, Verizon has brought fiber to more than 3 million homes giving those customers who choose to subscribe access to super fast Internet connections. It expects to add another 3 million households by the

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<sup>47</sup> Grover, Ronald, *Static in Rupert's Satellite Dreams*, Business Week, December 5, 2005, pp. 53-54.

<sup>48</sup> Ante, Spencer E., and Crockett, Roger O., *Rewired and Ready for Combat*, Business Week, November 7, 2005, pp. 110-113.

end of this year. Verizon says it has permission from local authorities to offer TV service to 1.3 million people. However, only a fraction of those homes subscribe to the service.”

“In Virginia, the General Assembly approved legislation this term that fast-tracks the process for a cable provider to enter a new market. Under terms of the legislation, a provider such as Verizon could start service in a territory 75 days after a franchise is applied for. A municipality would have 45 days to negotiate the terms.”

“AT&T is stretching its fiber only to neighborhood equipment centers and using old-fashioned copper to deliver services the rest of the way to customer homes. As a result, its Internet connections will have significantly lower capacity than those of Verizon but AT&T says its bandwidth will be ample for Internet television, video on demand and other capacity-gobbling services. The company’s plan is much less costly than Verizon’s. AT&T plans to spend roughly \$5 billion through 2008 to reach 18 million homes with its fiber project, while Verizon’s programs eventually could cost as much as \$20 billion.”<sup>49</sup>

.....  
“...Federal Communications Commission...the agency relaxed regulations on the rates that Verizon and other Baby Bells charge competitors using their lines to offer high-speed Internet service. It means the Bells, which own the regional phone networks linking the “last mile” to homes and businesses, can raise their access fees to competing companies, compounding the challenge for those trying to beat the larger rivals’ rates.”

“One possible danger of the competition as it is now evolving, Kenney said, is that the two dominant players agree to split the market, keeping control of consumer options, and pushing prices higher. Such a “duopoly,” as she called it, would allow them to focus on the same lucrative geographic markets and ignore those lacking service.”

“Verizon had sales of \$71.3 billion last year, 11 times those of Cox, with \$6.4 billion in sales in 2004.”

“...Verizon is the largest U.S. telecommunications company, operating in 29 states and the District of Columbia.”

“...Cox Enterprises Inc. is the third-largest U.S. cable company with operations in 22 states.”

“...Herndon...the town allowed the phone company to sell TV service on its existing network right of way. In exchange, the company agreed to pay a franchise fee equal to that paid by the cable company, provide public and government access channels and offer free video service to schools and public offices...”

“The company has not announced when it will offer video, which it calls Fios TV...”<sup>50</sup>

.....  
“A growing group of providers...plan to bring video service that competes with local cable system operators. Two of the latest to throw their hats into the ring are U.S. Digital Television LLC, a company based in Draper, Utah, with investment from broadcast station owners, and Cavalier Telephone, a competitor in local telephone and high speed Internet service with headquarters in Richmond.”

“USDTV...plans to start serving Hampton Roads this spring. It will use the old-fashioned airwaves and the spectrum of its broadcast partners to send out 22 digital channels-including those of local network affiliates, high-definition programs, and several of the most popular cable networks.”

“The USDTV service will cost \$19.95 per month, with a startup fee of \$24.95, and will include a set-top tuner that subscribers will need to view the channels after the company applied encryption technology to restrict access. Users also will need TV antennas; if needed, USDTV installers will provide new ones for \$9.99.”

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<sup>49</sup> Searcey, Dionne, *A Fiber Gamble*, The Wall Street Journal, March 12, 2006, D1.

<sup>50</sup> Shapiro, Carolyn, *Big vs. Bigger*, The Virginian-Pilot, August 14, 2005, D5.

“...based on industry research...most consumers regularly watch only a handful of the channels they receive and would rather pay less for a more limited selection. Its smaller-scale option focuses on family-friendly entertainment and allows USDTV ‘to get in the game with a low-cost alternative that gets the job done.’”

“...the company hopes later to offer options such as video on demand, digital video recording and special program tiers, Lindsley said.”

“Cavalier Telephone plans to bring TV service through its broadband network to Hampton Roads customers by the end of March. Cavalier will collect as many as 100 channels—from local network affiliates to cable networks including ESPN, History Channel and HBO—through a satellite at its offices in Richmond, encrypt them, and send them through digital subscriber lines or DSL, into customers’ homes. The TV service will split from the Internet modem on a separate line that runs to a customer’s TV set similar to a cable line. The TV needs a set-top receiver to unscramble the channels. Cavalier has bundled its TV service with DSL and local and long-distance phone service for a “Triple Play” costing \$95.95, plus the option to pay for additional program tiers or premium channels. Subscribers must receive either phone or Internet service at minimum to receive video, but they could order only one of the other services for a discount of \$25 off the Triple Play price.”

“Verizon Communications Inc. also has begun offering its Fios TV service in some markets through its new fiber-optic network, which it is starting to build in some parts of Hampton Roads.”

“Because Cavalier’s system depends on an Internet protocol, it doesn’t need franchise agreements...”

“Currently, the only alternatives to cable for paid TV service in Hampton Roads are satellite operators DirecTV and Dish Network.”

“Cox Communications Inc.,... (has) about 415,000 local customers...”<sup>51</sup>

.....  
“Ed Whitacre was already known as a wheeler-dealer on Wall Street before he announced AT&T’s \$67 billion merger with BellSouth.”

“*This deal seems like a defensive move-bulking up to battle the cable companies. Is that a fair assessment?* The world is changing rapidly, and we need a bigger footprint to be competitive. Cable is a very big competitor, and if you look at broadband, we are neck and neck. They are taking a lot of lines from us, and we need a counterstrategy. So from that standpoint, sure, you could say it’s a defensive maneuver.”

“*The last time we saw companies in your business spending billions to expand, the demand wasn’t there, and the sector blew up.* There is demand to put wire line and wireless together. There is a huge demand.”

“*Some people think prices will go up. I don’t think so. No way.*”<sup>52</sup>

.....  
“Cable companies like Comcast and Net players like Google are pouring into the telephone business, while AT&T and its peers are moving into everything from cable television to computer security.”<sup>53</sup>

.....  
“...phone giant Verizon Communications Inc. is signing up slews of customers—for a new TV service.”

“...Verizon prepares to make its service available to 15 million homes by the end of 2009.”

“With subsequent debuts in New York, California, Virginia, Florida, and elsewhere in Texas, Verizon is now well on the way with grander plans to wire about 50% of its customer base over the next three years.”

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<sup>51</sup> Shapiro, Carolyn, *Alternative Programming*, The Virginian-Pilot, January 5, 2006, D1.

<sup>52</sup> Bartiromo, Maria, *Papa Bell Sure Seems Certain*, Business Week, March 20, 2006, p.114.

<sup>53</sup> Crockett, Roger O., *Lord of the Rings*, Business Week, March 20, 2006, pp.30-33.

“Verizon and other telecoms are counting on Internet and TV revenues to offset their steadily eroding income from local and long-distance calling. The new competition is putting great strain on the balance sheets of cable and telecom players, while consumers emerge as the big winners. Over the next five years they will likely see dramatic improvements in TV and Internet services and relief from ever-skyrocketing prices. Verizon is charging about \$100 a month for a package of TV, Internet, and phone services in Keller, competitive with cable and satellite offerings in town.”

“When Verizon, the main phone company in Keller by virtue of the 2000 Bell Atlantic Co.-GTE Corp. merger, approached City Hall two years ago for permission to upgrade with fiber optics and later to get a TV franchise, there was little resistance. “Our initial response was, ‘why not?’” recalls City Manager Lyle H. Dresher. Fiber optics could be a drawing card to attract tax-paying businesses to Keller. And if overall revenues for video services increase, the city gains from its 5% cut of whatever Verizon makes there. It’s surely no coincidence that Verizon picked a town where it could cinch a franchise agreement without long delays. Because most of Keller’s infrastructure is new, fiber optics could easily be installed through modern underground conduits without tearing up local streets.”

“The huge capacity of fiber optics means Verizon can promise to keep adding bells and whistles. It already delivers about 400 channels, including more than 20 high-def outlets. And the company claims it will be able to add more local programming and foreign language packages. The cable guys contend they can continue increasing speeds and capacity without paying for fiber-optic lines running to the home, largely because they have spent \$100 billion since 1996 to upgrade their lines.”

“The telecoms got a huge break last summer when Texas passed a law that establishes standard-state-issued franchises. This makes it possible to enter new markets without negotiating franchises with each locale. Verizon will need other states to follow suit if it is to keep on its game plan.”<sup>54</sup>

.....  
“The cable industry and phone companies are aggressively competing to attract new customers by offering attractively priced packages of home phone, Internet, cable and cell phone services. AT&T Chairman and Chief Executive Edward Whitacre has long identified \$100 as a potential target price for a package of those four services.”

“Prices already are in the \$100 range for packages that don’t include wireless-and industry executives expect them to come down.”

“Comcast Corp. is rolling out a \$99-a-month Internet, phone and cable bundle.”

“The basic bundles from Time Warner Inc. include digital cable, high-speed Internet and home phone service, and they range from \$99 to \$129.95 a month depending on the city.”

“Cox Communications Inc., which provides service in much of Hampton Roads, offers a bundled package with digital cable TV, high-speed Internet access and digital telephone with extra features for \$108.70 per month, not including taxes or fees or any current promotions. The price incorporates an \$11 monthly ‘bundle bonus credit’.”

“Cablevision Systems Corp. offers all its subscribers an introductory package of voice, cable and high-speed Internet for \$89.95 a month. After a year, the price climbs to about \$115.”

“Verizon Communications Corp. offers packages that start at about \$89.89 for home phone, high-speed Internet and satellite TV service. AT&T has a four-way deal that includes wireless for \$121 a month.”<sup>55</sup>

**..... Internet ..... Internet..... Internet ..... Internet ..... Internet..... Internet..... Internet**

“...It will become an expectation like electricity or phone service – Craig Mathias of Farpoint Group, about big cities providing municipal Wi-Fi soon, to CNET.”<sup>56</sup>

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<sup>54</sup> Morrison, Mark, *Battling For the Eyes of Texas*, Business Week, March 20, 2006, pp. 34 and 36.

<sup>55</sup> Young, Shawn and Jessica E. Vascellaro, *\$100 Bundles*, The Virginian-Pilot, March 13, 2006, D1.

<sup>56</sup> Beucke, Dan, *Up Front*, Business Week, December 26, 2005/January 2, 2006, pp. 13-16.

.....  
“...In June, the U.S. Supreme Court ruled that cable broadband services were almost free of regulation. Two months later, the FCC granted the same liberty to the Bells’ broadband services. The FCC made two newly merged mega-phone companies – created from AT&T and SBC Communications Inc and Verizon and MCI – vow to keep their Internet lines open to all for the next two years...AT&T argue(s) that they need flexibility to exact a toll from Web services that hog bandwidth. As broadband use grows, the Bells and cable companies say that intensive users aren’t paying their fair share. File-sharers swapping music and movies account for 60% of North American residential broadband use, estimates Dave Caputo, CEO of Sandvine Inc...”<sup>57</sup>

.....  
“Addison, Tex., joined the nation’s tech elite on Aug. 23”

“...Addison’s 100,000 residents can buy fast wireless Web access from startup RedMoon Inc. for just \$16.95 a month—a far better deal than most phone or cable broadband offerings.”

“On Aug. 18, Wireless Philadelphia, the nonprofit running that city’s Wi-Fi network, chose HP and Earthlink Inc. as finalists to build and manage its \$18 million system. Minneapolis is now reviewing proposals from EchoStar Communications Corp. and Spring Nextel Corp., among others, to build and run a \$15 million to \$35 million citywide network. Google Inc. sponsors a wireless hot zone in San Francisco’s Union Square, and analysts wonder if the Internet giant will bid for the city’s new Wi-Fi project.”

“...with 300 cities launching or soon to launch Wi-Fi networks, the market could yield roughly \$200 million in revenues a year...”

“Although Wireless Philadelphia has yet to negotiate a final price with its winning bidder, its business plan calls for spending \$50 million over five years.”

“...Philadelphia for now envisions selling Wi-Fi at less than \$20 a month and just \$10 a month to low-income residents.”

“Hewlett-Packard, which long has provided technology infrastructure for telecom companies, views wireless broadband as the communications system of the future.”

“The rush to build muni wireless zones has got the Bell and cable companies plenty worried. They have mounted lobbying campaigns in 14 states to bar local jurisdictions from creating their own networks, but have failed in all but one.”

“...many cities are opting for outsiders to own their Wi-Fi network.”<sup>58</sup>

.....  
“...Verizon’s FiOS high-speed broadband service transcends the capacity limits of cable and other phone companies’ fiber networks by putting data and video on separate lasers all the way to the home. Our network architecture makes ‘hogging’ impossible, which renders Paul Misener’s assertion that our network “squeeze(s) out the public Internet” absurd.”

“In addition, FiOS is “future proof” so it can expand to fit the bandwidth needs of tomorrow.”

“...FiOS data and video ride on two separate, application-specific laser paths. Neither competes with nor impeded the other.”<sup>59</sup>

.....  
“Telecom providers...are quietly talking with Internet portals such as Google and Yahoo about payments to deliver video programs to Internet users at premium speeds.”

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<sup>57</sup> Yang, Catherine, *At Stake: The Net as We Know It*, Business Week, December 26, 2005/January 2, 2006, pp. 38-39.

<sup>58</sup> Yang, Catherine and Ben Elgin, *Wi-Fi with Its Own Zip Code*, Business Week, September 5, 2005, p.39.

<sup>59</sup> Fish, David, *Verizon Says Its Setup Makes “Hogging” Impossible*, Business Week, February 20, 2006, p. 20.

“The huge amount of capacity needed to move video on the Web is a headache for companies that build Internet infrastructure, Belt said. They are seeking new sources of revenue to help upgrade their networks, and it’s unclear where the money will come from.”<sup>60</sup>

.....  
“...it has become possible in many major U.S. cities to get wireless Internet access, at speeds comparable with those of wired home DSL lines...”

“...they...have been sold by two big cell phone companies, Verizon Wireless and Sprint. Both charge \$60 a month for unlimited use of the services, which Verizon calls BroadbandAccess and Sprint calls Mobile Broadband. Both companies’ services are based on a technology called EV-DO, which stand for Evolution-Data Only.”

“...with a properly equipped laptop or smart phone, you can now get enough speed on a wireless connection to do everything you would do with a fast Internet connection at your desk-stream video, download large Web sites or open large e-mail attachments.”

“Last month, Cingular Wireless announced it is leaping into the broadband wireless arena. It rolled out a service called BroadbandConnect to compete with Verizon and Sprint.”

“...Cingular is charging \$60 a month for unlimited use of its service...”

“Cingular’s new offering is based on a different technology, called HSDPA, for High Speed Downlink Packet Access.”

“Cingular is planning to have most major markets on line by year end. Currently, the service is available on laptops using special wireless modem cards Cingular is selling for \$99 after rebates.”

“...they work only with Windows machines.”

“With Wi-Fi, you have to find a hot spot, and you usually have to sign up with an access provider, which may charge high hourly fees and may not have service at the next hot spot you visit.”

“...the typical \$10 to \$12 daily fee for Internet connections in hotels.”<sup>61</sup>

.....  
“...Murdoch is starting to put the pieces in place for a new \$1 billion wireless data and voice network. The idea is to offer the same bundle of services that cable companies and, increasingly, phone companies have been using to lure away customers.”

“...Murdoch and Co. are close to finalizing a deal to create their own broadband network using the latest Wi-Max wireless technology. That may mean cutting a deal with a company such as Clearwire Inc. or Sprint Nextel Corp. to get the wireless spectrum he needs to provide the service. Then he would have to lease cell towers to beam the spectrum over 10-mile-wide swaths to customers’ newly modified satellite dishes. Once the signal enters the house, a wireless router, designed with the help of Intel Corp., would feed it to computers and phones. The box could also be used to beam TV programs to PCs, laptops, and portable devices for remote viewing.”

“By 2008 telcos and cable will provide high-speed access to nearly 71% of Americans...”<sup>62</sup>

.... **Telephones** ..... **Telephones** ..... **Telephones** ..... **Telephones** ..... **Telephones**

“6.2: The number of U.S. households, in millions, that are expected to cut the cord on their telephone land lines this year and become completely wireless.”<sup>63</sup>

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<sup>60</sup> Van, John, *Telecom Providers Request for Video Tolls Stirring Controversy*, The Virginian-Pilot, January 23, 2006, D2.

<sup>61</sup> Mossberg, Walt, *Cingular Joins Rivals with Fast Wireless Broadband*, The Virginian-Pilot, January 23, 2006, D3.

<sup>62</sup> Grover, Ronald, *How Rupert Plans To Counterpunch Cable*, Business Week, February 20, 2006, p. 42.

<sup>63</sup> Yankee Group, *The Stat*, Business Week, October 2, 2005, p. 18.

.....  
“...the providers of Voice over Internet Protocol (VoIP) are trying to make their service indistinguishable from land lines. Consumers are responding enthusiastically, with 3.25 million estimated to be buying VoIP phone services by the end of the year, says researcher Yankee Group – nearly three times as many as in December 2004...”

“...Monthly rates run from as little as \$19.95...to as much as \$54.95...for unlimited local and long-distance calls...”

“...The beauty of VoIP is that it will generally work with your standard wired and cordless phones...”

“...it has a lot to offer: increasingly crisp call quality at a low price, with features traditional phone service providers often lack...”<sup>64</sup>

.....  
“...Since Luxembourg-based Internet telephone (VoIP) startup Skype Technologies was gobbled up by online marketplace eBay Inc. for that princely sum (\$2.6 billion) in September, Skype has added 12 million more users, for a total of 66 million...”

“...It’s a breeze to setup. Unlike more complex and expensive Internet phone offerings from the likes of Cisco Systems, Inc. and Avaya Inc., Skype can be downloaded and installed by any employee, beyond the control of info-tech managers. What’s more, Skype is designed to burrow past firewalls while leaving little trace of its presence. The software works like a charm...”<sup>65</sup>

.....  
“On average, Americans are taxed at twice the rate for cell-phone service as for other goods and services. The percentage added to the bill, which varies widely by state, is lowest in Nevada (1.09%). Here’s where it’s highest. Nebraska (18.72%), Washington (17.48%), New York (16.09%), Florida (16.08%), Texas (15.13%).”<sup>66</sup>

.....  
“Competition in communications seems cutthroat. Companies are invading each other’s turf, and prices are falling. You can make a video-phone call to Australia via the Internet, chat for three hours, and never pay a penny. Citing all this hubbub, AT&T Inc. argues that there’s no threat of re-monopolization even as it bids to reunite five of the eight companies that emerged from the 1984 breakup of the Bell System.”

“The competition we’re seeing is just a phase, and an unstable one at that. The key thing about communications networks is they’re very costly to build, but once they’re built, it’s cheap to add customers to them. This industry structure has special economic properties. At times it produces price wars. At other times it leads to merger waves, resulting in a small number of competitors with the ability to raise prices and garner big profits.”

“In the battle for market share, companies like AT&T will remain tempted to keep cutting prices as long as the customers they attract make at least a little contribution to covering the hefty up-front cost of building the network. But here’s the trouble: Unbridled competition eventually pushes prices to the point where total revenue no longer covers total costs.”

“As long as regulators permit, the strong buy the weak and extinguish the excess capacity. As competition eases, the survivors can raise prices and restore their profitability. (Good for shareholders; bad for customers.) Profits may even get so rich that new entrants are drawn in, in which case price-cutting will once again predominate. Alternatively the barriers to entry may be so high that the market settles into a kind of cozy club.”

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<sup>64</sup> Kharif, Olga, *The Call of the Web Phone*, Business Week, November 7, 2005, pp. 94-95.

<sup>65</sup> Reinhardt, Andy, *Getting Skittish About Skype*, Business Week, November 28, 2005, p. 47.

<sup>66</sup> Leak, Bremen, *The Big Picture, Where Talk Ain’t Cheap*, Business Week, March 27, 2006, p.9.

“For consumers, the best hope is a steady stream of technological breakthroughs that prevents incumbents from ever getting a lock on the market.”<sup>67</sup>

..... **Radio** .....

“...some 8 million subscribers have signed up with Sirius Satellite Radio and XM Satellite Radio, the twin stars of digital broadcasting...”<sup>68</sup>

## *World Class Maritime Center*

### **Ports**

.....General.....General .....General .....General .....General .....General .....General .....General .....General

“On a 600-acre vacant tract of land..., the North Carolina State Ports Authority aims to build a massive cargo facility costing \$1 billion that would enable the Tarheel State to gobble up far more of the global shipping business than it does now.”

“The North Carolina International Terminal’s opening day is expected in a decade...”

“The North Carolina authority estimates that the project will generate 50,000 jobs and produce \$50 million in tax revenue.”

“The new terminal will have the capacity to handle at least 2 million 20-foot container units a year.”

“The port of Hampton Roads moved 1.98 million 20-foot container units last year...”

“...the Midwest, together with the mid-Atlantic, are the primary markets of the port of Hampton Roads...”

“Containerized cargo shipments to the United States are expected to increase 156 percent, to 388 million tons, by 2020...”<sup>69</sup>

.....

“The Big Apple is on top but Virginia is poised to take over the No. 1 position,” Jeff Keever, deputy executive director of the port authority told 160 people attending a program sponsored by the Hampton Roads Maritime Association. Hampton Roads, he said, is better prepared... to accommodate the giant freighters that shipping lines are putting into service.”

“...major lines have begun using ships that carry as many as 8,000 cargo boxes and require channels as deep as 48 feet.”

“...we think these larger ships will be coming to Virginia...”

“A project to dredge the port’s Atlantic Ocean channel to 56 feet is expected to be completed in April, he said. Among East Coast ports, Hampton Roads ranks third in container traffic behind No.1 New York-New Jersey and No.2 Charleston. In 2004, Hampton Roads handled 1.8 million 20-foot equivalents, the industry standard for measuring container traffic. That was less than the 4.48 million total for New York-New Jersey and 1.86 million total for Charleston, according to the American Association of Port Authorities. However, a container terminal under construction in Portsmouth will boost the port’s capacity when it opens in 2007...”

“...the Virginia Port Authority is expanding the container-handling capacity of its Norfolk International Terminal by 50 percent and is preparing to build a giant container terminal at Craney Island in Portsmouth.”

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<sup>67</sup> Coy, Peter, *Why Fierce Price-Cutting Could Be Gone in a Flash*, Business Week, March 20, 2006, pp. 32-33.

<sup>68</sup> Aston, Adam, *All Bruce, All the Time*, Business Week, November 7, 2005, p. 92.

<sup>69</sup> Richards, Gregory, *Nosing In*, The Virginian-Pilot, February 15, 2006, D1.

“...Portsmouth, expects the first stage of its Craney Island facility to open in 11 years with six cranes and berths for two ships. Plans call for the \$1.76 billion project to have 22 cranes and eight berths when complete in 2032.”

“However, other ports along the East Coast are spending heavily to attract additional container traffic.”

“Savannah, he said, also is seeking state and federal approval to dredge its channels to 48 feet from their current 42-foot depth. And the port of New York-New Jersey has begun dredging its channels to 50 feet, a \$2.25 billion project that will take more than a decade to complete, he said.”

“...South Carolina’s state port authority is prepared to develop a \$545 million terminal that will occupy 288 acres on the site of the former Charleston Naval Base, Keever said.”<sup>70</sup>

..... VIT/VPA ..... VIT/VPA ..... VIT/VPA ..... VIT/VPA ..... VIT/VPA ..... VIT/VPA ..... VIT/VPA .....  
“The Virginian Port Authority subsidiary that manages Hampton Roads’ marine cargo terminals announced Monday another in a string of long-term shipping line deals, this time with the world’s second-largest container carrier. The 10-year deal between Mediterranean Shipping Co. and Virginia International Terminals calls for the Swiss company to ship at least 65,000 20-foot cargo containers annually through the port, more than triple the requirement in its present contract.”

“About 65 percent of the port’s business is now through 10-year arrangements, Dorto said.”

“Hampton Roads tied Charleston, S.C., in 2005 as the East Coast’s second-largest container port, behind the port that serves New York and New Jersey. In 2004, Hampton Roads ranked third behind Charleston.”<sup>71</sup>

.....  
“The company managing state-owned Hampton Roads ports has landed a 10-year contract with its biggest customer-one of the world’s largest international shipping alliances-in a deal valued at about \$500 million. Representatives of the Grand Alliance-which includes Hapag-Lloyd (America) Inc., NYK Line (North America) Inc., OOCL (USA) Inc. and a Hapag-Lloyd affiliate called CP Ships-signed the contract Monday after nearly a year of negotiations, said Joseph A. Dorto, general manager and chief executive of Virginia International Terminals Inc.”

“Longer-term contracts are especially important as VIT and the Virginia Port Authority, which owns the public ports in Hampton Roads, brace for major expansions and upgrades, Dorto said. One project in particular-the planned \$1.6 billion container terminal on Portsmouth’s Craney Island-is projected to increase the region’s competitiveness in international shipping. But it has attracted questions about how the massive project will be financed. “The more long-term contracts we have, the better our bond-market credit rating will be,” Dorto said. “That’s important for Craney Island.”

“...Mediterranean Shipping Co. of Switzerland... VIT is negotiating to bring Mediterranean’s traffic to Portsmouth. The company now operates in Newport News.”<sup>72</sup>

.....  
“Atlantic Container Line has become the 11<sup>th</sup> shipping line to sign a decade-long contract with Virginia International Terminals, which manages Hampton Roads’ three state-owned marine cargo terminals. The deal, announced Friday and valued at between \$25 million and \$30 million, requires Atlantic to move at least 10,000 shipping containers annually through the port of Hampton Roads. It also is obligated to move 50,000 tons per year of roll-on/roll-off cargo such as trucks, heavy equipment or odd-size merchandise loaded onto special trailers. Those amounts are roughly what Atlantic now handles at its Portsmouth Marine Terminal operation.”

“...the roll-on/roll-off cargo Atlantic hauls will help to balance the large numbers of containers that are the port’s mainstay. He said that when the container market is down, the roll-on/roll-off market is up and vice versa.”<sup>73</sup>

<sup>70</sup> Shean, Tom, *Port Authority Official Says Va. Is Poised to be Toast of Coast*, The Virginian-Pilot, January 12, 2006, D1.

<sup>71</sup> Richards, Gregory, *Port Signs 10-Year Deal with Major Shipping Line*, The Virginian-Pilot, February 28, 2006, D1.

<sup>72</sup> McWilliams, Jeremiah, *VIT Lands 10-Year Shipping Deal*, The Virginian-Pilot, January 18, 2006, D1.

<sup>73</sup> Richards, Gregory, *Port Sews Up Another 10-Year Contract*, The Virginian-Pilot, March 25, 2006, D1.

... Maersk ... Maersk ... Maersk ... Maersk ... Maersk ... Maersk ... Maersk ... Maersk ... Maersk ... Maersk  
“...the region’s roads and infrastructure need an extensive makeover to cope with the rise in traffic, the president and chief executive officer of Maersk Line Ltd. said Thursday. Here in Hampton Roads we have an infrastructure problem in meeting the growth that’s coming.”

“Reinhart said the \$450 million project will eventually feature 10 cranes and 12 on-dock rail lines”

“We’re going to need all the capacity we can get our hands on if projections of a doubling in world trade in the near future are correct.”<sup>74</sup>

.....  
“The terminal, between the Western Freeway and the U.S. Coast Guard Support Center, is meeting its budget and is on schedule for its July 2007 opening, Lynch said.”

“Its presence will provide competition for the first time in decades to the Virginia Port Authority and its three terminals in Norfolk, Portsmouth and Newport News.”

“The terminal will be initially capable of handling 1 million 20-foot-equivalent units of containers annually and the expansion will double that.”

“By comparison, the port authority’s three terminals moved a combined 1.98 million such units of containers last year.”

“The new Portsmouth facility will be APM’s third-largest U.S. terminal, after facilities in Los Angeles and Elizabeth, N.J., Lynch said. Also, it will be the only U.S. terminal fully owned by APM. The new facility will replace the 71 acres of terminal space APM has leased for 30 years at the port authority’s Portsmouth terminal. APM has outgrown that space, Lynch said.”

“...the terminal will cover 291 acres and will be designed for fast entry and exit for both trucks and ships, he said. Its 4,000-foot-long wharf-equivalent to the length of 11 football fields-will sport 12 container cranes capable of loading and unloading the world’s largest vessels. Four ships-three large and one small-will be able to dock simultaneously.”

“...only 230 acres and 3,200 feet of wharf with six cranes will be finished by mid-2007.”

“Dredging the river’s shipping channel and carving out ship berths is 66 percent complete, Lynch said. Just more than 10 million cubic yards of river bottom is being pumped to the Army Corps of Engineers’ Craney Island disposal area nearby in one of the river’s largest dredging projects. Construction of the wharf is nearly 60 percent complete. About 750 piles have been pounded into the river bottom and the site’s beaches have been contained behind steel bulkheads. Just inland, in the area where cargo containers will be stored...”

“...laced with various drainage pipes and electrical conduits. That work is one-quarter finished, Lynch said. A new interchange being built to link the terminal to the Western Freeway is 35 percent complete, Lynch said.”

“APM is paying 15 percent of the connection’s roughly \$22 million cost.”

“...500,000 tons of stone have been trucked to the site for strengthening its soft soil. Another 250,000 tons is yet to come.”

“...there will be a rail yard located at what is now the project’s construction entrance. It will be linked to the networks of both Norfolk Southern Railway and CSX Transportation via a rail spur along Coast Guard Boulevard operated by Commonwealth Railway.”

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<sup>74</sup> McWilliams, Jeremiah, *Maersk Planning for Busier Hampton Roads*, The Virginian-Pilot, October 14, 2005, D1.

“Working with the state, Chesapeake and Portsmouth have made plans to relocate train tracks to avoid rail crossings, but Suffolk has not yet done so.”

“...155 acres of mostly wetlands are being set aside as conservation land. The remaining 130 acres may be sold off for others to develop, but Lynch said no plans have been made for that land yet.”<sup>75</sup>

.... Craney Island ..... Craney Island ..... Craney Island ..... Craney Island ..... Craney Island. . . .

“...the port authority’s effort to develop a container terminal on an extension of Craney Island in Portsmouth consumes 25 percent of his time, Keever said. The \$1.6 billion project, which will take 26 years to complete, is the largest in the authority’s history.”

“The port authority also is examining the possible use of a public-private partnership with a company that could have some role in the terminal.”

“...ports are facing rising costs for dredging and demands for tighter security...”

“...the Army Corps of Engineers gave its preliminary blessing in September to the Craney Island terminal.”

“...the federal government would contribute only \$24.6 million toward construction of dikes on the terminal site, a fraction of the \$280 million that the port authority had wanted. The sticking point involves paying for preparation of the terminal site, which will rest on sand and mud dredged from local waterways and deposited along the eastern edge of Craney Island.”

“...government-owned land...the Army Corps’ contribution is less than half the \$50 million the port authority has proposed spending to compensate the environmental damage to the Elizabeth River and shoreline wetlands during construction.”

“...the container terminal would generate \$6 billion of economic benefits for the country.”

“...Charleston, S.C., and Savannah, Ga., have witnessed cargo growth and embarked on similar expansion efforts.”

“...Hampton Roads will remain attractive because of its deep water and expansion opportunities. Major shipping lines, he said, have been adding much larger container ships to their fleets, especially for their Asia routes. Those ships, he said, will need deep channels, something this port already has.”

“When complete, the container terminal at Craney Island will have a mile-and-a-half of wharf space and 20 container cranes. The project is scheduled to be built in four phases between 2013 and 2032. The port authority’s timetable calls for three years of engineering and design work beginning next year and then preparation of the site to receive dredged material. ‘We have to begin construction in 2013,’ Keever said. ‘Beginning in 2009 is when we start spending some big dollars...’

“Some of that money will come from revenues that the authority collects from Virginia International Terminals Inc...”

“Some will come from tax revenue paid into the state’s Commonwealth Port Fund, and some money for equipment will come from a leasing program that the authority has with the Bank of America.”

“...the bulk of the financing will likely come from bonds that the authority sells to investors.”

The proposed Craney Island Super Port construction time table:

2006-09: Engineering and design of dikes to hold dredged material

2009-11: Construction of containment dikes

2013-17: Construction of first phase of terminal: 3,000 feet of wharf, eight cranes and 220 acres for containers

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<sup>75</sup> Richards, Gregory, *New Port Facility to Add Cargo Space Competition*, The Virginian-Pilot, March 7, 2006, D1.

2017-22: Construction of second phase of terminal: 1,800 feet of wharf, four cranes and 130 acres for containers

2022-28: Construction of third phase of terminal: 1,800 feet of wharf, four cranes and 125 acres for containers

2028-32: Construction of fourth phase of terminal: 1,800 feet of wharf, four cranes and 125 acres for containers<sup>76</sup>

..... **International Trade** ..... **International Trade** ..... **International Trade** ..... **International Trade** .....

“...cargo traffic is expected to climb almost 6 percent this year to 17 million tons because of increasing ship traffic from Asia.”

.....  
“In 2006 manufacturers can expect an additional lift from overseas, especially makers of capital goods. Exports of business equipment, ranging from aircraft to high-tech gear, have accounted for more than 85% of the U.S. goods exported during the past year.”<sup>77</sup>

.....  
“Merchandise exports so far this year (June 2005) are up 11% from the same period in 2004. That pace is only a bit less than the 13.2% advance for all of 2004...”<sup>78</sup>

.....  
“Freight traffic between India and Hampton Roads increased 28 percent from July 2004 through June, according to data released Wednesday by the Virginia Port Authority. It was the strongest growth by any trading partner for the period. The trade growth more than tripled the 8.4 percent increase posted by northeast Asia, a region that is dominated by China and includes Taiwan, Japan and South Korea. China alone is responsible for three-fourths of the region’s trade with Hampton Roads.”

“Trade between Hampton Roads and India exceeded 100,000 20-foot equivalent units, or TEUs, in the 12 months through June.”

“Behind India, the next fastest-growing trading partner with Hampton Roads was South America, with an increase of 19.3 percent, while commerce with Africa experienced the biggest drop, a 7.1 percent decrease.”

“Shipping between Hampton Roads and China exceeded 350,000 TEUs last fiscal year, 2 ½ times larger than India’s share.”

“...China boasts annual manufacturing exports of \$300 billion, compared with \$40 billion from India.”<sup>79</sup>

.....  
“Since diplomatic ties were restored in 1994, the United States has become Vietnam’s top trading partner. Last year, the combined value of two-way trade-imports and exports-with Vietnam amounted to \$6.4 billion.”

“Vietnam and Virginia are growing trading partners, and it is a relationship that has been building during the past 10 years.”

“...the port of Virginia facilitates this relationship between the commonwealth and Vietnam. When you look at that trade value of \$6.4 billion, it is important to understand that Virginia’s port plays an important role in reaching that total: Between 1994 and 2004, trade between the port of Virginia and Vietnam has had an average annual growth rate of 43 percent. On a daily basis, trucks hauling wood, paper and raw materials for textile production from all over the eastern U.S. and Midwest pull into one of the port’s three marine terminals and give their cargo to a ship destined for Vietnam. Almost simultaneously, loads of furniture, fruits, spices, coffee, cashews, seafood, rubber and textiles from Vietnam arrive by water in Virginia. Last year, our port handled 2,757 loads of imports from Vietnam and 5,987 loads of exports to that nation.”

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<sup>76</sup> Shean, Tom, *Portsmouth, Craney Island Terminal*, *The Virginian-Pilot*, November 20, 2005, D1.

<sup>77</sup> Cooper, James C., *The Export Engine is Shifting Into High Gear*, *Business Week*, January 16, 2006, p.23.

<sup>78</sup> Cooper, James C. and Kathleen Madigan, *The Fed Needs to Do A Little More Fiddling*, *Business Week*, July 18 2005, pp. 29-30.

<sup>79</sup> McWilliams, Jeremiah, *India is Fast Becoming a Force in Shipping Here*, *The Virginian-Pilot*, August 11, 2005, D1.

“...229 loads a month come into this port from Vietnam and 498 loads a month head to that nation via Virginia. In 2004, the total value of trade between our state and Vietnam was \$148.34 million; exports were valued at \$121.61 million; and imports were \$26.73 million.”

“...with acceptance into the World Trade Organization, there is the potential for trade with Vietnam to mushroom...”

“Increased import and export cargo means more jobs for Virginia—from the people handling cargo dockside, to the truck drivers, to those feeding the truckers, to the forklift drivers at the distribution centers, to the people who maintain those forklifts, to the people who stock store shelves and on and on. In short, cargo puts people to work, and working people buy homes, consume goods and services and pay taxes.”<sup>80</sup>

.....  
“The Virginian Port Authority closed its fiscal year last month with an 11 percent jump in container volume, driven by spikes in cargo from China and South America.”

“...shippers diverted East Coast rail cargo away from congestion in the New York and Canadian ports...”

“Cargo destined for the Midwest is a key area of competition for the Virginia port...”

“The port surpassed 1.9 million TEUs, or 20-foot equivalent units...”

“Container volume in May, usually a slower time of year at the port, topped the port’s traffic during its peak month of October in 2004. Breakbulk cargo, not carried in containers, fell 10 percent in the fiscal year...”

“...predicted growth in container traffic of 9.5 percent for the coming fiscal year, pushing the port close to 2.1 million TEUs.”

“...the China Shipping Container Line plans to begin service to Hampton Roads with nine new vessels...”<sup>81</sup>

.....  
“Demand for products from Asia is driving more sea cargo through Hampton Roads’ shipping terminals...”

“We think the Asia growth will become a larger and larger percentage of our growth here...”

“In 2003, northeast Asia—including China, Japan, South Korea, Taiwan and Hong Kong—surpassed Europe as the port’s largest source of imported goods...”

“Last year, that region accounted for more than 30 percent of the containers that moved through Hampton Roads, and about 40 percent of imported containers...”

“The port of Hampton Roads expects to handle more than 300,000 20-foot equivalent units, or TEUs, of containers imported from Asia this year, or three times as many as in 2001.”

“China is the fastest-growing market that we have in Asia...”

“Lots of companies are sourcing products from Asia. Many are building factories there, and importing goods from Asia to the United States. APL, which began calling in Hampton Roads in 1998, is one of the dozen-largest customers in a field of more than 40 lines using the port of Hampton Roads...”

“...there has been a major push to take advantage of local warehouse expansion and the presence of distribution centers for big-box stores such as Wal-Mart.”<sup>82</sup>

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<sup>80</sup> Keever, J. J., *Goods from Vietnam Mean Busy Port, Jobs in Virginia*, The Virginian-Port, July 10, 2005, D2.

<sup>81</sup> Shapiro, Carolyn, *Port Authority Reports Growth of 11 Percent for Fiscal Year*, The Virginian-Pilot, July 27, 2005, D1.

<sup>82</sup> McWilliams, Jeremiah, *Ship Adds Link to Asia*, The Virginian-Pilot, July 9, 2005, D1.

# Neighborhood and Community Transformation

## Housing

“There is not a housing bubble. The supply has not kept up with demand.”

“...the supply is catching up...”<sup>83</sup>

.....  
“In a separate chapter about the run-up in home prices in Hampton Roads, ODU researchers said single-family homes in the region have become modestly overpriced. The rapid escalation of home prices in major metro areas, including Hampton Roads, has provoked fears that prices have exceeded the underlying economic value of the homes. If a housing “bubble” has materialized, prices could plunge once buyers’ sentiment changes. In Hampton Roads, the rise in home prices will ease but won’t collapse, the ODU faculty members predicted, partly because the cost of owning a home still compares favorably with the cost of renting. That isn’t the case in San Diego, San Francisco and several other heated housing markets. As in many metro areas, the surge in Hampton Roads’ home prices has been driven largely by the combination of rising incomes, job growth and unusually low interest rates.”<sup>84</sup>

.....  
“...the region’s residential real estate market at the year’s end was overvalued by about 20 percent...”

“‘If we are going to have an adjustment’ in housing prices, ‘it’s probably going to be in the condo area.’ During 2005, builders in Hampton Roads took out building permits for 3,513 condominium units, a 21 percent increase from 2004’s total of 2,892 units...”

“...builders have been putting up larger homes with more amenities. An increase in building costs also is driving up housing-permit values...”<sup>85</sup>

.....  
“The number of listings is up, sales are down and more sellers are being forced to trim prices or offer incentives to entice buyers.”

“During the five years that ended December 2004, the overall cost of living in the United States, as measured by the Consumer Price Index, increased 39.9 percent, or more than three times as much.”

“The cost of the labor and materials needed to build a home has not increased substantially more than most other things, which means that what is driving the current housing “boom” is not the houses, but the land on which they’re built.”

“...the factors driving up land costs will not go away.”

“Today, the land accounts for nearly 40 percent of total value.”<sup>86</sup>

.....  
“...home ownership rates, nearing 75 percent, are at historic highs in the region.”<sup>87</sup>

.....  
“...The agency said only 37 percent of Virginia households have enough income to buy the median-priced home of \$279,942 with conventional financing.”<sup>88</sup>

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<sup>83</sup> Batts Jr., Battinto, *Expert Says Economic “Shifts” Bode Well*, The Virginian-Pilot, January 19, 2006, D1.

<sup>84</sup> Shean, Tom, *Under a Protective Wing*, The Virginian-Pilot, October 24, 2005, D1.

<sup>85</sup> Shean, Tom, *Locally:2006 Economic Forecast*, The Virginian-Pilot, January 19, 2006, D1.

<sup>86</sup> Pratt, Lawrence, *When Will It Burst?*, The Wall Street Journal, August 28, 2005, J1.

<sup>87</sup> Our Opinions, *The Housing Market Takes a Breather*, The Virginian-Pilot, December 5, 2005, B8.

<sup>88</sup> Daily Briefing, *Home Prices in Virginia*, The Virginian-Pilot, January 11, 2006, D1.

“The quicker turnover of second homes-such as for investment or vacation purposes-appears to be feeding the surge in house prices...”

“...Home prices...increased by the largest amount in 26 years.

“...the run-up in house prices has left households with a substantial pool of available home equity.”<sup>89</sup>

.....  
“...normal market-60 to 90 days to sell a home...”<sup>90</sup>

.....  
“Spiraling housing prices have forced many of the region’s workers to move farther and farther away from their jobs. North Carolina, it seems, has become Hampton Roads’ newest suburb...”

“Data show that at least one-third of South Hampton Roads’ police officers, teachers and firefighters-the public service backbone of any town-do not live in the cities where they work.”

“...wages aren’t keeping up with skyrocketing home prices. The situation is exacerbated by spiraling gas prices that have doubled commuters’ travel cost. Finding housing ‘is a challenge, particularly for folks coming in making \$35,000 or \$36,000 a year,’ said Gail Pittman, director of the Portsmouth and Suffolk education associations. “Even at \$40,000 or \$45,000, it’s just hard to buy or rent. The rentals are to a point where it’s almost a mortgage.””

“Workers across the nation have faced similar pressure for years. Most big cities such as New York City and Washington are surrounded by rings of suburbs where commuting workers can find cheaper housing. Now that phenomenon is catching up to Hampton Roads.”

“More than 8,000 people live in northeast North Carolina and work in Virginia. In Currituck County alone-the farthest northeast corner of the Tar Heel state-41 percent of all adults who work commute to Virginia.”

“Many companies are finding it harder to move employees to South Hampton Roads.”

“Gilbert R. Yochum, an economist at Old Dominion University, said increases in military pay and tax-free housing allowances are partly responsible for Hampton Roads’ rising homeownership rate. Regionally, about 73 percent of households own, higher than the national rate. About 47,000 sailors in Hampton Roads have families with them, but only 4,300 family military housing units are available locally. The waiting list for base housing has 1,500 names on it, with waits from four to 24 months, depending on a family’s size. Military members who live off-base get a monthly housing stipend determined by rank and family status. In Hampton Roads, they get a minimum of \$874 a month for low-ranking, single enlisted sailors to \$1,332 for a midlevel officer with a family. Starting in 2000, higher pay and larger housing allowances, especially in the enlisted ranks, had a special impact on Hampton Roads, Yochum said. From 2000 to 2003, midlevel enlisted sailors got a 33 percent boost in their housing stipend. Over the same period, the lowest-ranking soldiers saw a 54 percent jump. That helps explain why homeownership rates in Hampton Roads have surged, Yochum said, and partly explains why local home prices have risen so quickly.”<sup>91</sup>

.....  
“...Generally, housing is considered affordable if it cost no more than 30 percent of a family’s expenses. Yet, one-third of all households in Hampton Roads spend that much or more on homes.”

“...there is also an overall cost to taxpayers, housing experts say. ‘It costs a lot more to house someone in an emergency shelter than it does to provide them with rental assistance,’ said Linda Couch, deputy director of the National Low Income Housing Coalition.”

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<sup>89</sup> Aversa, Jeannine, *Greenspan Lightens up on Housing*, The Virginian-Pilot, September 27, 2005, D3.

<sup>90</sup> McWilliams, Jeremiah, *What Went up Has Come Down and Vice Versa*, The Virginian-Pilot, November 26, 2005, D1.

<sup>91</sup> Wiltrout, Kate and Susan E. White, *Our Housing Boom*, The Virginian-Pilot, October 3, 2005, A1.

“...cities in South Hampton Roads have struggled to meet the growing demand for Section 8 vouchers for low-income families. In some cases, waiting lists have held more than 1,000 names. Most cities closed their lists years ago.”<sup>92</sup>

.....  
“The creativity to sell homes is coming back...”

“The National Association of Realtors said it expects sales of existing homes to fall by 4.7 percent this year to 6.74 million and median home prices to rise an average of 5 percent, down from 12.7 percent last year.”

“Moody’s Economy.com, a unit of Moody’s Corp., called for home prices to increase by an average of 1.5 percent this year.”

“...there is now a 5.1-month supply of existing homes on the market.”

“With the Internet making shopping for a home easier, he said, it is no longer clear just what a balanced market is.”

“The supply of unoccupied condominiums also is climbing in many areas.”<sup>93</sup>

.....  
“It would appear that the real estate market peaked in June of this year...”<sup>94</sup>

.....  
“The Commerce Department reported Thursday that construction of single-family homes and apartments totaled 2,065 million units last year, an increase of 5.6 percent over 2004 and pushing total construction to the second highest level on record.”<sup>95</sup>

.....  
“The housing market will slow down this year, a trend precipitated by rising interest rates, slow-growth policies and heavy inventory. Prices are expected to continue to rise but more modestly.”

“Looking back on 2005, new and existing home sales increased 2.2 percent with 29,273 closings recorded. The number of building permits issued in 2005 rose by 1.7 percent. The average price for a new single-family detached home was \$397,783 last year, up 27.8 percent from 2004. The average price for a new condominium rose 18.2 percent to \$281,278, while the average price for a new townhome edged up 1.6 percent to \$266,389.”

“Rising prices and mortgage rates are responsible for increases in unsold inventory at many new home sites, the report said. There was a 16.9 percent drop in closings for new single-family detached homes last year. The run-up in prices for detached homes has fueled growth in the condominium market. There were 1,474 new condominium closings in 2005, an increase of 9.9 percent. Prices for condominiums also increased in 2005, with the price per square foot reaching as high as \$300 in areas such as downtown Norfolk...”

“The resale market remained strong in 2005 with 24,212 closings, an increase of 4.6 percent. The average price for existing homes sold was \$229,996, an increase of 23.5 percent.”

“...the multifamily rental market, where vacancy rates hovered around 3.8 percent as of October...”

“‘Multifamily is fast becoming the only option for affordable housing in Hampton Roads,’ said Aubrey Layne, president and principal broker for Great Atlantic Properties.”<sup>96</sup>

.....  
“‘The market has cooled off quite a bit,’ said Jim Willis, an agent with Rose & Womble Realty Co. in Virginia Beach. ‘There’s not really multiple offers within days...it’s one offer, rather than several offers.’

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<sup>92</sup> White, Susan E., *One Woman’s Hunt for an Affordable Home*, The Virginian-Pilot, October 3, 2005, E1.

<sup>93</sup> Simon, Ruth and James R. Hagerty, *Houses, Houses Everywhere*, The Virginian-Pilot, February 12, 2006, D1.

<sup>94</sup> Gruss, Mike, *Housing Market Hints That the Lid is Closing*, The Virginian-Pilot, December 18, 2005, A1.

<sup>95</sup> Daily Briefing, *Housing Activity*, The Virginian-Pilot, January 20, 2006, D1.

<sup>96</sup> Batts Jr, Battinto, *Booming (For Now)*, The Virginian-Pilot, February 23, 2006, D1.

“...prices were flat in Portsmouth...”

“In Portsmouth and Suffolk, properties lingered on the market for two months or more on average.”<sup>97</sup>

“...52.9 percent of the available markets, experienced double-digit annual condo price appreciation.”<sup>98</sup>

“Homeownership climbed from 67% in 2000 to 69% today.”<sup>99</sup>

“Existing home prices have skyrocketed 29% since 2003...”

“...last year 23% of homes were bought as investments and an additional 13% as vacation homes.”<sup>100</sup>

“Housing starts for buildings with five units or more rose 11.4% from a year ago in December, but vacancy rates are at historically high levels, according to Fannie Mae.”<sup>101</sup>

“...On November 16 the National Association of Home Builders announced that the NAHB/Wells Fargo Housing Market Index fell to 60 in November, its lowest level in 2 1/2 years. The index measures how builders see conditions...Affordability is low, and mortgage rates are rising...”<sup>102</sup>

“...If homeowners who have adjustable-rate or interest-only loans suddenly face a big jump in their monthly payments, (Constantine G.) Soras (Verizon Communications Corp. and economic advisor for GunnAllen Financial) worries that a flood of forced sales could exert steep downward pressure on home prices...”<sup>103</sup>

“The decade-long housing boom may not be over yet, but it’s showing the first signs of slackening. Prices are off their peaks in a few markets...houses are staying on the market longer. Meanwhile, Americans’ finances are so stretched that they’re actually spending more than they earn – the savings rate has turned negative. Housing affordability is already at a 14-year low ...”<sup>104</sup>

“Household...assets soared by \$1.6 trillion ...”<sup>105</sup>

“...a national home price bust is highly unlikely...”<sup>106</sup>

“...According to the latest U.S. census data, the number of households with three or more generations living under one roof grew 38% from 1990 to 2000, vs. 8% for those with just two generations. Doubling up is most common in states where home values have soared as well as places with large populations of immigrants from countries accustomed to multigenerational living. Extended households now account for...almost 4% nationally...With the affordability of starter homes at a 15-year low, the pressure to double up is likely to remain.”

“Those living in three-generation households say the arrangement can solve a host of financial and practical problems. Most obviously, money saved on rent can fund a down payment on a separate home later. It can

<sup>97</sup> McWilliams, Jeremiah, *Homes Sales Data for the Region Show Shift Back Toward Buyers*, The Virginian-Pilot, March 3, 2006, A1.

<sup>98</sup> Staff and Wire Reports, *Looking for a Home in Hampton Roads? Don't Blink. The Median Price Jumped 31.5 Percent in One Year*. The Virginian-Pilot, February 16, 2006, A1.

<sup>99</sup> Mandel, Michael, *Who Gets Blamed If the Roof Caves In?*, Business Week, February 27, 2006, p. 32.

<sup>100</sup> Nussbaum, Bruce, *Housing: Even More Red Flags*, Business Week, August 15, 2005, p. 102.

<sup>101</sup> Cooper, James C., *Will Surging Supply Pop the Bubble?*, Business Week, February 6, 2006, p. 30.

<sup>102</sup> Maurer, Harry, *The Business Week News You Need to Know*, Business Week, November 28, 2005, pp. 34-35.

<sup>103</sup> Madigan, Kathleen, *A Dogged Dismal Scientist*, Business Week, December 26, 2005/January 2, 2006, p. 72.

<sup>104</sup> Coy, Peter, Magnusson, Paul, and Palmeri, Christopher, *Where a Slump Would Hurt Most*, Business Week, October 24, 2005, pp. 40-41.

<sup>105</sup> Cooper, James C., *Business Gets Behind the Wheel*, Business Week, December 26, 2005/January 2, 2006, pp. 29-30.

<sup>106</sup> Cooper, James C. and Madigan, Kathleen, *Entering the New Year With a Head of Steam*, Business Week, December 26, 2005/January 2, 2006, pp. 70-72.

also allow breadwinners to stay home with kids or start businesses. Some say they enjoy a better quality of life, with shorter commutes and access to better schools...”<sup>107</sup>

.....  
“...a chill is sweeping through the fast-growing exurbs that have popped up like mushrooms on the outskirts of established cities and suburbs all across America. A lifestyle built on cheap energy costs and low mortgage rates is in jeopardy. Consumers who hardly gave a thought to gassing up when regular was \$1.50 a gallon are abandoning their hulking sport-utility vehicles and pickups, signing up for carpools, and leaving the motorboat in the backyard now that prices are stuck at nearly twice that. And with heating bills expected to jump as much as 70% for many this winter, more pain is on the way...”

“...While many of America’s biggest cities continue to lose population, and inner suburbs are suffering symptoms of old age, out in the exurbs it’s a different world. Between 2000 and 2004 exurbia accounted for 17 of the 20 fastest-growing counties in the nation with more than 10,000 people...the number of workers in the 49 largest metro areas commuting an hour or more increased by 2 million between 1990 and 2000; in the rest of the nation there were 1 million more hour-away commuters...”

“...Clearly the exurbs’ rapid growth has been one of the main engines of the U.S. economic expansion in recent years. Consider all the home building plus the malls, box stores, restaurant chains, fire departments, and schools that have popped up on cheap farmland beyond the suburbs...Indeed, it is unlikely that the U.S. economy could have outperformed every major industrial country in recent years without the explosion of exurbs and their ripple effects on business...”

“...It may take many months of hurt before big numbers of city dwellers seriously start to consider reversing their exodus to exurbs...”

“...(Alan E.) Pisarski (a transportation consultant) predicts, ‘shifting to smaller homes that are closer to jobs could become the trade-off that many workers prefer’...”

“...The moment of truth for many exurbanites may be coming soon, says Vern S. Lazaroff, an attorney...’A lot of people here get mortgaged up to their necks,’ he says. Once winter comes, ‘there’s no way to pay for the fuel oil and the mortgage in the same month’...”<sup>108</sup>

### **Homelessness**

“In January, more than 1,900 people were identified as homeless in the region. Many are single women and children. And many have jobs. About half of Portsmouth’s homeless went to work every day, said Annie White-Guertin of the Portsmouth Area Resources Coalition.”<sup>109</sup>

.....  
“...the (homeless) money-some \$20.9 million distributed throughout Virginia on Wednesday by the federal Department of Housing and Urban Development-isn’t as much as was provided to the state last year.”

“The state amount is a nearly 4 percent decrease from last year’s funding levels.”

“Most local programs-from Portsmouth’s Volunteers for the Homeless to Virginia Beach’s Community Development Corporation-received exactly what they did last year.”<sup>110</sup>

### **Public Safety**

“Sleepless Nights: Homeland security and disaster planners worry most about these risks to America:

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<sup>107</sup> Tergesen, Anne, *Three Generations, One Roof*, Business Week, October 31, 2005, pp. 92-94.

<sup>108</sup> Magnusson, Paul, Coy, Peter, and Palmeri, Christopher, *Living Too Large in Exurbia*, Business Week, October 17, 2005, pp. 36-40.

<sup>109</sup> White, Susan E., *One Woman’s Hunt for an Affordable Home*, The Virginian-Pilot, October 3, 2005, E1.

<sup>110</sup> Hoyer, Meghan, *HUD Awards State, Region Less Money for Homeless This Year*, The Virginian-Pilot, December 22, 2005, B3.

“Nuclear Bomb: (Threat) The Homeland Security Dept.’s biggest fear: A stolen or homemade nuke explodes in a major U.S. city. A shipping container, truck, or even small boat could carry such a weapon. (Hot Spots) New York, Washington, ports such as Boston, Seattle, Los Angeles. (Toll) In a densely populated city, 100,000 lives could be lost. Property damage and economic harm could top \$1 trillion.”

“Biological Attack: (Threat) Terrorists could disperse smallpox, Ebola, or other germs in a subway station or airport and let travelers spread an epidemic worldwide. (Hot Spots) Any concentrated area where a release would expose hundreds. (Toll) An attack on one city could cost \$750 billion and claim 1 million lives-more if the disease spreads.”

“Dirty Bomb: (Threat) A conventional bomb can spew radioactive material gathered from medical or power-plant wastes and contaminate a large urban area. (Hot Spots) New York, Chicago, Philadelphia-any large, dense city. (Toll) Immediate deaths in the hundreds; long-term cancer deaths in the thousands. Economic damage depends on radioactivity. Some areas could be uninhabitable for years-or decades.”

“Category 4 or 5 Hurricane: (Threat) Huge storms in the Atlantic and the Gulf of Mexico can pack 200-mph winds and send 30-foot storm surges onto shore. (Hot Spots) Gulf Coast from Florida to Texas; East Coast from Florida to Long Island. (Toll) Hurricane Katrina is estimated to have caused thousands of deaths and cost up to \$200 billion, not counting the economic impact of rising energy prices.”<sup>111</sup>

.....  
“...MS-13 gangs (and most other street gangs as well) are a loose network of mostly independent groups.”<sup>112</sup>

.....  
“An FBI informant says MS-13, a notorious street gang with ties to El Salvador, recently issued an order for its members to kill someone-anyone-wearing a badge in Hampton Roads. The hit was discussed during a meeting of gang leaders held in Norfolk. The purpose: to send a message to local law enforcement trying to stop the machete-wielding gang from moving to town. The message: Stay out of our business. Stay out of our way.”

“The bars have held members of MS-13, the Bloods, the Crips, Gangster Disciples, a Puerto Rican gang called NETA, a California set known as South 13, and the Aryan Nation.”

“In Portsmouth, Sharon Harris, spokeswoman for the city’s schools, said: ‘We don’t have any activity that we know to be gang activity.’ But some students say gangs have carved out turf on campus. ‘It’s real tough,’ said Jamarty Bradshaw, who just graduated from Norcom High School. ‘There are certain places you can’t walk in school because you’ll get in trouble.’”

“Schools are required to report gang-related incidents every year to the state’s Department of Education. For the 2003-04 school year, Suffolk reported six incidents...Portsmouth two....”

“National breakdowns say 49 percent of gang members are Hispanic, 34 percent are black, 10 percent Caucasian, 6 percent Asian, and 1 percent other.”

“...the leaders of MS-13 decided that they are going to randomly attack local law enforcement in the Tidewater area. Presently local MS-13 gang members have put this plan of action on hold.”

“The Gangs of Hampton Roads: Investigators have identified national gangs operating in the region, along with numerous homegrown gangs-which the police prefer not to name.”

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<sup>111</sup> Nussbaum, Bruce with Cathy Arnst, Otis Port and Joseph Weber, *The Next Big One*, Business Week, September 19, 2005, pp.34-38.

<sup>112</sup> Gascon, George, *The ABC’s of Fighting MS-13*, The Virginian-Pilot, March 15, 2006, B11.

“The National Gangs-Black Gangster Disciples, Bloods, Crips, 4 Trey Gangsters, Gangster Disciples, Insane Gangster Disciples, Latin Kings, La Nuestra Familia, MS 13, PIRU Bloods, Skinheads, Vice Lords. Motorcycle Gangs: Pagans, Outlaws.”<sup>113</sup>

.....  
“Overall, the number of (Hampton Roads) homicides jumped about 58 percent: from 82 in 2004 to 130 last year. By number, the biggest increases were in Norfolk and Portsmouth. Police attributed the rise to a spread in gun violence on local streets.”

“Portsmouth...The city saw a significant jump in homicides: from nine in 2004 to 23 last year.”

“The city saw slight increases in aggravated assaults, rape and robbery.”

## *A Robust and Prospering Economy*

### **Economic Development**

“...Lowe’s, and Wal-Mart Stores-have clearly benefited from strong consumer spending. All of those outfits have piled up at least four consecutive quarters of double-digit sales growth.”

“In recent quarters, companies have offset the rising dollar with aggressive cost-cutting and by trimming capital spending.”

“...flush with cash and with their factories running close to full tilt, companies will have to reinvest in new plants and equipment...”

“...new business spending could be the best chance companies have at sustaining their streak of double-digit gains in sales.”<sup>114</sup>

.....  
“...despite the emerging housing slowdown, businesses are taking up some of the slack, as they shell out for new equipment and buildings, more inventories, and additional workers.”

“Businesses have increasing faith in the future, and their past caution has created the need to expand in order to meet demand.”

“...businesses tried to satisfy demand with existing facilities and workers, but they have taken short-term gains in productivity as far as they can. The determination to keep growing has been fortified by strong growth in profits, record cash flow, solid balance sheets, exceptionally low debt, and easy borrowing conditions in both the credit and equity markets.”

“...concerns persist, especially for energy-sensitive businesses.”

“January orders for capital goods, excluding the monthly gyrations caused by the military and commercial aircraft, stood far above their fourth quarter level. Further strong output gains are on the way, as orders continued to outpace shipments, pushing the January backlog of unfilled orders to a record level.”

“...new orders, production, and employment showed improved momentum. New construction is gaining as well. One often-overlooked factor in the outlook is that new building by businesses is starting to accelerate just as housing construction is beginning to slow.”<sup>115</sup>

.....  
“One does not yet see in Hampton Roads anywhere near the number of spin-off firms that have appeared in Northern Virginia as a consequence of federal government investments in areas such as the Internet...”<sup>116</sup>

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<sup>113</sup> Kimberlin, Joanne and Stephanie Heinatz, *Gangbusters*, The Virginian-Pilot, July 3, 2005, A1.

<sup>114</sup> Foust, Dean, Amy Barrett and Michael Arndt, *Sticking to The Sweet Spot*, Business Week, August 22/29 2005, pp.46-47.

<sup>115</sup> Cooper, James C., *Now It's Business That's Stoking the Boiler*, Business Week, March 13, 2006, pp.27-28.

.....  
“The growth of defense dollars flowing into Hampton Roads will moderate during 2006, dampening increases in the region’s jobs and retail sales.”

“...military spending in Hampton Roads will be restrained in coming years by other base consolidations and possible reassignments of Norfolk-based aircraft carriers to other ports...”

“...the defense drag is likely to accelerate in 2007 as the effect of base closures begins to take hold and the Department of Defense continues its reduction in the growth rate of defense spending...”

“The region’s output of goods and services this year will climb 3 percent, compared with a 3.6 percent increase in 2005...”<sup>117</sup>

.....  
“...Earl Industries LLC...The Portsmouth-based ship repairer landed four big contracts in less than a week...”

“...Earl has been the big winner among the small group of ship repairers in Hampton Roads. Last week, Earl won a contract worth more than \$165 million to repair aircraft carriers at Norfolk Naval Shipyard...”

“Earl will be in charge of planning the repairs and hiring subcontractors to perform the work. At least 40 percent of the repairs must be done by small businesses the work includes blasting and painting, upgrades to the electrical systems and piping repairs...”

“The shipyard also won a similar contract worth \$55 million for topside work on a group of amphibious transport ships called LSDs and LPDs.”

“The large contracts will mean steady work for Earl’s work force of about 800 during the next five years. Earl also won a \$17 million contract to repair the aircraft carrier Harry S. Truman at the Navy’s shipyard in Portsmouth through August. If the Navy exercises all the options on the contract, it could be worth as much as \$40 million, Miller said. Earl’s subsidiary, International Marine & Industrial Applicators in Irvington, Ala., won a \$42 million contract to paint and preserve the ballast tanks on Navy submarines.”<sup>118</sup>

.....  
“The Sieck Co., a regional wholesale florist, announced Monday that it will open a facility in Portsmouth. The Baltimore-based company provides fresh-cut flowers, plants and supplies to retailers across the country.”

“...an 18,000-square-foot building at 1050 Hodges Ferry Road, will serve stores from south of Maryland to the Carolinas. The Hampton Roads Economic Development Alliance, which made the announcement, helped recruit Sieck to the area.”<sup>119</sup>

.....  
“Officials at Old Dominion University are expected to announce today that they plan to build a new home for Virginia Modeling, Analysis and Simulation Center on the Portsmouth-Suffolk line.”

“The center, which uses computer technology to replicate real-life scenarios such as combat or surgery for training purposes, has been called a “magnet” for attracting companies. More than 100 companies are considered partners of the center and collaborate on government and industry projects. Modeling and simulation has been one of the region’s fastest growing industries. It has pumped \$413 million a year into the Hampton Roads economy and created 4,000 jobs with annual salaries that are nearly twice the local average of \$32,000, according to a 2004 study.”

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<sup>116</sup> Shean, Tom, *Under a Protective Wing*, The Virginian-Pilot, October 24, 2005, D1.  
<sup>117</sup> Shean, Tom, *Locally:2006 Economic Forecast*, The Virginian-Pilot, January 19, 2006, D1.  
<sup>118</sup> Connolly, Allison, *Early Work*, The Virginian-Pilot, December 29, 2005, D1.  
<sup>119</sup> Hampton Roads, *Wholesale Florist Coming to Portsmouth*, February 14, 2006, D3.

“Portsmouth Mayor Jim Holley said the park would not only spark economic growth in his city but would also promote cooperation between the two cities.”

“The Portsmouth City Council reviewed the new site layout in a closed session Tuesday and was told that tax revenue for a fully occupied business park there would be about half a million dollars annually, Councilman Ray Smith said. The city, which rarely provides cash incentives, offered developer Harvey Lindsay half a million dollars toward construction of the building, which ODU would lease.”<sup>120</sup>

.....  
“Deficits do matter.”

“Higher government borrowings can draw money away from private projects. This “crowding out” of private investment can raise interest rates for all borrowers, including home buyers.”<sup>121</sup>

.....  
“...The CEO’s polled from 117 companies (Business Roundtable/CEO Economic Outlook Index) see ‘broad economic strength’ heading into 2006...The execs expect the economy to grow 3.3% in the coming year...”<sup>122</sup>

.....  
“...To make money in real estate in 2006...hotels or apartments might be good choices because they can raise their rents relatively quickly in a strong economy – as opposed to, say, office building owners, whose tenants are protected by long leases...”

“...The ideal buy is a dog of a property on an otherwise good street...”

“...Some apartment(s)...stand to do well because higher mortgage rates could force some would-be house buyers to keep renting, says Stephen C. Swett, chief REIT analyst for Wachovia Securities...apartment leases typically run only a year, so landlords can raise the rents quickly to capitalize on strong job and income growth...”

“...Some hotel(s)...should do well, too. Hotels, of course, have the shortest leases of all – often just one night – making their revenue the most sensitive to economic strength...”

“...Stay away from...office buildings. They behave like bonds because their tenants have long leases with fixed rentals – meaning that the value of their buildings tends to fall when interest rates rise...”<sup>123</sup>

.....  
“The office market continued its gradual growth as the vacancy rate dropped to 8 percent at year’s end from 10.1 percent a year earlier.”

“The average asking rent for Hampton Roads office space increased 20 cents last year to \$15.84 per square foot at year’s end.”

“...rental prices will start to increase because of a growing demand and shortage of property for construction.”

“The industrial market, including warehouse and factory space, saw the overall vacancy rate at the end of 2005 slip to 5.1 percent, its lowest point since the survey began in 1995.”

“The market was driven by a lack of available space larger than 40,000 square feet, limited sales opportunities and a scarcity of land on which to build.”

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<sup>120</sup> Connolly, Allison with Meghan Hoyer, *Portsmouth and Suffolk to Share New Modeling Simulation Hub*, The Virginian-Pilot, January 12, 2006, D1.

<sup>121</sup> Cooper, James C. and Kathleen Madigan, *Katrina Will Force Hard Choices*, Business Week, September 26, 2005, p.29.

<sup>122</sup> Cooper, James C., *Business Gets Behind the Wheel*, Business Week, December 26, 2005/January 2, 2006, pp. 29-30.

<sup>123</sup> Coy, Peter, *After the Housing Runup*, Business Week, December 26, 2005/January 2, 2006, pp. 118-120.

“In the retail market, vacancies continued to decline and large blocks of space were scarce in 2005. The vacancy rate dropped to 7.55 percent at the end of 2005, from 9.41 percent a year earlier. As a result, the average rental rate for small shop space in South Hampton Roads rose to \$14.84 per square foot.”<sup>124</sup>

## Employment

“The Navy said it contributed more than \$10.7 billion to Hampton Roads’ economy last year, \$802 million more than the previous year. During the 2005 fiscal year, which ended Sept. 30, the number of active-duty Navy and Marine Corps personnel in the region increased by more than 1,400 to 84,873, thanks in part to the relocation of the Vinson from Bremerton, Wash., to Norfolk. The Vinson helped swell fleet personnel by 2,440, which more than offset the loss of almost 700 shore-based command personnel.”

“The Navy had a net gain of three ships in Hampton Roads as 10 arrived, while seven departed.”

“Civilian employment fell by 500 to 26,877.”<sup>125</sup>

.....  
“Construction wages average about \$19 an hour in the U.S. But some areas pay better than others...”<sup>126</sup>

.....  
“...Hampton Roads will still be able to add slightly more than 7,500 jobs this year, and the region’s unemployment rate will dip to 4 percent from 4.1 percent in 2005...”<sup>127</sup>

.....  
“Building jobs accounted for over 17% of all new jobs in the U.S.....”

“Any decline in construction jobs also will be troublesome because the industry provides well-paying jobs to workers who don’t have a college education. February average weekly earnings for construction workers stood at \$744, vs. \$533 for all nonfarm workers.”<sup>128</sup>

.....  
“Housing construction is equal to 5 percent of the national economy. A downturn in housing could mean more than 1.3 million lost jobs...”

“...a bubble burst would mean the loss of 5 million to 6.3 million jobs.”<sup>129</sup>

.....  
“The degree of labor market tightness hinges on how many people not counted in the official jobless rate would work if given the chance. People who have not actively looked for a job in the past four weeks are not officially considered a part of the labor force and thus not captured in the jobless rate. But as job markets improve, those people might easily dust off their resumes and start job hunting. The participation rate is now at 66%.”

“...an alternative measure of joblessness, which counts as unemployed those willing and able to work but not searching, is also declining. This rate, called U-5 by the Labor Dept., was 5.7% in January, down from 6.4% a year ago.”

“The alternative rate implies that discouraged workers are not why the participation rate is lower, and why it is unlikely to shoot back up. The reason is structural. The number of 16- to 24- year-olds in the workforce has been falling as more young adults go to college. Since 1997 the participation rate for this group has plunged from 66% to 60%. “You are not going to see 16- to 24-year-olds go back into the labor market en masse,” says Feroli.”<sup>130</sup>

<sup>124</sup> Batts Jr, Battinto, *Booming (For Now)*, The Virginian-Pilot, February 23, 2006, D1.

<sup>125</sup> The Virginian-Pilot, *Ship Juggling Brings Millions More to Local Economy*, The Virginian-Pilot, March 22, 2006, D1.

<sup>126</sup> Beucke, Dan, *The Big Picture: Raise the Roof*, Business Week, January 16, 2006, p.11.

<sup>127</sup> Shean, Tom, *Locally:2006 Economic Forecast*, The Virginian-Pilot, January 19, 2006, D1.

<sup>128</sup> Mehring, James, *Dreading a Teardown in Jobs*, The Virginian-Pilot, Business Week, p.28.

<sup>129</sup> Simon, Ellen, *Analysts: When it Bursts, Prepare for the Worst*, The Virginian-Pilot, November 12, 2005, D3.

<sup>130</sup> Mehring, James, *Just How Tight Are Job Markets?*, Business Week, March 13, 2006, p. 28.

“...since the mid-1990s, the growth in the percentage of adult women working outside the home has stalled, even slipping somewhat in the past five years and leaving it at a rate well below that of men...”

“At the peak in 2000, about 77 percent of women ages 25 to 54 were in the work force.”

“Bianchi, who studies time-use surveys, has concluded that, contrary to popular belief, the broad movement of women into the paid labor force did not come at the expense of their children. Not only did fathers spend more time with children, but working mothers, she found, spent an average of 12 hours a week on child care in 2003, an hour more than stay-at-home mothers did in 1975. Instead, mothers with children at home found the time for outside work by taking it from other parts of their day. They also worked more overall. Bianchi found that employed mothers, on average, worked at home and on the job a total of 15 hours more a week and slept 3.6 fewer hours than those who were not employed.”

“...the research suggests that women may have already hit a wall in the amount of work they can pack into a week. From 1965 to 1995, Bianchi found, the average time mothers spent doing paid work jumped to almost 26 hours a week from nine hours. Time spent on housework fell proportionately, to 19 hours from 32. Then the trend stalled. From 1995 to 2003, mothers, on average, spent about the same amount of time on household chores, but their work outside the home fell by almost four hours a week.”

“Today, about 75 percent of women 25 to 54 years old are either working or actively seeking a job, up from about 40 percent in the late 1950s. That expansion helped fuel economic growth for decades. However, the trend flattened in the early 1990s. Since 2000, the participation rate for women has declined somewhat; it remains far below the 90 percent rate for men in the same age range.”

“The decline in participation rates for most groups of women since the recession of 2001 at least partly reflects an overall slowdown in hiring, which affected men and women roughly equally. ‘The main reason for women’s declining labor-force participation rates over the last four years was the weakness of the labor market, said Heather Boushey, an economist at the Center for Economic and Policy Research.’”

“Today, only about 43 percent of women 25 to 29 have children younger than 6, compared with about 71 percent of women in that group in the 1960s.”

“By 2004, about 37 percent of all women ages 33 to 37 had children younger than 6, compared with 28 percent in 1979.”<sup>131</sup>

.....  
“...last year, the number of Americans who fell into poverty rose to 37 million-up 1.1 million from 2003...”

“...household income remained flat...the number of people without health insurance edged up by about 800,000 to 45.8 million people.”

“Overall, the nation’s poverty rate rose to 12.7 percent of the population last year. Of the 37 million living below the poverty level, close to a third were children.”

“The last decline in overall poverty was in 2000...31.1 million people lived under the threshold.”

“...32.9 million in 2001,...to 35.9 million in 2003.”

“...a family of four was considered living in poverty last year if annual income was \$19,307 or less. For a family of two, it was \$12,334.”

“Asians were the only ethnic group to show a decline in poverty-from 11.8 percent in 2003 to 9.8 percent last year. The poverty rate for whites rose from 8.2 percent in 2003 to 8.6 percent last year.”

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<sup>131</sup> Porter, Eduardo, *Working-Mother Trend Slows Down*, The Virginian-Pilot, March 3, 2006, D1.

“The median household income, meanwhile, stood at \$44,389, unchanged from 2003. Among racial and ethnic groups, blacks had the lowest median income and Asians the highest.”<sup>132</sup>

.....  
“The job market in Hampton Roads is strong, but the regional and national economies face steep challenges ahead, including a shortage of skilled labor, experts said at an employment forum Thursday. ‘The greatest crisis we face in the American work force is not the aging of the baby boomer-it’s the lack of preparation of our young people for the skilled work force.’”

“...average per capita income in the region, when adjusted for inflation, has lagged behind the national and state averages for 15 years...”

“With the gap between wages in Hampton Roads and the rest of the country, local wage growth ‘is probably not enough,’ ...”

“Local income growth intensified between 2000 and 2003, with an average annual growth rate of 2.65 percent, the report said. Although poverty rates in Hampton Roads declined from 14.0 percent to 10.6 percent between 1980 and 2000,...many disadvantaged people are sliding under the radar.”

“The jobs don’t pay enough to be self-sufficient. There are a lot of working poor in Hampton Roads. We also know that there are a lot of discouraged workers...”

“...75 percent of all jobs created nationwide will soon require education beyond high school. American communities are generally not prepared to provide workers with the additional knowledge and training they need...”

“The high school graduation rate in Hampton Roads-about 63 percent in 2004-is ‘not good enough’ .... That rate lagged the statewide tally of 76.3 percent and the nationwide rate of 68.2 percent last year. Minorities are especially at risk...”<sup>133</sup>

.....  
“Employers had to contend with skyrocketing energy costs, the Gulf Coast hurricanes and rising interest rates but still managed to add 2 million jobs to their payrolls in 2005.”<sup>134</sup>

.....  
“One in three adults in Portsmouth lack basic literacy...”

“...productivity and wages in the (Hampton Roads) region (will) be bolstered by demand for jobs in health care and computer science. Local wages...have lagged the national average. The relatively low cost of doing business in Hampton Roads, Whaley said, may attract new firms, but he wondered if they would provide good pay. ‘We hope that will attract companies,’ Whaley said. ‘But we hope they’re the right companies. I’m afraid some of them are coming for the low wages.’”

“...some companies may still be able to pay wages lower than the national average because of the quality of life in Hampton Roads. ‘People are willing to come here and work because they like it here,’ Whaley said. ‘In the case of Hampton Roads, this nonmonetary wage is significant-employers can hire people at lower wages.’”

“...the balance of power in the Hampton Roads job market is shifting to workers, rather than employers.”<sup>135</sup>

.....  
“Faced with what trucking experts describe as the worst labor shortage in the industry’s history, recruiters...are canvassing cities and holding job fairs to entice new drivers.”

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<sup>132</sup> Kerr, Jennifer C., *For Fourth Straight Year, Poverty Rate in U.S. Increases*, The Virginian-Pilot, August 31, 2005, A3.

<sup>133</sup> McWilliams, Jeremiah, *Future will See Lack of Skilled Labor, Experts Say*, The Virginian-Pilot, September 30, 2005, D1.

<sup>134</sup> Aversa, Jeannine, *U.S. Employers Added 2 Million Jobs in '05*, The Virginian-Pilot, January 7, 2006, D3.

<sup>135</sup> McWilliams, Jeremiah, *Job Market on Slow Upswing Experts Say*, The Virginian-Pilot, August 5, 2005, D1.

“...the driver shortage grew dire, industry economists say, starting in 2000 when average wages in construction and other blue-collar jobs surpassed those of long-haul drivers.”

“With predictions from the association that the current shortage of 20,000 drivers will grow nearly fivefold within a decade, trucking companies are offering generous 401(k), stock option, and health care packages to new recruits and cash bonuses and prizes to drivers who refer viable candidates.”

“Close to 10 percent of major fleets have their trucks sitting up against the fence because they’re short on drivers. Because more than three-quarters of all goods in the United States are shipped by truck, it is only a matter of time, Swain said, before the shortage causes delays in products hitting the shelves and leads to consumer price increases because of rising transportation costs.”

“...trucking has struggled to find workers-in part because the lifestyle is grueling.”

“Since 2000, drivers’ wages have started to rebound, though they still have not caught up with construction, according to the trucking association. In 2004, the average annual pay for a truck driver was \$34,920, and for a construction worker it was \$37,890, according to the Department of Labor. Union truck drivers make on average about \$60,000 and roughly 10 percent of all truck drivers in the country are unionized, and economist with the Teamsters said. The driver shortfall is expected to worsen in coming years because about 219,000 of the country’s 1.3 million long-haul truckers are older than 55 are likely to retire in the next 10 years.”<sup>136</sup>

.....  
“...the regions that see the most pain probably will be those where homebuilding has been a major source of new jobs. A decline in housing could accelerate job losses in the entire local economy...”

“...Housing matters so much because it has powerful spillover effects...building 100 single-family homes generate about 350 jobs for a year, 280 of which are local...”

“...new jobs in construction accounted for...a national average of 10%. This measure counts more than just housing construction. But often the construction of other things, such as roads, schools, and malls, follows the building of houses...”

“...Construction in...coastal cities has been constrained by severe zoning restrictions, along with a shortage of open land. While these factors drive prices up, they make local economies less dependent on construction for growth...”

“...Regions that are heavily dependent on housing for employment growth will suffer more than most when a downturn comes. And there’s no doubt that a reversal in the market will come eventually. Nationally, the economy’s dependence on housing is worrisomely heavy...”<sup>137</sup>

.....  
“No one can foresee the full impact on American society when the nation’s 77 million baby boomers start retiring next year...”

“...the U.S. can ill afford to lose all these workers right now. Fully 43% of the workforce is eligible to retire in the next 10 years, and the next two generations are at least 15% smaller. So if boomers retire on schedule, many companies will experience labor shortfalls...”

“...wages in the labor-starved advanced industrial nations could rise to uncompetitive levels, and more of the world’s creation of goods and services will move to the developing world – leading to even more dangerously lopsided imbalances in trade and finance than exist today...”<sup>138</sup>

.....

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<sup>136</sup> Urbina, Ian, *Trucking Along*, The Virginian-Pilot, February 28, 2006, A1.

<sup>137</sup> Coy, Peter, Magnusson, Paul, and Palmeri, Christopher, *Where a Slump Would Hurt Most*, Business Week, October 24, 2005, pp. 40-41.

<sup>138</sup> Garten, Jeffrey E., *Keep Boomers on the Job*, Business Week, November 14, 2005, p. 162.

“...the National Association of Manufacturers and Deloitte Consulting LLP showed that 81% of the more than 800 U.S. manufacturers surveyed reported moderate to severe skilled worker shortages...”<sup>139</sup>

.....  
“...employees putting in a 55-hour week saw their real pay rise by 14%...”<sup>140</sup>

## Lodging

“...hotel-room revenues are expected to climb by almost 5 percent to \$745.1 million.”<sup>141</sup>

.....  
“...In the second quarter, (Marriott’s) North American hotels posted an 11.2% increase in revenues per average room...Marriott is spending about \$20 million a year on (a) transformation strategy while franchisees pay for...upgrades...”

“...(Marriott’s) research showed that only 31% of travelers viewed Marriott as their top choice in 2004, down from 36% in 1999...”<sup>142</sup>

.....  
“This follows the recent launch of a new outdoor and airport ad campaign aimed at road warriors obsessed with productivity, featuring arresting images of athletes leaping out of bed; the slogan is “Revive.” It’s all part of the new Marriott being hatched by young brand execs recruited from Nike, Procter & Gamble, and Coca-Cola. “We want to go from being a logical choice to a brand that’s loved,” says a hopeful Michael E. Jannini, Marriott’s top executive brand management. Marriott is trying not to be a hostage to its own traditions.”

“He ditched his dowdy floral bedspreads and persuaded franchises to spend more than \$1 billion to update all 628,000 beds worldwide by yearend 2005. At flagship hotels first and then Renaissance Hotels, it’s offering high-tech panels featuring high-definition TV to use along with laptops, iPods, and other plug-ins.”

“...Marriott is deciding whether to launch his own ‘designer’ chain.”

“...the big moment for travelers occurs upon entering their rooms. Marriott is exploring how to enhance that ‘exhale moment,’ says IDEO designer Fred Dust.”

“In the second quarter, its North American hotels posted an 11.2% increase in revenues per average room, compared with 9.4% at Hilton Hotels, according to Citigroup.”

“...earnings are expected to grow 17% to 22% a year through 2008. Marriott is spending about \$20 million a year on the transformation strategy, while franchisees pay for the upgrades.”<sup>143</sup>

## Federal Reserve

“The Fed’s aggressive rate hikes are already pinching rate-sensitive sectors such as financial services, which saw profit slow from 12% to 2% year-over-year in the second quarter...”<sup>144</sup>

.....  
“The Fed pushed its target rate up a quarter-point, to 4.5%, at its Jan. 31 meeting, which marked the end of Alan Greenspan’s 18-year-plus tenure as Fed chairman.”<sup>145</sup>

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<sup>139</sup> Cooper, James C., and Madigan, Kathleen, *Tech is Pumping Life into Manufacturing*, Business Week, December 5, 2005, pp. 29-30.

<sup>140</sup> Hamm, Steve, Matlack, Carol, Farrell, Christopher, and Palmer, Ann Therese, *The Real Reasons You’re Working so Hard*, Business Week, October 3, 2005, pp. 60-67.

<sup>141</sup> Shean, Tom, *Locally:2006 Economic Forecast*, The Virginian-Pilot, January 19, 2006, D1.

<sup>142</sup> Yang, Catherine and Brady, Diane, *Marriott Hip? Well, It’s Trying*, Business Week, September 26, 2005, pp. 70-71.

<sup>143</sup> Yang, Catherine and Diane Brady, *Marriott Hip? Well, It’s Trying*. Business Week, September 26, 2005, pp. 70 and 72.

<sup>144</sup> Foust, Dean, Amy Barrett and Michael Arndt, *Sticking to The Sweet Spot*, Business Week, August 22/29 2005, pp.46-47.

<sup>145</sup> Cooper, James C., *Why the First Quarter Could Be a Corker*, Business Week, February 13, 2006, p.27-28.

“...the time of the heroic central banker and the all powerful central bank is coming to an end. If the incoming Fed chairman, Ben S. Bernanke, has his way, monetary policy will depend much less on the force of the will, keen economic insights, and other exceptional qualities of the Fed’s chief. Instead, Bernanke will move the Fed toward clear and coherent rules for hitting publicly announced inflation targets – an operating style that he calls ‘constrained discretion’...”

“...he’s one of a worldwide group of top monetary economists who have concluded that right thing to do is to shrink the scope of central banks everywhere and get them back to the mission of fighting inflation...”

“...The Fed under Bernanke will still have all of its vast powers – the ability to print dollars at will, regulatory clout over banks, and control over short-term interest rates...”

“...Bernanke, 51, lacks the sort of innate feel for the rhythms of the financial markets and business that only comes with experience...”<sup>146</sup>

.....  
“...-there’s not a hint in his (Ben Bernanke) work of support for right-wing supply-side doctrine.”

“Nor is he a laissez-faire purist who believes that government governs best when it governs least. On the contrary, he’s a policy activist who advocates aggressive government moves to jump-start stalled economies.”<sup>147</sup>

.....  
“Americans are spending everything they’re making and more, pushing the national savings rate to the lowest point since the Great Depression.”

“The Commerce Department reported Monday that Americans’ personal savings fell into negative territory at minus 0.5 percent last year. That means that people not only spent all of their after-tax income last year but had to dip into previous savings or increase their borrowing.”<sup>148</sup>

.....  
“...What is inflation targeting? It’s a policy of announcing what you’re going to do, and then doing it. Either the central bank or the elected government chooses and publicizes a target goal for the inflation rate...The bank then publicly estimates how high it expects inflation to be in the coming year. It steers monetary policy to try to hit the target inflation rate. If inflation is getting above the target, the bank would ordinarily raise interest rates to cool the economy and bring inflation back down. If inflation gets too low, the bank would lower rates to juice up growth, raising inflation...”<sup>149</sup>

.....  
“Ben Bernanke...chairman of the Federal Reserve, is making it perfectly clear that his top priority would be to continue Alan Greenspan’s legacy...”

“...Bernanke...never dissented from the Greenspan-led decisions on interest rates during his nearly three years at the Fed.”<sup>150</sup>

.....  
“...He (future Federal Reserve Chairman Ben S. Bernanke) hopes more openness will inspire investor confidence and keep market rates stable...”<sup>151</sup>

.....  
“...Bernanke’s greatest strength will be his intellect. Considered one of the finest monetary economists of his generation, the 51-year-old Bernanke can hold his own on the minutiae of credit flows and inflation expectations...”<sup>152</sup>

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<sup>146</sup> Miller, Rich, *The New Fed*, Business Week, November 7, 2005, pp. 30-34.

<sup>147</sup> Krugman, Paul, *Ben Bernanke and the Bubble*, The Virginian-Pilot, October 30, 2005, J5.

<sup>148</sup> Crutsinger, Martin, *Americans’ savings rate lowest since Depression*, The Virginian-Pilot, January 31, 2006, D1.

<sup>149</sup> Coy, Peter, *What’s the Fuss Over Inflation Targeting?*, Business Week, November 7, 2005, p. 34.

<sup>150</sup> Crutsinger, Martin, *What Would Alan Do? Nominee Knows*, The Virginian-Pilot, October 26, 2005, D3.

<sup>151</sup> Brady, Diane, *Best Ideas*, Business Week, December 19, 2005, pp. 74-82.

<sup>152</sup> Miller, Rich and Dunham, Richard S., *The Ascent of Gentle Ben*, Business Week, November 7, 2005, pp. 36-38.

“...Ben S. Bernanke, a former academic who heads the White House’s Council of Economic Advisors...has (not) been tested as a global crisis fighter...”<sup>153</sup>

.....  
“...(it was a) moot old assumption about growth and inflation. It was no longer true that inflation would result if growth exceeded about 2.5% or if unemployment fell below the 6% range.”

.....  
“Output of high-tech equipment is booming, but even excluding tech production, factories are using nearly 80% of their production capacity, the highest rate in 5 ½ years.”

“...pay of production workers is rising at a 3.2% clip from a year ago, the fastest yearly pace in more than 2 ½ years.”

“What the Fed will be watching for are signs that the growth in wages is greatly exceeding the ability of productivity gains to offset them. That’s the point at which tight labor markets will start to place upward pressure on inflation.”

“For 2005, unit labor costs appear to have grown less than 2%, a pace generally accepted to be consistent with tame inflation.”<sup>154</sup>

.....  
“...the incoming chairman of the Federal Reserve expects the real estate market to cool over the next year. Part of that is normal...”<sup>155</sup>

.....  
“...most homeowners are in a fairly good position to weather a shock if prices drop, Federal Reserve Chairman Alan Greenspan said Monday. ‘The vast majority of homeowners have a sizable equity cushion with which to absorb a potential decline in house prices...’

## Banking

“...The explosion in subprime lending, aimed at borrowers who do not have the income and credit standing to qualify for a conventional loan, accounted for an unusually large chunk of housing demand over the past five years. Now with interest rates rising and home prices cooling, that boom is about to become a bust...”

“...according to Bond Market Assn.,...subprime mortgage originations grew sevenfold from 2000 to 2005. Subprime loans now account for nearly 9% of all securitized mortgage debt, and the average loan is now nearly \$200,000...”<sup>156</sup>

.....  
“‘Lenders’ earnings have already begun to fall. ‘Profitability in the industry is down, and over time that will take its toll,’ says Doug Duncan, chief economist at the MBA.”

“Mortgage lenders make money by borrowing short-term funds at low interest rates and granting long-term loans at higher rates. The trouble is, the spread between short-term and long-term rates is narrowing.”

“The smaller the spread between the two rates, the harder it is for lenders to make a profit.”<sup>157</sup>

.....  
“More and more homebuyers are discovering that in a bull market, acquiring assets with other people’s money is the path to riches. They’re borrowing a rising percentage of their purchase prices, contributing to the housing boom.”

“...over a third of buyers have little or no equity in their homes at the time of their purchase.”

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<sup>153</sup> Miller, Rich, *Wanted: Fed Chief with Foreign Flair*, Business Week, October 24, 2005, pp. 62-63.

<sup>154</sup> Cooper, James C., *Can the Fed Keep Things Cooking at a Low Boil?*, Business Week, January 9, 2006, p.21-22.

<sup>155</sup> Our Opinions, *The housing market takes a breather*, The Virginian-Pilot, December 5, 2005, B8.

<sup>156</sup> Cooper, James C., and Madigan, Kathleen, *Where the Market is Most Vulnerable*, Business Week, December 5, 2005, p. 30.

<sup>157</sup> Hibbard, Justin, *So Many Lenders, So Few Takers*, Business Week, January 9, 2006, p.79-80.

“...buyers often take out a first mortgage for 80% of the purchase price and a piggyback loan for anywhere from 10% to 20% more.”

“...48% of home purchases this year, by dollar volume, involved piggyback loans, dramatically up from 20% in 2001.”<sup>158</sup>

.....  
“Home equity borrowings have doubled over the past five years, to \$911 billion.”<sup>159</sup>

.....  
“...Cheap loans are becoming a thing of the past...a house can no longer be treated as a piggy bank...”

“...A recent Fed study calculated that households extracted \$600 billion in cash from their homes in 2004. The money came from homes being sold, cash taken out during refinancings, and home-equity loans. Previous studies have shown that one-quarter to one-third of that money is used for current consumption. So equity extraction financed 30% to 40% of the increase in consumer spending last year, accounting for close to one percentage point or more of total real GDP growth of 4.2%...”

“...Mortgage broker Freddie Mac forecasts that cash-outs taken during refinancings will total \$162 billion this year...It forecasts that cash-outs will...slip to only \$69 billion for all of 2006.”

“...one out of three households surveyed used their credit cards to cover living expenses in four of the past twelve months...”<sup>160</sup>

.....  
“...the Senate Banking Committee plans hearings to consider tighter regulation of the raters.”<sup>161</sup>

.....  
“Late mortgage payments climbed to a 2 ½-year high in the final quarter of 2005.”

“...the percentage of mortgage payments that were 30 or more days past due for all loans tracked rose to 4.70 percent in the October-to-December quarter of last year. That was up from the prior quarter’s 4.44 percent delinquency rate.”<sup>162</sup>

.....  
“...with interest rates rising, the industry is preparing for a slowdown that may prompt some lenders to merge with their competitors.”

“Home buyers are already seeing lenders cutting loan fees, and some lenders are willing to offer lower mortgage rates even if it takes away from their profits.”

“Companies are losing money to keep market share...”

“At a mortgage banking industry convention in Orlando this week, many executives were clearly worried, with rising interest rates eating away at demand from consumers looking to buy homes or refinance existing mortgages.”

“Over half the loans made directly to consumers are arranged by loan brokers with some 8,500 lending companies or mortgage banks.”<sup>163</sup>

.....  
“...inverted yield curve-when short-term interest rates rise above long-term rates-and it hasn’t happened for five years.”

“...as the popularity of adjustable-rate mortgages-especially among first-time home buyers-has helped fuel the real estate boom, borrowers using them could see increased monthly costs as a result.”

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<sup>158</sup> Coy, Peter, *Piggy Bank-or House of Cards?* Business Week, August 22/29 2005, p. 36.

<sup>159</sup> Palmeri, Christopher, *Careful: That Credit Line Can Strangle You*, Business Week, August 1, 2005, p. 36.

<sup>160</sup> Cooper, James C., *Consumers are Finally Shifting Into Lower Gear*, Business Week, October 24, 2005, pp. 33-34.

<sup>161</sup> Edited by Richard S. Dunham, *Senate Heat on the Credit Raters*, Business Week, February 27, 2005, p. 41.

<sup>162</sup> Briefs, *Late Mortgage Payments Up*, The Virginian-Pilot, March 17, 2006, D3.

<sup>163</sup> Rozens, Aleksandrs, *Mortgage Lenders Brace for Home-Buying Slowdown*, The Virginian-Pilot, October 27, 2005, D2.

“The yield curve’s inversion may have occurred because there were few investors in the bond market this holiday week...It also may be signaling that some investors are worried the economy could slip into recession later this year.”

“Normally, long-term interest rates are higher than short-term rates because lenders and investors want higher returns for risking their money over a longer time. Either way, if long-term interest rates remain below short-term rates, demand for adjustable-rate mortgages could diminish.”

“It could make a big difference for first-time buyers.”<sup>164</sup>

.....  
“As commercial banks back away from making corporate loans, a new breed of lender is stepping in: Hedge funds are providing hundreds of millions of dollars to companies whose shaky credit disqualifies them for prime bank loans or whose needs are too puny to attract big commercial bankers...”

“...Hedge funds, which are unregulated pools of private capital, ‘are able to respond quicker to the needs of public companies and with more creative terms,’ says (Lawrence) Goldfarb (of BayStar Capital). ‘And they have a lot of cash to put to work.’...”

“...As commercial and investment banks have combined, the resulting behemoths have favored more lucrative activities, such as advising on mergers and acquisitions, and avoided commercial lending, which sometimes leads to losses...”

“...Hedge funds and other institutional investors now provide almost 50% of the \$509 billion market for riskier, high-interest rate loans to corporations. That’s up from less than 20% in 2000, according Loan Pricing Corp., a unit of Reuters...”

“...Prime loans from banks generally run 5% to 6%. Hedge funds elbowing into the corporate loan business are offering 6% to 8%, according to people in the industry...”<sup>165</sup>

.....  
“...spreading investment risk to these new players (hedge funds)...reduces the likelihood of a banking system meltdown if this class of borrowers suddenly tanks...”

“...It’s too soon to say if this explosion of hedge fund lending is a blessing or a curse...”<sup>166</sup>

## Interest Rates

“...some 82% of (mortgage) debt is in adjustable-rate loans, where rates can rise more rapidly than long-term fixed rates...if the Federal Reserve lifts its target rate to 5%, then fixed mortgages will rise about a percentage point by the middle of 2006, to about 6 ¾%, but the initial rate on subprime loans would jump by three points, into the 9.5%-10.0% range...”<sup>167</sup>

.....  
“...a survey of housing lenders showed that the rate on 30-year mortgages rose above 6 percent for the first time since March.”

“Realtors are already reporting a decline in demand.”

“The most likely pattern is for mortgage rates to gradually rise over time.”

“...that will translate into somewhat weaker demand for housing, lower home sales volume and lower house price growth.”

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<sup>164</sup> Rozens, Aleksandrs, *Unusual Bond Market Could Hurt Home Buyers*, The Virginian-Pilot, December 31, 2005, D2.

<sup>165</sup> Der Hovanessian, Mara, *Hedges: The New Corporate ATMs*, Business Week, October 31, 2005, pp. 34-35.

<sup>166</sup> Editorial, *The Invisible Lenders*, Business Week, October 31, 2005, p. 116.

<sup>167</sup> Cooper, James C., and Madigan, Kathleen, *Where the Market is Most Vulnerable*, Business Week, December 5, 2005, p. 30.

“Low mortgage rates have supported consumer spending on goods and services-which accounts for two-thirds of the nation’s gross domestic product...”

“...Stephen LaDue, president of Affiliated Mortgage of Wauwatosa, Wisconsin. ‘The rate of increase in home values will slow or will start to stagnate...’

“...adjustable rate mortgages...are linked to one-year Treasury rates...”<sup>168</sup>

“...interest rates will likely continue to rise well into 2006...”<sup>169</sup>

“...pay-option ARMs, which let borrowers choose from among various low-payment scenarios each month, with the principal interest recalculated accordingly. These loans are the most sensitive to rising interest rates, because their rates reset every month.”<sup>170</sup>

“The latest inversion, say analysts, could hammer housing-related companies because home-loan costs are rising for some borrowers. The adjustable-rate mortgages (ARM’s) that have fueled the booming coastal markets for three years are getting pricier as short-term rates jump. ‘The advantage of an ARM over a fixed-rate mortgage has largely been taken away given that the yields are (almost) equal,’ says Jim J. Fowler, an analyst at JMP Securities LLC in San Francisco. With ultra-low financing drying up, more buyers will be priced out of the housing market in 2006-bad news for homebuilders.”<sup>171</sup>

“...the rate for a 30-year conventional mortgage will climb only slightly, to 6.5 percent by year’s end.”<sup>172</sup>

## Inflation

“...inflation last year slightly exceeded the Fed’s expectation, and it is on a pace to do the same thing this year.”<sup>173</sup>

“Consumer prices rose by 3.4 percent in 2005 with 40 percent of the increase blamed on the biggest jump in energy costs since 1990.”<sup>174</sup>

“...the value of cheap imports from China-about \$240 billion in 2005-exceeds the net revenues of the U.S. securities industry. With that large an impact, it wouldn’t be a surprise if soaring wages in China translated to higher import prices and faster inflation in the U.S.”

“But here’s the surprise: For now the cost increases in China are not being passed through to U.S. prices. The latest data from the Bureau of Labor Statistics, released on Mar. 15, show that the price of imports from China has fallen by 0.4% over the past year, vs. a 1.8% rise in the price of non-oil imports from all countries. In part, rapid productivity jumps in Chinese manufacturing may be allowing employers to pay higher wages and still keep prices low.”

“...China and elsewhere, seem increasingly willing to take a hit against profits rather than raise prices when their costs go up. That’s what research from the Federal Reserve suggests.”

“...research shows, only about one-fifth of cost hikes are passed through, perhaps because importers want to keep their share of the U.S. market. These days manufacturers in China seem unable to pass on the higher costs. Wage inflation is ‘eating into margins. There is very little pricing power in China-or globally,

<sup>168</sup> Rozens, Aleksandrs, *Mortgage Rates Are Rising. Will the Housing Market Deflate?* The Virginian-Pilot, October 14, 2005, D1.

<sup>169</sup> Cooper, James C., *Business Gets Behind the Wheel*, Business Week, December 26, 2005/January 2, 2006, pp. 29-30.

<sup>170</sup> Hibbard, Justin, *How to Ride a Housing Bubble*, Business Week, February 27, 2006, p. 78.

<sup>171</sup> Farzad, Roben and Justin Hibbard, *Don’t be Thrown by the Yield Curve*, Business Week, January 16, 2006, p. 40.

<sup>172</sup> Shean, Tom, *Locally:2006 Economic Forecast*, The Virginian-Pilot, January 19, 2006, D1.

<sup>173</sup> Cooper, James C. and Kathleen Madigan, *An Economy This Warm Won’t Cool on Its Own*, Business Week, August 15, 2005, pp. 27-28.

<sup>174</sup> Daily Briefing, *Consumer Price Index*, The Virginian-Pilot, January 19,2006, D1.

anywhere-anymore,' says Michael Barbalas, general manager at the Suzhou factory of Andrew Corp., a Westchester (Ill.) maker of wireless networking gear.”

.....  
“Stellar productivity growth in the U.S. has become such a common feature of the economic landscape, it’s easy to take it for granted. That would be a mistake, especially now when efficiency gains are slowing down. This year smaller productivity increases will give businesses less of an offset to rising labor and other costs than in recent years. That will put pressure on companies to lift prices to keep profits from getting squeezed.”

“...productivity has slowed progressively for three consecutive at a time when wages and benefits of workers have accelerated. Last year, compensation grew 5.5%, the fastest clip in five years. The likely continuation of these two trends in 2006 will become crucial for the inflation outlook, because it means unit labor costs will be speeding up.”<sup>175</sup>

.....  
“...What will be the net impact of Hurricane Katrina on the economy?...”

“...With three-fourths of all goods moved by truck or plane, higher fuel costs will cycle into higher consumer prices across the board...”

“Additional indirect costs will include insurance industry losses and higher property insurance rates, a run on some building materials, and higher shipping costs for agricultural products that normally use the Mississippi River and the now ruined Port of New Orleans. All these higher prices will function like a tax on purchasing power...”<sup>176</sup>

.....  
“...the continued buildup in demand suggests core inflation is more likely to rise than slow in coming months...”

“...supply trends are warning signals about inflation. Production bottlenecks, delivery delays, and a short supply of goods on hand create a situation where businesses have an easier time raising their prices...”<sup>177</sup>

.....  
“...strong demand, rising rates of capacity utilization, and shortages of some skilled labor have the potential to push up prices...”

“...The economy is quickly using up its available labor and capital. When the economy is operating at full capacity, wage and price pressures are harder to combat despite the favorable structural trends...”<sup>178</sup>

.....  
“...most economists expect at least moderate upward pressure on core inflation...”<sup>179</sup>

.....  
“...better pricing power has taken root, and it will eventually be reflected in the inflation data...”<sup>180</sup>

.....  
“...the University of Michigan’s Index of Consumer Sentiment expectations did a superb job of forecasting the CPI in the 1980s, explaining 86% of the change in the index. By the 1990s the forecast data could explain only one-third of the actual inflation. And in this decade expectations tell you almost nothing about how inflation will actually turn out...”

“...What’s happening?...consumers have not yet accepted the globalization and higher productivity have made the economy more inflation-resistant...”

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<sup>175</sup> Cooper, James C., *The Double Whammy That Could Ignite Inflation*, Business Week, March 20, 2006, pp.25-26.

<sup>176</sup> Kuttner, Robert, *An Economic Storm Surge*, Business Week, October 17, 2005, p. 126.

<sup>177</sup> Cooper, James C., and Madigan, Kathleen, *The Real Inflation Threat Isn’t Energy*, Business Week, November 28, 2005, pp. 31-32.

<sup>178</sup> Cooper, James C. and Madigan, Kathleen, *GM Adds One More Brake on Inflation*, Business Week, October 31, 2005, pp. 27-28.

<sup>179</sup> Cooper, James C. and Madigan, Kathleen, *Entering the New Year With a Head of Steam*, Business Week, December 26, 2005/January 2, 2006, pp. 70-72.

<sup>180</sup> Cooper, James C. and Madigan, Kathleen, *How Companies are Keeping the Midas Touch*, Business Week, November 12, 2005, pp. 35-36.

“...consumer expectations about prices seem to be ignoring the new economic order.”<sup>181</sup>

## *Lifelong Learning Community*

### **Tourism**

“...(There will be) an increased number of Canadian vacationers, who will benefit from more favorable currency-exchange rates.”<sup>182</sup>

.....  
“Tourism spending in Virginia increased by 8.6 percent in 2004 compared with 2003...”

“In 2004, the state counted nearly 36 million tourist visits, representing a \$15.3 billion investment in the economy...”

“The state’s tourism industry generates more than \$2 billion in state and local taxes annually.”<sup>183</sup>

.....  
“...Colonial Williamsburg...”

“During its heyday in the 1980s, the 301-acre living history park attracted as many as 1.2 million paying visitors a year.”

“Since then, the annual paid attendance has fallen by a half million, leveling out at just more than 700,000 for the past several years.”

“Colonial Williamsburg is still the state’s top single tourist attraction...”

“Hotel occupancy rates in the Williamsburg area are the lowest of any metropolitan region in Virginia, having fallen to less than 50 percent in the past two years.”

“For the first time in five years, annual paid attendance for the Jamestown Settlement has exceeded the previous year...”

“Busch Gardens Williamsburg and Water Country USA also have seen attendance increase in the past couple of years.”

“Colonial Williamsburg also saw a slight uptick in attendance last year.”

“...a trend away from recreated historical attractions. Living history museums nationwide...have seen sharp decreases in attendance in recent years.”

“In the tourism arena, Williamsburg is going up against major attractions and activities.”

“According to the city of Williamsburg’s Economic Development department, the total number of businesses in Williamsburg has declined since 1998. That bucks a state growth trend. The city’s employment figures are similarly headed the wrong way-nearly 2,000 fewer people worked in the city in 2004 than did in 2001. Nearly all that reduction was in the tourism industry, which has seen employee numbers drop since 1990.”

“...Williamsburg...it collects the highest per-capita sales tax revenues in the state.”

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<sup>181</sup> Madigan, Kathleen, *How Not to Forecast Price Hikes*, Business Week, December 19, 2005, p. 26.

<sup>182</sup> Shean, Tom, *Locally:2006 Economic Forecast*, The Virginian-Pilot, January 19, 2006, D1.

<sup>183</sup> Daily Briefing, VA. *Tourism Spending Up*, The Virginian-Pilot, October 21, 2005, D1.

“Conventional development is way up, and it’ll continue to grow,” said Richard Schreiber, president of the Williamsburg Area Chamber of Commerce and Convention and Visitors Bureau. Tourism will continue to be an important piece of the economy, he said, but ‘not to the same degree it was.’”

“...the region lost state funding for a tourism advertising campaign in 2000...”<sup>184</sup>

.....  
“...(Virginia Beach is) starting to really develop some successes (in the convention business)...”

“It is...tough to book business though.”<sup>185</sup>

## *Pride of Past, Promise of Future*

### **Public Works**

“As part of a national crackdown on sewage overflows, the U.S. Environmental Protection Agency has told 11 counties and cities in Hampton Roads-including Virginia Beach, Chesapeake, Suffolk and Portsmouth-that they need to get serious about the problem or face federal intervention. The EPA wants the localities to sign agreements...”

“The agreements require the cities to spend millions to fix antiquated sewage systems within certain deadlines.”

“Utility directors across the region say residents can expect sewer and water fees to increase in the coming years-in some cases, dramatically- to finance better pipes, tighter valves and safer pumping stations.”

“...Hampton Roads Sanitation District, also will be required to modernize its systems, probably in most of the 11 affected localities. To finance its upgrades, the sanitation district likely will have to raise rates, too.”

“...if local governments do not cooperate, the EPA may launch investigations, take legal action, impose civil penalties or set in motion a combination of all three options.”

“The EPA wants the localities to sign agreements by the fall of 2007. They then would have about three years to identify problems, and another decade or so to fix them, depending on how much work needs to be done...”

“Sewage overflows typically occur during heavy rains and are especially prevalent in cities with older systems, which tend to develop cracks with age. The cracks allow rain to enter and flood the pipes, creating an unsavory- and potentially harmful-slurry of human waste and storm water.”

“Over the next two decades, Norfolk expects to spend \$177 million to modernize its 860-mile sewer network. The program will be paid for largely by steeper utility bills- up 44 percent since 2003...”

“Portsmouth is particularly nervous about the EPA’s initiative. The city has a very old system-some of its lines date to the late 1800s-and is chronically short on money.”

“...Portsmouth, and other cities, have slowly been replacing worn-out lines for years.”

“The Beach has quadrupled the amount of money set aside for improving aging equipment, from \$4 million a year to \$16 million a year...”

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<sup>184</sup> Hoyer, Meghan, *Tourists leave old out in the cold*, The Virginian-Pilot, February 21, 2006, A1.

<sup>185</sup> Ross, Genevieve, *On the Job*, The Virginian-Pilot, February 23, 2006, D3.

“Chesapeake is in the middle of studying its water and sewer rates...”

“Incidents...Portsmouth 79 overflows: 31,312 gallons.”<sup>186</sup>

.....  
The devastation inflicted by Hurricane Katrina is likely to drive up the prices of some Building materials in Hampton Roads and limit their availability, contractors, retailers and others in the building industry predicted Tuesday. The materials that will be affected, they said, include plywood, particleboard, drywall and roofing shingles.”

“For some types of plywood, the retail price has climbed to nearly \$25 a sheet from less than \$23 before the storm began, he said. Vaughan said he expected the price to surpass \$26 soon.”

“Don Harrison, a spokesman for the Atlanta-based retailer Home Depot Inc., said that prices for building materials in the short term probably would not rise significantly.”<sup>187</sup>

.....  
“Officials signed an agreement that will boost shipments of Mexican cement into the United States. The agreement, which will take effect on April 3, will allow imports of Mexican cement to rise to 3 million tons annually, up from what U.S. contractors estimate was 2.2 million tons of cement last year.”<sup>188</sup>

.....  
“Jonathan Drill is paying more for steel and concrete for the offices and warehouses he builds, and his clients-and their tenants and customers-are facing higher bills as well. Prices for construction materials, which also include lumber and plastics, have been climbing because of demand from overseas and higher energy prices. Construction companies that might have absorbed price increases in the past are now passing those costs along to their customers.”

“So far, it doesn’t appear that higher prices have prompted the industry to put up fewer buildings. ‘I have not seen a project killed,’ Drill said. ‘I have just seen aspects of the scope of the project scaled back.’ The higher costs promise to ripple through the nation’s economy, becoming an added burden for store owners and businesses that rent space in new commercial buildings. Faced with higher rents from developers who paid more to put up their buildings, these businesses will end up charging their customers more for goods and services.”

“We see it in lumber, concrete, insulation, drywall and vinyl...”

“Every week...suppliers send memos about price increases of 5 to 10 percent.”

“The run-up in construction costs is tied to a variety of factors. Higher crude-oil prices have made the delivery of goods more expensive and, since oil is used to make plastic pipes and vinyl siding, they also have driven up the costs of those products. Steel and concrete have risen amid shortages created by demand from overseas markets, especially China. In December, steel prices were up 4.2 percent from the previous year, while plastics were up 20.6 percent, according to the most recent data collected by Jim Haughey, director of economics at Reed Business Information. Cement was up 12.3 percent and gypsum wallboard was up 15.3 percent from a year ago.”

“...supply disruptions related to Hurricanes Rita and Katrina raised prices for PVC pipe, used by plumbers for water lines and electricians for wire conduits. PVC, or polyvinyl chloride, is a byproduct of natural gas.”<sup>189</sup>

.....  
“...Cash-strapped state and local governments have long deferred as much spending on roads, bridges, and water and sewer systems as possible.”

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<sup>186</sup> Harper, Scott, *EPA Forces Local Areas to Upgrade Sewer Lines*, The Virginian-Pilot, November 14, 2005, B1.

<sup>187</sup> Shean, Tom and Jeremiah McWilliams, *Plywood, Construction Workers May Be in Short Supply*, August 31, 2005, D1.

<sup>188</sup> Briefs, *Imports of Mexican Cement*, The Virginian-Pilot, March 7, 2006, D4.

<sup>189</sup> Rozens, Aleksandrs, *Building Up Prices*, The Virginian-Pilot, March 1, 2006, D3.

“The bill is coming due. According to a November study by consultants Cambridge Systematics Inc., governments will need to cough up an additional \$500 billion for construction and repair of roads and bridges over the next decade just to maintain the status quo. Modernizing the nation’s aging water and sewer systems, meanwhile, could cost as much as \$660 billion over the next 20 years according to the U.S. Environmental Protection Agency. At \$33 billion a year, that would be a sharp increase from the roughly \$10 billion that state and local governments currently spend.”

“...infrastructure is a 10-20 year growth story...”<sup>190</sup>

## **Taxation**

“Virginia ranks 12<sup>th</sup> among the 50 states in population (7.5 million) but 7<sup>th</sup> in per-capita personal income (\$36,175) and 46<sup>th</sup> in unemployment (3.7 percent). When it comes to state and local taxes, collections are 9.2 percent of overall personal income, which ranks the state 43<sup>rd</sup> nationally.”<sup>191</sup>

.....  
“In Virginia, the tax burden increased by 55 percent over (a) 10-year period, with an individual paying an average of \$1,903 in 2004. The Old Dominion ranks 31<sup>st</sup> nationwide in the analysis. The study does not adjust the numbers for inflation, which rose 26 percent during the 10-year window.”

“During the 10-year period of the study, the only major tax rate increases in Virginia occurred in the final months of 2004, when the sales tax rose from 4.5 percent to 5 percent and levies on cigarettes and real estate transfers were boosted.”

“...the revenue growth in the study is largely the result of profits that drove up corporate and income tax payments.”

“the percentage of personal income paid in taxes in Virginia rises from 9.6 percent in 1994 to 9.7 percent in 2004.”<sup>192</sup>

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<sup>190</sup> Foust, Dean, *A Pipeline to Profits*, Business Week, December 26, 2005/January 2, 2006, pp. 84-85.

<sup>191</sup> Our Opinion, *Fact and Fiction on State Spending*, The Virginian-Pilot, January 3, 2006, B6.

<sup>192</sup> From Staff and Wire Reports, *State Tax Burdens Rise Over Decade, Census Data Find*, The Virginian-Pilot, February 9, 2006, A1.