

BALANCING LOCAL BUDGETS IN THE POST-PANDEMIC ERA

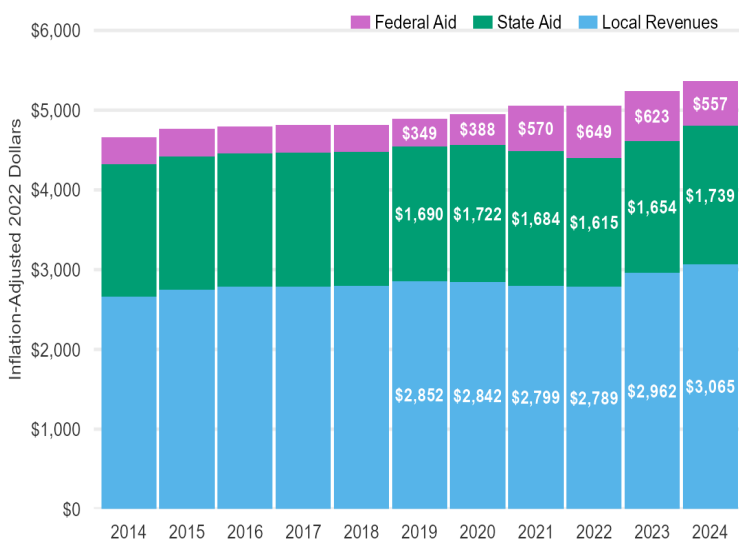
Local governments in Hampton Roads, like their peers across the country, have spent the past several years navigating a volatile fiscal environment. The combination of pandemic-era shocks, the subsequent historic rise in inflation, and today's economic uncertainty have created significant challenges for local budgets.

Nationally, the National League of Cities 2024 City Fiscal Conditions report showed that the post-pandemic rebound reshaped local government finances in several ways. Expenditures jumped in the immediate aftermath of the pandemic as demand for parks, recreation, and cultural services rose, while growing public safety needs placed additional pressure on budgets. Inflation magnified those pressures, driving up the cost of fuel, utilities, supplies, and purchased services across general operations. On the revenue side, property, sales, and income taxes all increased as housing markets strengthened, retail spending recovered, and unemployment fell. Federal support through the American Rescue Plan Act and the Bipartisan Infrastructure Law raised reported revenues while allowing local governments to maintain and expand services. By 2024, however, the pace of growth in revenues and expenditures slowed as federal aid tapered and municipalities shifted toward longer-term fiscal sustainability.

As illustrated in Figure 1, federal aid provided a significant lift to local government revenues in the region. Per capita federal transfers, which averaged under \$400 before the pandemic, climbed to nearly \$650 in 2022. They stayed elevated in 2023 before slipping to \$557 in 2024 as aid begins to wind down. Local revenues, the backbone of municipal budgets, grew from about \$2,850 per resident in 2019 to just over \$3,000 in 2024, the highest level in a decade once adjusted for inflation. State aid, by contrast, has been relatively stable, hovering near \$1,700 per resident. The pattern underscores a simple point. Federal dollars gave localities temporary breathing room, but the long-term capacity to sustain services rests overwhelmingly on local tax bases.

Figure 1: Hampton Roads Local Government Revenues

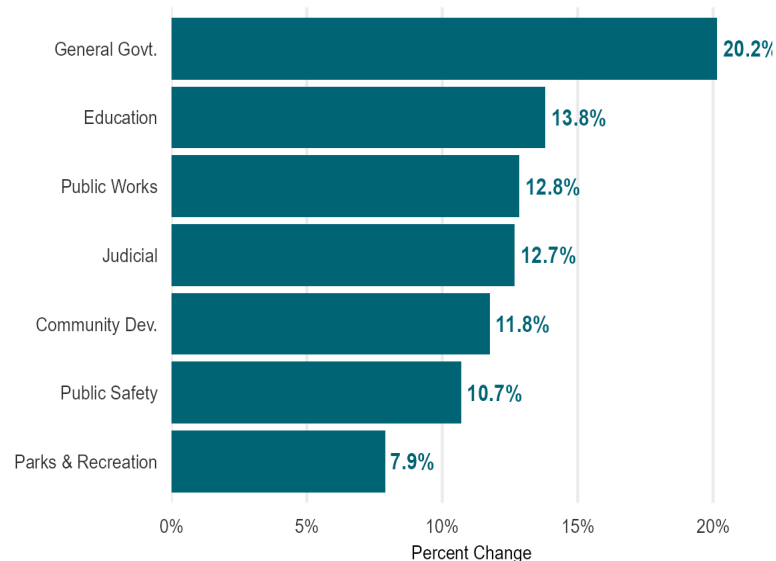
Per Capita Revenues by Source of Funds, 2014-2024



Data Sources: Bureau of Labor Statistics, Virginia Auditor of Public Accounts (APA).

Figure 2: Maintenance and Operation Expenditures, Selected Categories

HRPDC Localities, Inflation-Adjusted 2024 Dollars: FY 2019 - FY 2024



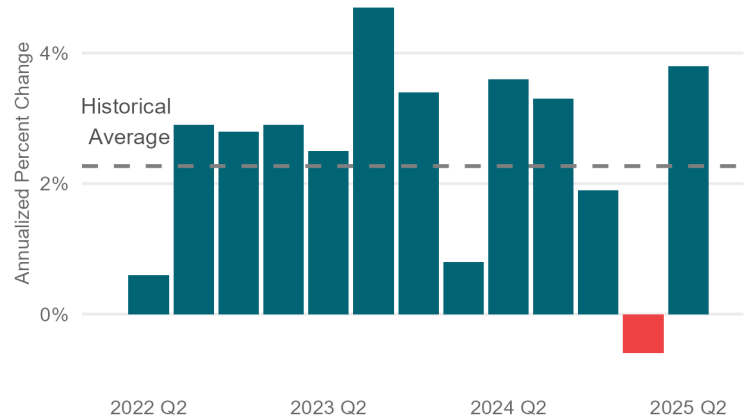
On the spending side (Figure 2), Hampton Roads localities have seen real increases in several major categories since 2019. General government costs grew the fastest, reflecting not only higher operating expenses such as fuel, utilities, and supplies, but also rising personnel costs in a tighter labor market.

Looking ahead, the federal aid that has supported local budgets since the pandemic is set to fully expire by 2026, with the final phase-out of ARPA funds. At the same time, reductions in federal spending are beginning to shift more costs onto state and local governments. For Hampton Roads, this means that the temporary relief of the past few years will give way to a heavier reliance on local revenues at a moment when inflation continues to put pressure on the cost of providing services.

GDP, ANNUALIZED GROWTH RATE (Q)

	Q1 2025	Q2 2025	Trend
United States	-0.6%	3.8%	

GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Inflation-adjusted GDP rose 3.8% in Q2 2025. Net exports accounted for 4.8 percentage points of GDP growth, followed by personal consumption expenditures (1.7). Gross private domestic investment accounted for a 2.6 percentage point decline in GDP growth followed by government spending (-0.01). In the first half of 2025 GDP growth averaged 1.6%, compared to 2.2% in 2024.

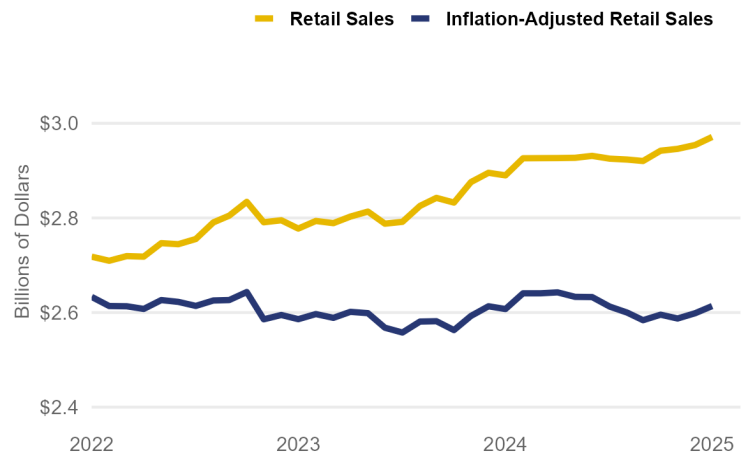


Source: Bureau of Economic Analysis, HRPDC

RETAIL SALES (M)

	Jul-24	Jul-25	Trend
Hampton Roads	\$3.15B	\$3.14B	
Virginia	\$16.03B	\$16.55B	

Retail Sales: Retail sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. Retail sales in July 2025 were down 3.0% year over year. When seasonally adjusted, retail sales in July decreased 2.8% from the previous month. Year to date retail sales have decreased 1.2% when compared to the same period in 2024. When adjusted for inflation, retail sales in July are up 15% when compared to levels observed prior to the pandemic in February 2020.

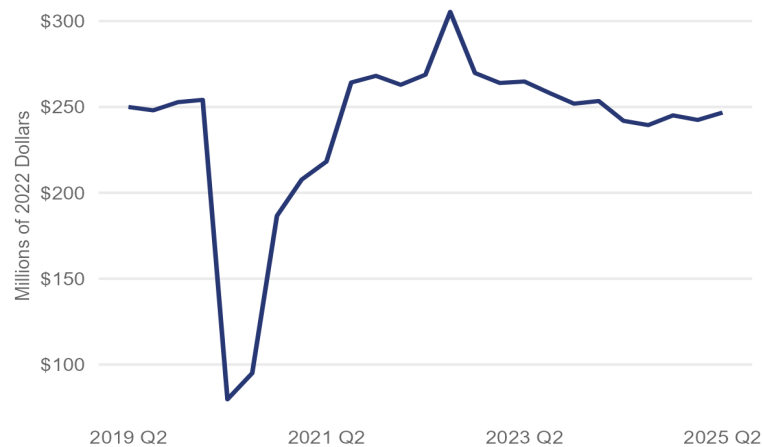


Source: Virginia Department of Taxation, HRPDC. Seasonally adjusted 5-month moving-average. Inflation-adjusted sales in 2022 dollars

ESTIMATED HOTEL REVENUE (Q)

	Q2 2024	Q2 2025	Trend
Hampton Roads	\$265.7M	\$279.1M	
Virginia	\$1,194.0M	\$1,203.8M	

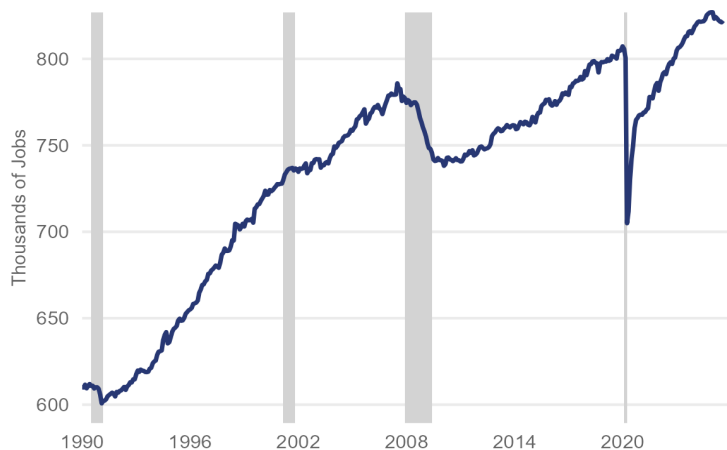
Estimated Hotel Revenue: Hotel revenues indicate the performance of the region's tourism sector. Hotel revenues in Q2 2025 were up 5.0% year over year. Seasonally adjusted revenues in 2025 Q2 increased 1.5% from the previous quarter. On a inflation-adjusted basis, hotel revenues showed a marked turnaround in Q2 2025 after declining year-over-year for more than seventh consecutive quarters.



Source: Virginia Department of Taxation, BLS CPI-U, HRPDC. Seasonally adjusted data.

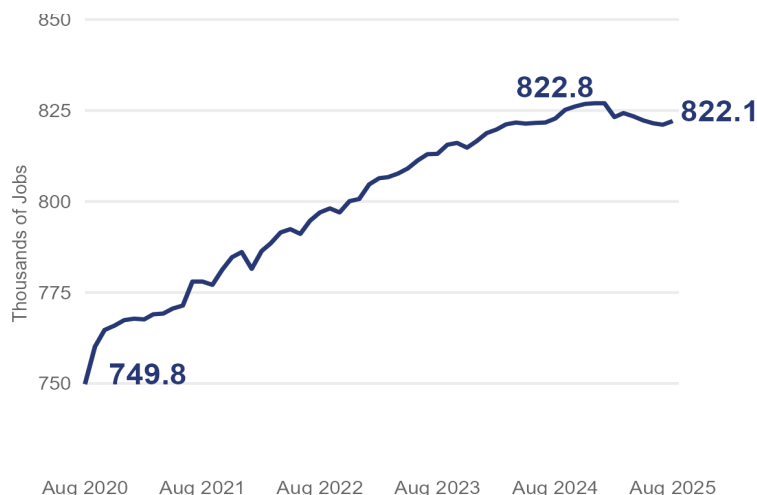
CIVILIAN PAYROLL EMPLOYMENT (M)

HISTORICAL TREND, SEASONALLY ADJUSTED



Source: Bureau of Labor Statistics, HRPDC

5-YEAR, SEASONALLY ADJUSTED



Source: Bureau of Labor Statistics, HRPDC

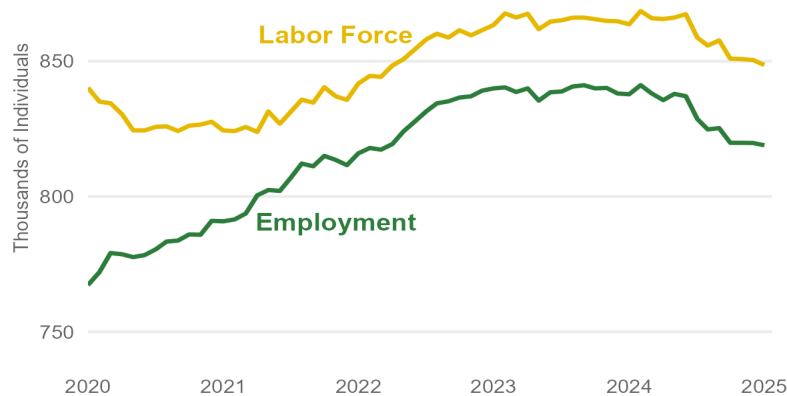
	Aug 2024	Jul 2025	Aug 2025	MoM Trend	YoY % Change
Hampton Roads	822,800	821,100	822,100	↗	-0.1%
Virginia	4,237,200	4,274,400	4,281,600	↗	1.0%
United States	158,074,000	159,518,000	159,540,000	↗	0.9%

Employment: A leading indicator of labor market activity, the Bureau of Labor Statistics' payroll survey of businesses and government establishments measures the number of nonfarm civilian jobs. In Hampton Roads, non-seasonally adjusted civilian jobs in August were down 0.1% year over year. Seasonally adjusted civilian jobs in August were up 0.1% from the previous month. In August Hampton Roads, Virginia, and the United States added job from the previous month. For Hampton Roads, August marked a positive turnaround after fourth straight months of job losses. Year to date, civilian jobs in Hampton Roads are up 0.2% when compared to same period in 2024, a slower pace than the Virginia (1.13%) and the United States (1.09%). The latest estimates continue to highlight the outsized impact of federal cuts on labor market conditions in the Hampton Roads region.

CIVILIAN LABOR FORCE (M)

	Aug 24	Aug 25	Trend
Labor Force	868,561	853,384	↘
Employed	838,143	818,986	↘
Unemployed	30,418	34,398	↗

Labor Force: The Bureau of Labor Statistic's household survey measures the employment status of the civilian population 16 years and older. An area's labor force is comprised of the number of people working (employed) and those actively seeking work (unemployed). In August the HRPDC's civilian labor force declined by 0.2% from the previous month. On a year-over-year basis, the labor force was 1.7% lower. August marked the seventh consecutive month of annual declines in the region's labor force.

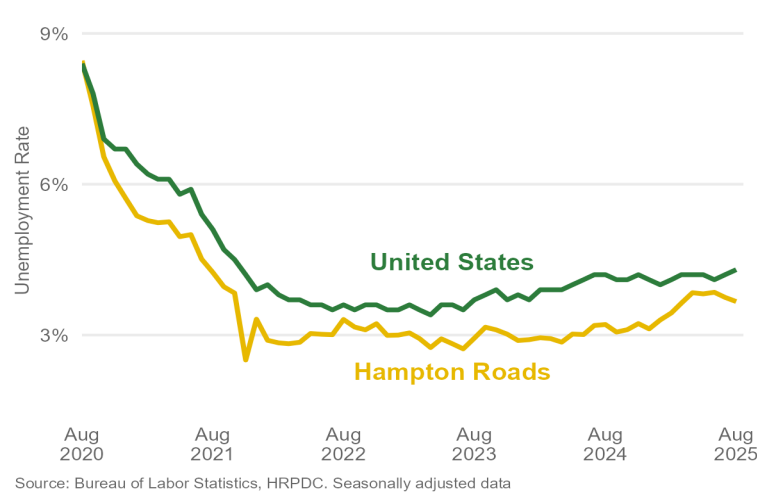


Source: Bureau of Labor Statistics, HRPDC. Seasonally adjusted data

UNEMPLOYMENT RATE (M)

	Aug 24	Jul 25	Aug 25	MoM Trend
Hampton Roads	3.2%	3.7%	3.7%	↗
Virginia	2.9%	3.6%	3.6%	→
United States	4.2%	4.2%	4.3%	↗

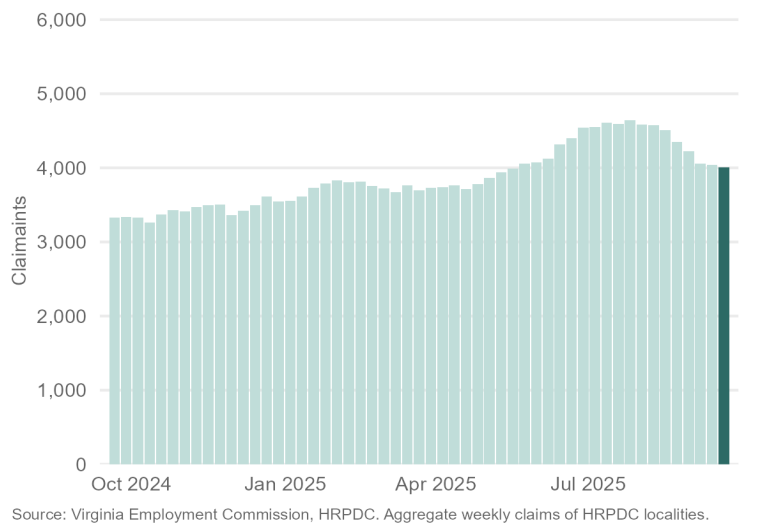
Unemployment Rate: The unemployment rate reflects the percentage of the labor force unemployed and actively seeking work. Hampton Roads' unemployment rate in August decreased from the prior month. Since January, Hampton Roads unemployment rate has risen 0.4 percentage points, compared to a 0.3 percentage point increase observed for the nation.



UNEMPLOYMENT CLAIMS (W)

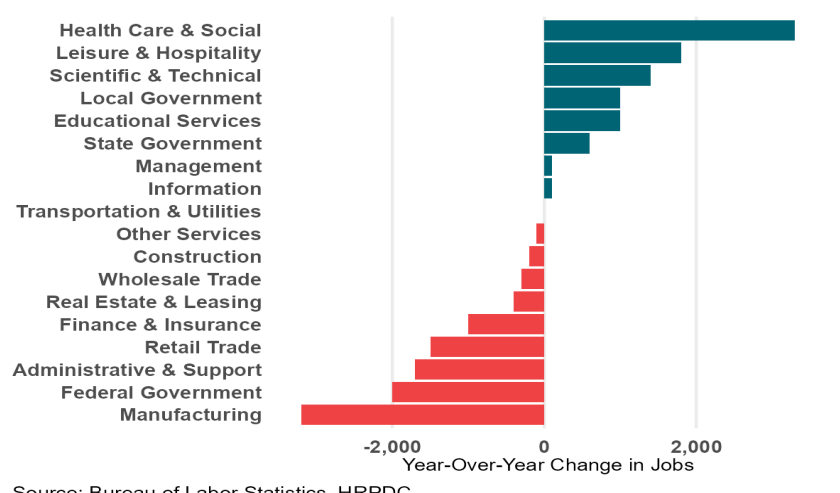
Week Ending	Sep 21, 2024	Sep 20, 2025	YoY Trend
Hampton Roads	3,329	4,007	↗
Virginia	14,167	19,122	↗

Continuing Unemployment Claims: The number of continuing unemployment claims is a coincident indicator reflecting those who remain unemployed after filing an initial claim, thus showing ongoing labor market weakness with minimal delay. In Hampton Roads, the number of continuing claims for unemployment benefits filed for the week ending September 20, 2025 are up 20.4% from the comparable week in 2024.



JOB GROWTH BY INDUSTRY (AUG, YEAR-OVER-YEAR CHANGE)

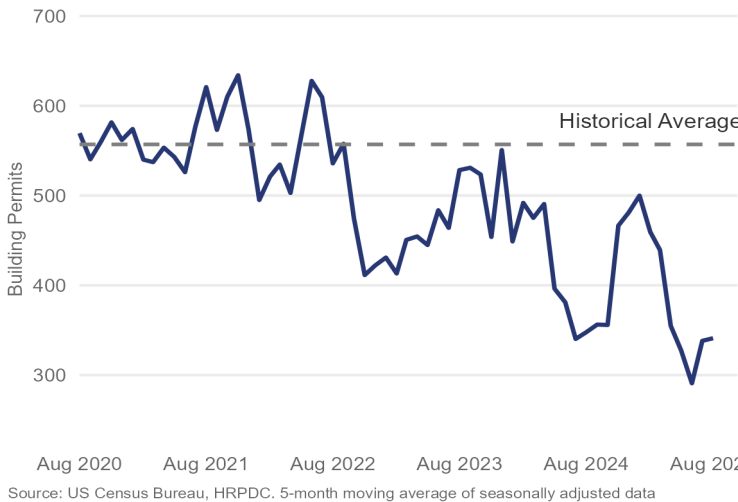
Civilian Job Growth by Industry: As the job market grows or contracts, there will be some industries whose experience does not resemble the regional trend. Less than half of the region's selected industry sectors added jobs in August when compared to the prior year. The largest gains were in Healthcare, & Social Assistance, which added 3,300 jobs year over year. Leisure & Hospitality (+1,800) and Scientific & Technical (+1,400) recorded the second and third largest gains. The largest year-over-year declines were in Manufacturing (-3,200), the Federal Government (-2,000) and Administrative & Support (-1,700).



BUILDING PERMITS (M)

	Aug 2024	Jul 2025	Aug 2025	MoM Trend
Hampton Roads	367	433	320	↘

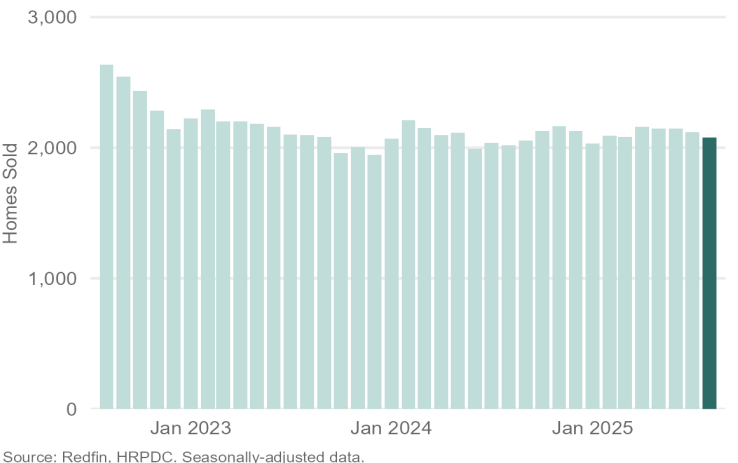
Building Permits: Permits issued across all unit types offers a snapshot of construction activity, housing demand, and trends in construction employment. In August local governments issued 320 new construction permits for both single and multi-unit structures, a decline from the previous month. Residential construction has remained below the historical average since mid-2022. Year-to-date totals remain well below last year's pace, down 14.7% compared with the same period in 2024.



RESIDENTIAL HOMES SOLD (M)

	Aug 2024	Jul 2025	Aug 2025	MoM Trend
Hampton Roads	2,020	2,119	2,077	↘

Homes Sold: Home sales measure the level of transactions in the real estate market over time, and a healthy real estate market should have a consistent level of activity. Seasonally adjusted home sales in August 2025 fell 2.0% from July, the second straight month of monthly declines. Sales were 2.0% lower than in August 2024, and year-to-date totals through August were 0.7% above the same period last year. Despite this increase, activity remains below the pre-pandemic levels of 2019.



30-YEAR FIXED RATE MORTGAGE AVERAGE (M)

	Sep 2024	Aug 2025	Sep 2025	MoM Trend
United States	6.2%	6.6%	6.4%	↘

30-Year Mortgage Rate: Shifts in the cost of borrowing for housing have a substantial impact on housing market trends. The 30-year fixed-rate mortgage represents the average interest rate paid by borrowers on newly issued mortgage loans, and these rates typically fluctuate in tandem with interest rate cycles. In September 2025, mortgage rates declined slightly from the prior month. Year-over-year, the average rate was down 0.17 percentage points. While the recent rate cut was welcome news, the higher-for-longer interest rate environment remains.

