Presentation to the Hawaii State Transit Oriented Development Council

April 4, 2017
Presented By:
Ken K. Hira
EVP Kosmont Companies
ICSC WESTERN DIVISION P3 RETAIL CHAIR
1230 Rosecrans Ave., Suite 630
Manhattan Beach, CA 90266
(949) 226-0288 khira@kosmont.com
www.kosmont.com
Who is Kosmont Companies?

Nationally-recognized real estate & economics advisory firm specializing in public-private transactions for 30 years.

• **Offers a full range of economics & real estate advisory services including:**
  – Market, Fiscal and Feasibility Analyses
  – Economic Development Strategies & Implementation
  – Identification of Funding Sources & Financing Strategies
  – Retailer/Developer Recruitment through [#KosmontRetailNOW!](#)® platform

• **Winning track record of initiating and implementing projects for municipalities**
  – In-house team includes registered municipal advisors, financial analysts, lawyers, former bond underwriters, former city managers & department heads
  – Extensive network of brokers, investors and market data for real-time information, and retail industry leadership

• **Kosmont is not just a “study” company – we create strategies & make projects a reality**
  – Over $12 billion in project negotiation and implementation since 1986 and hundreds of public private transactions
• **Demographic Profile**

• Retail Trends & Blended Use

• Next-Gen Economic Development: The California Story

• Case Studies

• Summary
Urban Honolulu & Honolulu County

Source: U.S. Census Bureau (2010); ESRI (2017); *Honolulu is a consolidated city-county, Urban Honolulu includes areas defined by ESRI as “Urban Honolulu” and “East Honolulu”. These are the more dense areas of the City with larger population centers.
Demographic Highlights (2016)

Population & Households
- Urban Honolulu* Population of ~403,500 and ~152,900 households; Honolulu County Population of ~999,800 and ~324,000 households
- 28% of entire State of Hawaii population falls within Urban Honolulu* and 70% of the State’s population resides in Honolulu County

Income
- Avg. HH income ~$90,500 in Urban Honolulu and ~$94,300 within Honolulu County
- 1.7% annual growth projected for HH income over next 5 years in Urban Honolulu and Honolulu County

Other Demographic Characteristics of Urban Honolulu
- Avg. household size of ~2.6 (below County and State averages)
- Median age of ~43 (higher than County and State median age)
- ~39% Bachelor’s Degree or higher (above County and State averages)
- Race: ~51% Asian, ~21% White, ~17% 2 or more races, (~58% Asian & Pacific Islander origin; 7% Hispanic origin)

Source: U.S. Census Bureau (2010); ESRI (2017); *Honolulu is a consolidated city-county, Urban Honolulu includes areas defined by ESRI as “Urban Honolulu” and “East Honolulu”. These are the more dense areas of the City with larger population centers.
## Population and Income

### Urban Area, County and State

<table>
<thead>
<tr>
<th></th>
<th>Urban Honolulu*</th>
<th>Honolulu County</th>
<th>State of Hawaii</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population</td>
<td>403,496</td>
<td>999,751</td>
<td>1,435,363</td>
</tr>
<tr>
<td>Households</td>
<td>152,863</td>
<td>324,047</td>
<td>477,631</td>
</tr>
<tr>
<td>Average HH Size</td>
<td>2.55</td>
<td>2.97</td>
<td>2.91</td>
</tr>
<tr>
<td>Median Age</td>
<td>43.2</td>
<td>38.2</td>
<td>39.1</td>
</tr>
<tr>
<td>% Asian &amp; Pacific Islander Origin</td>
<td>58.1%</td>
<td>49.7%</td>
<td>45.6%</td>
</tr>
<tr>
<td>Per Capita Income</td>
<td>$35,326</td>
<td>$31,544</td>
<td>$30,608</td>
</tr>
<tr>
<td>Median HH Income</td>
<td>$65,068</td>
<td>$74,851</td>
<td>$68,416</td>
</tr>
<tr>
<td>Average HH Income</td>
<td>$90,478</td>
<td>$94,342</td>
<td>$89,117</td>
</tr>
</tbody>
</table>

### 2016-2021 Annual Growth Rate

<table>
<thead>
<tr>
<th></th>
<th>Urban Honolulu*</th>
<th>Honolulu County</th>
<th>State of Hawaii</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>0.79%</td>
<td>0.83%</td>
<td>0.94%</td>
</tr>
<tr>
<td>Median HH Income</td>
<td>1.70%</td>
<td>1.70%</td>
<td>2.28%</td>
</tr>
</tbody>
</table>

**Source:** U.S. Census Bureau (2010); ESRI (2017); *Honolulu is a consolidated city-county, Urban Honolulu includes areas defined by ESRI as “Urban Honolulu” and “East Honolulu”. These are the more dense areas of the City with larger population centers.*
Educational Attainment

Population Aged 25+ by Educational Attainment (2016)

- **Urban Honolulu**
- **County**
- **State**

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Urban Honolulu</th>
<th>County</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bachelor's degree or Higher</td>
<td>25%</td>
<td>23%</td>
<td>21%</td>
</tr>
<tr>
<td>Graduate or prof. degree</td>
<td>14%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Some college or Associate's degree</td>
<td>28%</td>
<td>28%</td>
<td>26%</td>
</tr>
<tr>
<td>High school graduate or equivalent</td>
<td>27%</td>
<td>27%</td>
<td>25%</td>
</tr>
<tr>
<td>No high school diploma</td>
<td>24%</td>
<td>24%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau (2010); ESRI (2017); *Honolulu is a consolidated city-county, Urban Honolulu includes areas defined by ESRI as “Urban Honolulu” and “East Honolulu”. These are the more dense areas of the City with larger population centers.
Housing Breakdown (2016)

<table>
<thead>
<tr>
<th></th>
<th>Urban Honolulu*</th>
<th>County</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner Occupied</td>
<td>44%</td>
<td>52%</td>
<td>50%</td>
</tr>
<tr>
<td>Renter Occupied</td>
<td>47%</td>
<td>41%</td>
<td>37%</td>
</tr>
<tr>
<td>Vacant</td>
<td>9%</td>
<td>8%</td>
<td>13%</td>
</tr>
</tbody>
</table>

**Avg. HH Size**

<p>| | |</p>
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<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Urban Hon.</td>
<td>2.55</td>
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<tr>
<td>County</td>
<td>2.97</td>
</tr>
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<td>State</td>
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</tr>
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</table>

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Zillow Home Value Index

- Urban Honolulu County
- Hawaii
- USA

Source: Zillow.com (March 2017)
Outline

- Demographic Profile
- **Retail Trends & Blended Use**
- Next-Gen Economic Development: The California Story
- Case Studies
- Summary
1. **Big Box Shrinkage**
   - Size matters, but bigger is not necessarily better; most stores smaller by 25% to 75%
   - #smallboxretail

2. **Food and Place are New Anchor Tenants**
   - For the first time in history, U.S. restaurant sales have surpassed grocery sales
   - #YouCan’tEatorDrinkOvertheInternet

3. **Mixed Use is about the Right Blend**
   - Today’s “value” metric is more about time and trip generation than sales per square foot
   - #CommunityRetail instead of lifestyle retail

4. **Millennials Defining Consumer Demographics**
   - Misconception vs. Reality: More spending power than any other generation ($600B)
   - 80M strong, mobile devices are their medium for communication, research, shopping, etc.
   - #ExperientialRetailing

5. **E-Tail**
   - Union of retail consumption & electronic commerce
   - Retailers with robust omni-channels backed by physical stores, generate the most online sales
   - #Omnichanneling
What is Driving Change for Consumers?

Busy lifestyles:
- Two working parents
- Commuting and dining out

Changing Demographics:
- Millennial Segment
- Aging population

Increasing access to technology:
- Smartphone/tablet penetration
- Tech-savvy generations becoming key consumers
Changing Demographics of Consumers

MILLENNIALS

MISCONCEPTIONS

THEY’RE ALL BROKE

THEY DON’T CARE

SPOILED AND LAZY

FRIVOLOUS SPENDERS

THEY DON’T VALUE AUTHENTICITY

WE SHOULD DEVELOP CUSTOMER SERVICE STRATEGIES FOR THE BOOMERS FIRST

THEY FALL FOR THE FLASHY

THEY’VE GOTTEN ENTITLEMENT COMPLEXES

THEY LACK LOYALTY

A DANGEROUS MISCONCEPTION TO HAVE: CUSTOMER SERVICE IS LESS IMPORTANT TO MILLENNIALS

THE REALITY

80 MILLION MILLENNIALS (IN U.S. ALONE) $600B ANNUALLY

SPEND ROUGHLY

DEMAND AN INTEGRATED, SEAMLESS EXPERIENCE REGARDLESS OF CHANNEL.

THEMILLENNIALSHAVE INFLUENCE ON FRIENDS’ AND FAMILIES’ PURCHASING DECISIONS

WHAT DOES THIS MEAN FOR YOUR CUSTOMER SERVICE?

IT’S A CONVERSATION (ONE THAT IS INCREASINGLY DIGITAL)

CONVENIENCE IS KEY

DIGITAL SELF-SERVICE IS MORE IMPORTANT THAN EVER BEFORE

THE NEED FOR DIGITAL CUSTOMER SERVICE

WE SURVEYED 20 MILLENNIALS:

72.5% PREFER A WEBSITE THAT ANSWERS QUESTIONS QUICKLY OVER A CALL CENTER

79% TELL FRIENDS ABOUT BAD CUSTOMER SERVICE EXPERIENCES

51.5% EXPERIENCE WILL SWITCH TO A NEW COMPANY AFTER A BAD CUSTOMER EXPERIENCE

SOURCES: NIelsen 2, 3, 4, INTELLIRESPONSE 4, 5, 6, 7, 8, 9, ONLINEUNIVERSITIES.COM 10, 11, QUINTISSENTIAL CAREERS 12, 13, 14, ACCENTURE 15, 16, 17, FORRESTER 18, 19, CONTACT CENTER PIPELINE 20, 21, 22

WWW.INTELLIRESPONSE.COM
TOD is Trending!

BENEFITS OF TRANSIT ORIENTED DEVELOPMENT

Americans believe transit oriented development provides an array of benefits ranging from lifestyle to environmental to economic.

- 57% Reduce dependence on driving
- 46% Allow residents to live, work, and play in the same area
- 44% Reduce the area's carbon footprint or negative impact on the environment
- 44% Provide access to better life services
- 43% Stimulate the local economy
- 43% Provide better access between urban and suburban areas
- 39% Provide access to better entertainment or recreational services
- 37% Provide access to better jobs
- 30% Revitalize urban areas

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Source: Transit Oriented Development Institute
#BlendedUse

The 3D Effect:
1. Demand
2. Design
3. Density

- Residential
- Community Retail
- Experiential / Entertainment / Fitness
- Food / Grocery / Restaurants
- Medical / Office / Civic
"The convergence of physical and digital continues to be important as consumers have come to expect an integrated experience allowing them to buy products through a variety of channels," McGee said. "The survey data proves that omnichannel retailers are the real winners this season as they offer purchasing options that satisfy the shopping behaviors of all generations.

Source: International Council of Shopping Centers
Outline

- Demographic Profile
- Retail Trends & Blended Use
- **Next-Gen Economic Development: The California Story**
- Case Studies
- Summary
The California Redevelopment Story

Community Redevelopment Act (1945)

- Local governments allowed to form separate Redevelopment Agencies (RDAs) in California
- In 1952, Proposition 18 allowed for “tax increment financing”
- Cities and counties could declare “blighted areas” allowing agencies to acquire properties, enter public private transactions and leverage growth in property tax revenue from RDA project areas

Prop. 13 (1978)

- Capped the general-purpose property tax rate at 1% and growth of taxes at 2% annually
- Encouraged RDAs to use property-tax income to finance RDA projects by reducing other financing options
- Property taxes were reliable and consistent source of revenue stream

Source: HUD “Redevelopment Agencies in California: History, Benefits, Excesses, and Closure”; ABX1 26 Ch. 2, Section 34172.b (California, 2011)

ABX1 26 (2011)

- Governor Jerry Brown decided RDAs should be eliminated in wake of CA budget deficit
- Dissolution of RDAs and “all authority to transact business and exercise power” on Feb. 1, 2012
- RDA properties to be sold
California Shifting from Oil-Based to Green Economy

**NOW THE WORLD LEADER IN FIGHT AGAINST CLIMATE CHANGE**

SB 32 requires State to reduce greenhouse gas emissions 40% below 1990 levels by 2030.

**Focus of Next Gen Economic Development**

- Sustainable Infrastructure Investments / Transit
- Energy-Saving Industrial Processes
- Renewable Energy Investments
- Cap and Trade Program
- Building Efficiency Design and Upgrades
- CEQA Analysis Changes from LOS to VMT

NOW THE WORLD LEADER IN FIGHT AGAINST CLIMATE CHANGE

SB 32 requires State to reduce greenhouse gas emissions 40% below 1990 levels by 2030.
DESTINATION
DIGITAL
DEVELOPMENT
Cities have 9 BASIC TOOLS for Public/Private Projects

- Economic Development & Real Estate Projects
- Special Districts (Tourism, BIDs, etc.)
- Rebate of Taxes / Revenues
- Land Use / Zoning (Higher Density; DOR™; Parking)
- Property Assessed Clean Energy Finance Program (PACE)
- Community Revitalization & Inv. Authority (CRIA)
- Enhanced Infrastructure Financing Districts (EIFDs)
- P3 / Project Delivery Methods
- Grants / State / Federal Sources (EDA, CDBG, Cap and Trade Funds)

These tools often work best when used together

“Creating a Place” using E.D. 2.0 tools
The Plumbing of the World is Changing

- Tech changing the way we live: shifting retail and tenant mix, interaction and connectivity (driverless cars, robots, big data)
- Replacement of jobs with automation requires unprecedented commitment to “continuous” education and job creation
- Retail adapting to changing social habits, brick/clicks blending, focus on trips
- California Governor and Legislature shifting economy to a reduced carbon footprint “green” economy
- Green Mandates & Green Public/Private Projects with incentives will flourish
- Housing shortage hurts State’s competitiveness
- Cities need the private sector $$ to create jobs & tax revenue and housing
- New E.D. strategies required to respond to accelerated changes in climate action controls, technology, & lifestyle preferences
- Economic Development is not a mission, it’s an imperative
Governor Jerry Brown taketh and giveth …

- **Enhanced Infrastructure Financing Districts (EIFDs)**
  (SB 628/AB 313 Sept. 29, 2014/Sept. 22, 2015)
  - Focus on infrastructure and public/private transactions

- **Community Revitalization and Investment Authorities (CRIAs)**
  (AB 2/AB 2492 Sept. 22, 2015 / Sept. 23, 2016)
  - Similar with stringent eligibility standards & focus on affordable housing

- EIFD AND CRIA encourage regional approach with multiple local agencies (cities, counties & special districts) to maximize tax increment financing

- Can enhance tax increment with state funding geared to climate action and transportation programs: Cap & Trade/GGRF, PACE, Prop 1, plus regional transportation sales tax measures
**EIFDs at a Glance**

- Enables tax increment financing for local/regional projects (purchase, construction, expansion, improvement, seismic retrofit, rehabilitation)
- District lifespan is **45 years** to collect and spend property tax increment
- Any property with useful life of 15+ years & of communitywide significance
- Managed by newly created **Public Financing Authority** (led by city or county) – board of 5+ members, includes at least 2 public members
- Activities directed by PFA adopted **Infrastructure Financing Plan** (IFP)
- **No public vote** required to create District
- 55% landowner or registered voter election needed for tax increment bonds
- No school district increment allowed
- Does **not** increase property taxes
Community Revitalization Investment Authority (CRIA)

- Restores redevelopment authorities to disadvantaged communities
  - Carries out provisions of Community Redevelopment Law
- Formed by City or County (Special Districts allowed if CRIA is Joint Powers Authority)
  - 5+ member board, including at least 2 public members
- Allows projects to be financed by bonds serviced by tax increment
  - 30 years to issue debt; 45 years to repay indebtedness
- Powers of eminent domain granted to CRIAs for first 12 years of district
- No voter approval for formation or bond issuance, but subject to majority protest at adoption and every 10 years
- 25% affordable housing set-aside
- Must meet qualification requirements
Types of Projects EIFDs/CRIAs Can Fund

- Industrial Structures
- Aff. Housing / Mixed Use
- Civic Infrastructure
- Wastewater/Groundwater
- Light / High Speed Rail
- Parks & Open Space
- Childcare Facilities
- Brownfield Remediation

Source: SB 628/AB 2 - Bill Text
Issue

• Sprawl and lack of transportation options lead to auto dependency and excessive greenhouse gas (GHG) emissions

Opportunity

• Regions will look to reduce sprawl and improve air quality
• Transit-oriented development (TOD) is one way to not only reduce car dependency, but also to invest in the neighborhoods that surround transportation options
• The result is the creation of economically revitalized communities

Role of the EIFD/Tax Increment District

• Cities/Counties/Special Districts may participate in a tax increment district to build infrastructure, such as transit lines/systems, construct stations, and develop the neighborhoods around the transit terminals
• The District can fund physical improvements: sidewalks, streets, bicycle lanes, and new parking structures
• User fees from parking and revenue growth from rising property values, can be used to catalyze private investment
Kosmont assumed EIFD for **$150 million** project valuation shown below

<table>
<thead>
<tr>
<th>Commercial Development</th>
<th>($2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>45,000 SF</td>
</tr>
<tr>
<td>Office</td>
<td>29,375 SF</td>
</tr>
<tr>
<td>Hotel</td>
<td>80 Keys</td>
</tr>
<tr>
<td><strong>Subtotal Commercial Development Value</strong></td>
<td><strong>$47,500,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Residential Development</th>
<th>($2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential Owned</td>
<td>150 Units</td>
</tr>
<tr>
<td>Multifamily Rental</td>
<td>100 Units</td>
</tr>
<tr>
<td><strong>Subtotal Residential Development Value</strong></td>
<td><strong>$102,500,000</strong></td>
</tr>
</tbody>
</table>

**Total Development Value** | **$150,000,000**
• The city pledges 15 cents of tax increment to the EIFD
• In this scenario, the EIFD creates approximately $8.4 million in revenue over 30 years.
Tax Increment Financing at a Glance

- Authorized in 1985 under Hawaii Revised Statutes (Div. 1, Title 6, Subtitle 1, Ch. 46, Part IV, 46-101) “Tax Increment Financing Act”
- “Any county council may provide for tax increment financing by approving a tax increment financing plan and adopting an ordinance establishing the tax increment district”
- A county may exercise the power to:
  - Create tax increment districts
  - Issue tax increment bonds
  - Deposit tax increments into the tax increment fund created for such a District
  - Enter into agreements with redevelopment agencies and owners or developers of project lands and bondholders

Validity of TIF today??

Eligible Public Costs

- Bicycle lanes, bridge construction and repair, building acquisition, convention centers, curb and sidewalk improvements, demolition, drainage facilities, environmental remediation, lighting, park improvements, parking structures, wastewater treatment facilities, etc.

Source: Council of Development Finance Agencies (CDFA); Hawaii State Statutes Div. 1, Title 6, Subtitle 1, Ch. 46, Part IV, Sect. 46-101 to 46-104
• Demographic Profile
• Retail Trends & Blended Use
• Next-Gen Economic Development: The California Story

• **Case Studies**

• Summary
Retail/Mixed-Use Case Study: Old Town Newhall

- **Old Town Newhall in Santa Clarita, CA is currently undergoing revitalization**
  - Kosmont negotiated public private transaction
  - Old Town is downtown transit district in Santa Clarita located near Newhall Metrolink Station

- **Plans include:**
  - 372-space Public Parking Structure - broke ground March 2017
  - Newhall Crossings Mixed Use development (20,000 SF of retail; ~47 new apartment units) with central courtyard - construction slated for Sept. 2017
  - New Laemmle Art House Theater - construction to begin end of 2017
• EIFD Status
  ▪ EIFD under evaluation by City of La Verne as lead public agency
  ▪ La Verne’s EIFD Goals:
    • *Induce private development around future gold line station*
    • *Access Statewide sustainable funding sources such as Greenhouse Gas Reduction Fund (GGRF)*

• The Proposed District
  ▪ Proximate to University of La Verne, LA County Fairplex properties & future Gold Line Transit Station
  ▪ 388+ acres adjacent to La Verne’s Old Town Specific Plan Area
  ▪ Small number of private property owners

• Projects (public and private)
  ▪ Development of mixed-use housing, potential hotel, retail and event space
  ▪ Station area improvements, circulation infrastructure next to Foothill station
  ▪ Sustainable improvements to commercial and industrial structures
La Verne EIFD:
Preliminary Potential EIFD Map

- Westbound to Pasadena
- Eastbound to Montclair
- Metro Gold Line Route

Legend:
- Fairplex TOD (SA 1)
- Campus West (SA 2)
- North Area TOD (SA 3)
- Future Gold Line Station
- Old Town SP Area
• **Parking**: 600-space structure at the Gold Line Station, four future parking structures at buildout

• **Gold Line Improvements (Sub-Area 1)**: Platforms, bicycle racks and improved streetscape at station.

• **Pedestrian Access**: New bike lanes, pedestrian sidewalks, and a footbridge across Arrow Hwy. to connect proposed Fairplex development to Gold Line station.
Assumptions:
• Kosmont used initial 5, 10 and 20 year development projections and infrastructure needs to estimate tax increment revenues

<table>
<thead>
<tr>
<th>Development Type</th>
<th>Units</th>
<th>Projected AV/Unit/SF</th>
<th>Projected Total Assessed Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel</td>
<td>150 Keys</td>
<td>$100,000</td>
<td>$15,000,000</td>
</tr>
<tr>
<td>Retail</td>
<td>110,000 SF</td>
<td>$250</td>
<td>$27,500,000</td>
</tr>
<tr>
<td>Business Park</td>
<td>60,000 SF</td>
<td>$100</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>Apartments</td>
<td>920 Units</td>
<td>$175,000</td>
<td>$161,000,000</td>
</tr>
<tr>
<td>Condominiums</td>
<td>915 Units</td>
<td>$300,000</td>
<td>$274,500,000</td>
</tr>
<tr>
<td><strong>Total Projected AV New Development</strong></td>
<td></td>
<td></td>
<td><strong>$484,000,000</strong></td>
</tr>
</tbody>
</table>

Key Initial Findings:
• Project Area current assessed value ~$63 million
• Significant infrastructure funding capacity for district, further increased and accelerated with LA County participation
La Verne EIFD: Partnerships

• **La Verne Pitch to County for EIFD Participation:**
  - Goals of La Verne EIFD/CRIA are consistent with goals of County per County E.D. Resolution
  - Projects funded by EIFD/CRIA are regionally beneficial
  - EIFD/CRIA induces private investment, which increases tax increment for LA County

• **Tax Increment Potential for La Verne with LA County Participation:**
  - LA County receives ~30 cents on the dollar in property tax increment
  - City of La Verne receives ~22 cents
  - With LA County participation, EIFD district could increase tax increment above La Verne’s share, increasing/accelerating infrastructure funding capacity for district
• Demographic Profile
• Retail Trends & Blended Use
• Next-Gen Economic Development: The California Story
• Case Studies
• **Summary**
1. Well educated, high income population within Honolulu County

2. Changing demographics, busy lifestyles, and increasing access to technology are what is driving today’s consumers

3. Retailers are embracing physical and digital platforms to capture larger amounts of sales via Omnichanneling

4. Plumbing of the world is changing; shifts in technology, climate, and lifestyle require new Economic Development approaches

5. Next-Gen. Econ Dev fosters regional collaboration, energy efficiency, sustainability, infrastructure, quality jobs & creating destinations

6. Cities can use tax increment districts (EIFDs/CRIAs in CA) and other Econ Dev tools to achieve community objectives; private sector investment needed to yield taxes, jobs and development