



**The Town of Hilton Head Island
Planning Commission
Comprehensive Plan Committee
October 21, 2015 Meeting
2:00 p.m. Conference Room #3**

AGENDA

As a Courtesy to Others Please Turn Off All Cell Phones and Pagers during the Meeting.

- 1. Call to Order**
- 2. Freedom of Information Act Compliance**
Public notification of this meeting has been published, posted, and mailed in compliance with the Freedom of Information Act and the Town of Hilton Head Island requirements.
- 3. Acceptance of Meeting Notes from September 2, 2015 Meeting**
- 4. Discussion on updates to the following Element:**
 - **Economic Development**
- 5. Adjournment**

Please note that a quorum of Town Council may result if four or more of their members attend this meeting. A quorum of Planning Commissioners may result if five or more of their members attend this meeting.

Comprehensive Plan Committee of the Planning Commission

Meeting Notes

September 2, 2015

8:30 AM

Conference Room Three, Town Hall

Comprehensive Plan Committee Members present: Judd Carstens (Chairman), Peter Kristian, Caroline McVitty, Lavon Stevens

Community Development Staff present: Jayme Lopko

- Chairman Carstens called the meeting to order at 8:35 AM.
- The meeting notes for the June 3, 2015 meeting were accepted.
- Chairman Carstens introduced the Housing Element and Jayme Lopko went through the updates being proposed. After review and discussion the Committee was satisfied with the updates to this Element.
- Chairman Carstens introduced the Recreation Element and Jayme Lopko went through the updates being proposed. After review, discussion, and comment from the public the Committee requested a couple small changes to the current draft.
- Chairman Carstens introduced the Community Facilities Element and Jayme Lopko went through the updates being proposed. After review and discussion the Committee was satisfied with the updates as presented today as well as updates to data that staff will make when data becomes available.
- The Committee decided to meet on Wednesday November 4th at 8am to continue discussion on the review of elements of the Comprehensive Plan.
- Chairman Carstens adjourned the meeting at 9:17 AM.

Submitted by: Jayme Lopko

Chairman: _____

Meeting date: September 2, 2015

7. Economic Development

To support a vibrant, diversified economy that provides a wide spectrum of economic and employment opportunities and to catalyze new capital investment necessary to generate sufficient investment for the Town of Hilton Head Island to support the health, safety and welfare of the Town's residents and visitors.

Introduction

When the 2010 Comprehensive Plan was initially drafted, the Town of Hilton Head Island (HHI) was still emerging from the Great Recession, and real estate values had declined precipitously from their 2007 peaks. The economic downturn, combined with the real estate market slowdown, caused significant economic dislocation for the Town. As a result of concerns about the declining Town economy and its impact on Town revenues and services, the Town Council appointed an Economic Development Advisory Committee in April 2012 to make recommendations to the Town Council regarding potential new approaches and strategies to renew, broaden and deepen the Town's economy.

The central recommendation from the Advisory Committee's report was that "The Town should form a non-profit corporation with a full-time executive director, governed by a volunteer Board of experienced business executives, to raise the visibility of Hilton Head as a great place to live and work, and to work with other regional agencies to recruit targeted small businesses to locate on Hilton Head Island." The Hilton Head Island Town Council incorporated the Hilton Head Island Economic Development Corporation (HHIEDC) in June 2013 and appointed an 8-member Board of Directors in the fall of that year. The Board of Directors hired the first Executive Director of the HHIEDC in summer 2014, and the HHIEDC adopted its first formal Action Plan and Operational Plan in January 2015.

In addition, a new Hilton Head Mayor and Town Council member were elected in November 2014, which catalyzed a renewed discussion about the direction of the Town's economy. In December 2014, Beaufort County's countywide economic development organization—the Lowcountry Economic Alliance—dissolved after several years of controversy. In June 2015 the Beaufort County Council adopted a resolution supporting the creation of a new county economic development agency. The Beaufort County Council has initiated a dialogue with representatives of the county's municipalities—including the Town of Hilton Head Island—regarding the structure, governance, funding and program of work of the new county economic development organization.

The creation of the HHIEDC, the structural changes that are occurring in the Town's economy, and new political leadership have caused a reexamination of the Town's economy and its future economic development direction. As a consequence, the Economic Development Element of the Town of Hilton Head Island Comprehensive Plan has been completely rewritten from the 2010 iteration. At the same time, Beaufort County is updating its Comprehensive Plan, which also includes an economic development element, as the County Council discusses the structure of a new county-wide economic development enterprise and its relationship to the county's municipalities.

The Economic Development Element of the 2010 Comprehensive Plan was informed in part by stakeholder input, including 30 interviews with community leaders in 2007-2009, 67 consultant-led structured interviews, 564 responses to a 2008 Community Assessment Survey, and input received from community meetings involving 343 Islanders. Many of the respondents emphasized the importance of preserving the Island's natural resources as key to the Island's future economic development. The 2010 document framed the economic development discussion as follows:

"The central issue now is how to sustain this economic system as the Town transitions from a successful growth phase to relative maturity while preserving the natural settings, fragile ecology, amenities and infrastructure that will continue to attract and retain retirees, visitors and new residents."

No similar stakeholder outreach has been undertaken as part of this 2015 update. The HHIEDC has, however, conducted a survey of non-resident second home owners about their opinions of Hilton Head Island as a business location, as well as a survey of existing business owners regarding their experience operating a Hilton Head Island-based business. While the "central issue" captured in the 2010 document is still relevant today, it does not directly address either the retention and expansion of existing businesses nor the attraction of new businesses to the Town of Hilton Head Island. The Town's economic circumstances have changed significantly since 2007-2009 when the stakeholder input was received for the 2010 document, so it is important to analyze the Town's current economy and where it is trending, as well as the climate for existing and new businesses.

The Town Council has committed to undertake a Town-wide visioning initiative that will solicit input throughout the community on a variety of issues facing the Town, including economic development. It is likely that this initiative will begin in late 2015 or early 2016. By engaging grass roots input from stakeholders representing diverse constituencies in the Town of Hilton Head Island, this effort will be pivotal in determining the future direction of economic development in the Town.

7.1 The Evolution of the Hilton Head Island Economy

Economic development in its broadest sense is the development of an economy. Although Hilton Head Island has a rich history prior to the mid-twentieth century, until the late 1950's the Island economy was sustained by agriculture, forestry and fishing undertaken by a small population of Island inhabitants. Although the Civil War saw the population grow to nearly 50,000—mostly Union soldiers—the Island's population plummeted following the war. In 1950, the Island's resident population was slightly more than 1,000 residents, the overwhelming majority of whom were Native Islanders whose families were directly descended from slave families freed at the conclusion of the Civil War.

The Island's economy, like much of the South and Southwest, was reshaped by air conditioning, which made hot and humid geographies hospitable year-round for permanent residents and visitors. Beginning in the late 1950's, with the construction of the first bridge to Hilton Head Island, large tracts of forested land on the Island began to be transformed into residential subdivisions. Notably, one of the first families to develop Hilton Head Island—the Fraser family—embraced a development philosophy that would become the model for many planned communities, not only on Hilton Head Island, but nationwide. The planned unit development concept contemplated a holistic private community model that blended residential and resort amenities with natural resources and aesthetic controls imposed through private deed restrictions and recorded land use covenants. The Frasers' Sea Pines Plantation on Hilton Head Island became the benchmark for numerous other Hilton Head Island communities, which differentiated Hilton Head Island in the resort/leisure marketplace and helped establish Hilton Head Island as a globally recognized leisure and retirement destination.

The Hilton Head Island economy was largely driven by the real estate development industry from the 1960's through the 1980's. Numerous development companies built communities that attracted full-time residents, second home owners, and leisure visitors. Not only was there an explosion of new residential and resort construction, new office and commercial buildings were built to house the large number of architects, planners, engineers, lawyers, bankers and other professionals who formed the employment nucleus of the real estate development sector. Moreover, with the construction of many new single-family and villa communities, the construction and building trades sectors also generated significant additional employment and economic activity on Hilton Head Island.

Real estate development, however, is a dynamic and cyclical industry, and the Hilton Head Island market experienced a great deal of financial turmoil almost from the inception of modern Hilton Head development by the first group of developers. There were several notable bankruptcies and multiple ownership changes over the years. Many new owners did not share the core values that the Fraser family and other early developers used to guide their planned

communities, and as the speculator market exploded in the late 1970's and early 1980's, developers began to build new products and projects that did not meet the same high standards of the early planned unit developments on Hilton Head Island.

Because Hilton Head Island was unincorporated and land use and zoning decisions resided in the hands of the Beaufort County Council, there was a groundswell of support in the early 1980's to incorporate the Town of Hilton Head Island, which occurred in 1983. Support to incorporate the Town of Hilton Head Island grew in the aftermath of the construction of several multi-family villa communities that did not reflect the quality desired by Island residents. These "stack-a-shack" units had been permitted by Beaufort County, and Town historians cite these modular developments as the catalyst for Town of Hilton Head Island incorporation.

Through incorporation, the new Town adopted regulations and land use ordinances to directly control development within the jurisdiction of the new Town. The Town over time replaced the lax County development standards with land use ordinances that were among the most restrictive in the country.

7.2 The Birth of the Town of Hilton Head Island

These new development regulations were not only intended to eliminate poor quality development, they were intended to slow growth and development overall. The incorporation of the Town of Hilton Head Island was one manifestation of a fundamental shift in the economic development of the Island—from one driven primarily by private development the goal of which was to sell real estate and catalyze growth, to one in which the residents, through the public sector (elected leaders, appointees and Town staff), sought to limit growth and economic development.

Notwithstanding the restrictive land use regulations, developers continued to build numerous residential and non-residential projects throughout the Town. The federal Tax Reform Act of 1986 significantly altered the real estate landscape in the late 1980's however, which resulted in significant economic dislocation on Hilton Head Island and the sale of many distressed development tracts to a variety of third party developers, many of whom did not embrace the values and aesthetic standards that had distinguished Hilton Head Island in the marketplace.

At the same time new real estate development was declining due to a lack of developable property, the Town of Hilton Head Island was emerging as a world-class resort destination, attracting high net worth leisure visitors primarily from a large geography of the East and Midwest regions of the United States. Even as construction of new residential communities declined, real estate sales to retirees and second home owners remained strong, and real estate values continued to climb. Single family home values peaked in 2007, when the average

sales price was \$1,173,424, and villa/condominium prices peaked in 2006, with an average sales price of \$449,294. Combined, the hospitality industry and real estate resales replaced real estate development and construction as the dominant private sector economic drivers for Hilton Head Island. This shift from development to hospitality/real estate resales was the first major structural economic change since the development industry exploded in the 1960's and 1970's, and the shift had significant implications for the Town and its residents.

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7.3 Hilton Head Island’s Perfect Economic Storm (2007-2012)

With the economy of the Town of Hilton Head Island disproportionately reliant on real estate and hospitality, the combination of the Great Recession and the global real estate collapse beginning in 2008 exposed the fragility of the Town’s economy. New construction permits plummeted, real estate sales and values fell, and visitation declined significantly—by some estimates as much as 25%. The resulting adverse impacts on the Town’s tax base and tax revenues were swift and major.

The table below shows the severity of the impacts on new construction:

NEW CONSTRUCTION PERMITS						
	Single Family	Value	Multi Family	Value	Commercial	Value
1990	404	\$67,984,736	16	\$5,863,662	40	\$10,529,256
2000	458	\$147,142,033	18	\$47,350,697	40	\$20,550,102
2004	327	\$139,973,701	9	\$20,758,858	42	\$19,133,381
2005	381	\$169,364,649	5	\$16,655,252	23	\$11,446,039
2006	208	\$115,986,503	16	\$47,234,160	26	\$11,552,419
2007	101	\$78,468,608	2	\$3,179,486	29	\$11,534,651
2008	44	\$32,787,999	2	\$2,873,986	19	\$9,231,258
2009	26	\$22,486,589	1	\$2,531,734	19	\$19,232,402
2010	49	\$27,170,953	0	\$0	9	\$7,032,135
2011	58	\$42,752,741	1	\$4,591,379	14	\$10,635,678
2012	76	\$42,752,741	0	\$0	8	\$3,659,312

Source: Town of Hilton Head Island

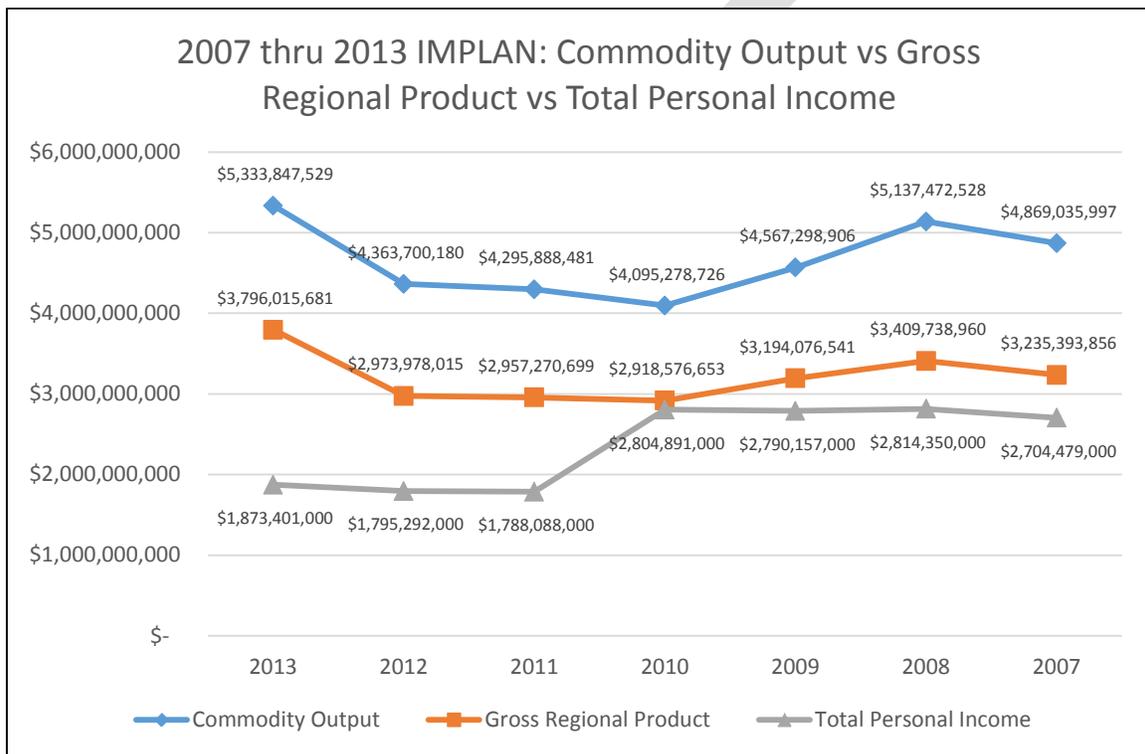
Real estate sales and volumes also dropped dramatically between 2004 and 2009 with a slightly increasing trend from 2009-2012.

REAL ESTATE						
	Single family			Villa/Condominiums		
	Closings	Avg. Sale Price	Total Volume	Closings	Avg. Sale Price	Total Volume
2004	1222	\$866,096	\$940,546,616	1794	\$319,191	\$493,449,516
2005	1299	\$987,003	\$1,211,373,120	1936	\$434,107	\$677,202,971
2006	753	\$1,082,437	\$750,611,056	783	\$449,294	\$310,682,273
2007	689	\$1,173,424	\$702,214,104	619	\$422,316	\$245,767,236
2008	522	\$948,782	\$448,386,517	464	\$396,375	\$188,627,605
2009	533	\$781,465	\$409,180,246	501	\$291,775	\$130,753,259
2010	611	\$669,689	\$409,180,246	727	\$249,005	\$166,948,764
2011	672	\$653,726	\$439,304,264	789	\$265,435	\$209,428,008
2012	768	\$632,342	\$485,638,891	897	\$226,232	\$202,704,286

Source: Charter One (compiled from MLS data)

7.4 Post-Recession Changes in the Hilton Head Island Economy

It was widely anticipated that the Town of Hilton Head Island economy would rebound following the Great Recession, and many sectors of the economy have experienced recovery. Community output and gross regional product, for example, now exceed 2007 levels, although total personal income lagged through 2013, which is the last year for which data is available.



In addition, tourism has recovered following the 2008-2010 trough and now exceeds pre-Great Recession highs. Both total visitation and RevPAR (revenue per available room) are now at record levels, and preliminary 2015 figures also continue this positive trend.

TOURISM (HHI)			
	Visitors	RevPAR	% Change
2009	2,214,322	\$77	12.3%
2010	2,228,329	\$80	4.2%
2011	2,373,381	\$86	8.0%
2012	2,441,813	\$92	6.1%
2013	2,591,013	\$94	3.0%
2014	2,644,595	\$104	10.0%

The growth of tourism has significant positive impacts on the Town’s economy. In addition to the jobs created in the hospitality and retail sectors, tourism generates significant income to local governments from accommodations, sales and property taxes and from business licenses fees paid by tourist-related businesses. Tourism also exposes Hilton Head Island to people who may choose to invest in real estate, retire or operate a business in the Town.

New single family home construction has also shown a healthy increase since 2012, and new commercial investment has also been robust, primarily in the resort and retail sectors. However, the total value of new residential construction remains far below its early-2000’s peak due to the reduced number of new homes constructed.

NEW CONSTRUCTION PERMITS						
	Single Family	Value	Multi Family	Value	Commercial	Value
2013	178	\$81,479,372	2	\$8,117,692	18	\$41,004,923
2014	168	\$96,881,348	1	\$2,274,481	13	\$26,228,011

Source: Town of Hilton Head Island

Similarly, real estate sales activity has continued to increase from its recession lows. Although the number of closings is up significantly from the 2008 nadir, average sales prices have continued to lag, compared not only to values at the peak of the real estate bubble, but also compared to 2004 levels.

REAL ESTATE						
	Single family			Villa/Condominiums		
	Closings	Avg. Sale Price	Total Volume	Closings	Avg. Sale Price	Total Volume
2013	830	\$633,206	\$525,561,288	885	\$264,546	\$234,123,026
2014	826	\$633,307	\$523,111,261	801	\$249,454	\$199,812,335

Source: Charter One (compiled from MLS data)

These data points show significant overall economic improvement in many sectors of the Town of Hilton Head Island economy since the Great Recession. Notwithstanding these improvements, however, a deeper analysis of the Town’s economy reveals structural deficiencies that, in the absence of deliberate intervention, indicate economic challenges for the Town going forward. As previously noted, real estate development was the economic engine driving the Town of Hilton Head Island economy from its incorporation through the 1970’s. As the Island began to approach development maturity, the Town of Hilton Head Island’s development industry declined, resulting in economic dislocations. The following chart reflects some of these structural shifts:

Hilton Head Island Comparative Data, 2007-2013

	Gross Regional Product	Total Personal Income	Total Employment	Population	Average Household Income
2007	\$3,235,393,856	\$2,704,479,000	46,643	44,046	\$126,940
2008	\$3,409,738,960	\$2,814,350,000	49,130	44,972	\$122,096
2009	\$3,194,076,541	\$2,790,157,000	47,873	46,407	\$137,144
2010	\$2,918,576,653	\$2,804,897,000	41,058	46,612	\$137,096
2011	\$2,957,270,699	\$1,788,088,000	40,720	40,745	\$106,254
2012	\$2,973,978,015	\$1,795,292,000	42,887	41,578	\$101,650
2013	\$3,796,015,681	\$1,873,401,000	38,267	42,731	\$96,262

Source: IMPLAN provided by Dr. John Salazar, USCB
 Data aggregated from 29925, 29926, 29928 and 29938 zip codes, which includes areas outside the incorporated Town of Hilton Head Island jurisdiction

While gross regional product now exceeds its 2008 high, the chart reflects a significant loss of employment and total personal income (nearly \$1 billion less than the 2008 peak). In addition, average household income has declined almost 30% from its 2009 high (from \$137,144 in 2009 to \$96,262 in 2013). This significant decline reflects the outmigration of jobs in development, real estate and construction and the increasing reliance on lower wage, lower skill jobs in the service industries, including hospitality, retail and food and beverage. The loss of nearly one billion dollars of personal income has had a domino effect on the Hilton Head Island economy, since the circulation of income multiplies the economic impacts across the entire community. While the IMPLAN data in this chart is merely a model and includes all of Hilton Head Island (not just within the municipal limits) and some off-Island residents in the 29926 zip code, the trends reflect a significant overall economic shift that has occurred, and is continuing, in the Town of Hilton Head Island.

As available real estate for new development declined to very low levels, new housing starts and new commercial permits declined as well, further reducing Town revenues. This was partially a result of the economic downturn, but it is also reflective of the Town's development maturity. As the Town of Hilton Head Island approaches build-out of remaining developable land, there will be a simultaneous decline in new construction activity, employment, and overall income. These fundamental changes not only impact private sector businesses and employees, they also have profound implications for the public sector—at both the Town and County levels. Local governments are charged with delivering services at the lowest costs possible, and an increasing tax base/tax valuation is necessary to fund local government services. Unless tax valuations increase, local governments must either reduce services or raise taxes.

7.5 Town of Hilton Head Island Economic Challenges

From a macro economic standpoint, the Town of Hilton Head Island remains in a strong fiscal position, with strong credit ratings and a healthy reserve. The Town’s high property values allow the Town of Hilton Head Island to have the lowest property tax rate of any Beaufort County municipality and one of the lowest municipal property tax rates in the state.

BEAUFORT COUNTY MILLAGE RATES (2014)

County Base Millage Rate

Beaufort County .05686

**Includes County Operations, County Debt, County Purchase Property*

Municipal Millage

City	Millage Rate
Beaufort	.07262
Bluffton	.04435
Hardeeville	.13600
Hilton Head Island	.02135
Port Royal	.06900
Yemassee	.07000

School District Millage

School District	Millage Rate
Beaufort	.13521

Source: South Carolina Association of Counties

The Town of Hilton Head Island’s high property valuations generate significant property tax revenues for the Town, allowing the Town to maintain a very low property tax rate. When revaluations occur, the tax rate adjusts to maintain overall revenue neutrality.

Notwithstanding the relatively strong financial position of the Town of Hilton Head Island, the Town faces several long-term structural economic challenges, the most significant of which are (i) the overall loss of jobs, (ii) continuing employment shifts from higher skill, higher wage jobs to predominantly lower wage service jobs, and (iii) stagnating assessed property valuations and declining development fee income, all of which have a direct adverse impact on revenues that are available to provide Town services.

Employment and Wages

Employment in resort communities generally—including the Town of Hilton Head Island—tends to be concentrated at the lower end of the wage spectrum. Although average *income* in the Town of Hilton Head Island is almost double the South Carolina average (\$45,195 for Town versus \$23,443 for South Carolina in 2010), average *wages* on Hilton Head Island lag. That is because “income” includes investment income, dividends, interest, Social Security and other transfer payments, which are greater in an affluent retirement community. Conversely, as the

following charts demonstrate, the employment mix on the Island is concentrated in lower wage service jobs, so average wages are below communities with a more diverse economic base. Nearly one-third of all Town jobs are in two job classifications: (i) arts, entertainment, recreation, accommodation and food services (20.2%), and (ii) retail trade (11.1%). (Source: 2011-2013 U.S. American Community Survey, U. S. Census Bureau).

The following two charts further document the dispersion of employment. The following chart shows sector employment for the 29925, 29926, 29928 and 29938 zip codes, which includes Hilton Head Island and the Moss Creek areas.

2013 Top HHI Industries by NAICS Category (2013 IMPLAN)

By Employment

1. Real estate
2. Full-service restaurants
3. Limited-service restaurants
4. Labor and civic organizations
5. Retail-Food and beverage stores
6. Scenic and sightseeing transportation
7. All other food and drinking places
8. Landscape and horticultural services
9. Offices of physicians
10. Services to buildings
11. Hotels and motels
12. Other amusement/recreation industries

By Commodity Output

1. Monetary authorities/depository credit
2. Real estate
3. Owner-occupied dwellings
4. Scenic and sightseeing transportation
5. Full-service restaurants
6. Wholesale trade
7. Electric power generation – fossil fuel
8. Labor and civic organizations
9. Offices of physicians
10. Limited-service restaurants
11. Management of companies/enterprises
12. Hotels and motels

Source: Dr. John Salazar, USCB

The following chart shows employment and average weekly wage rates for Beaufort County as a whole.

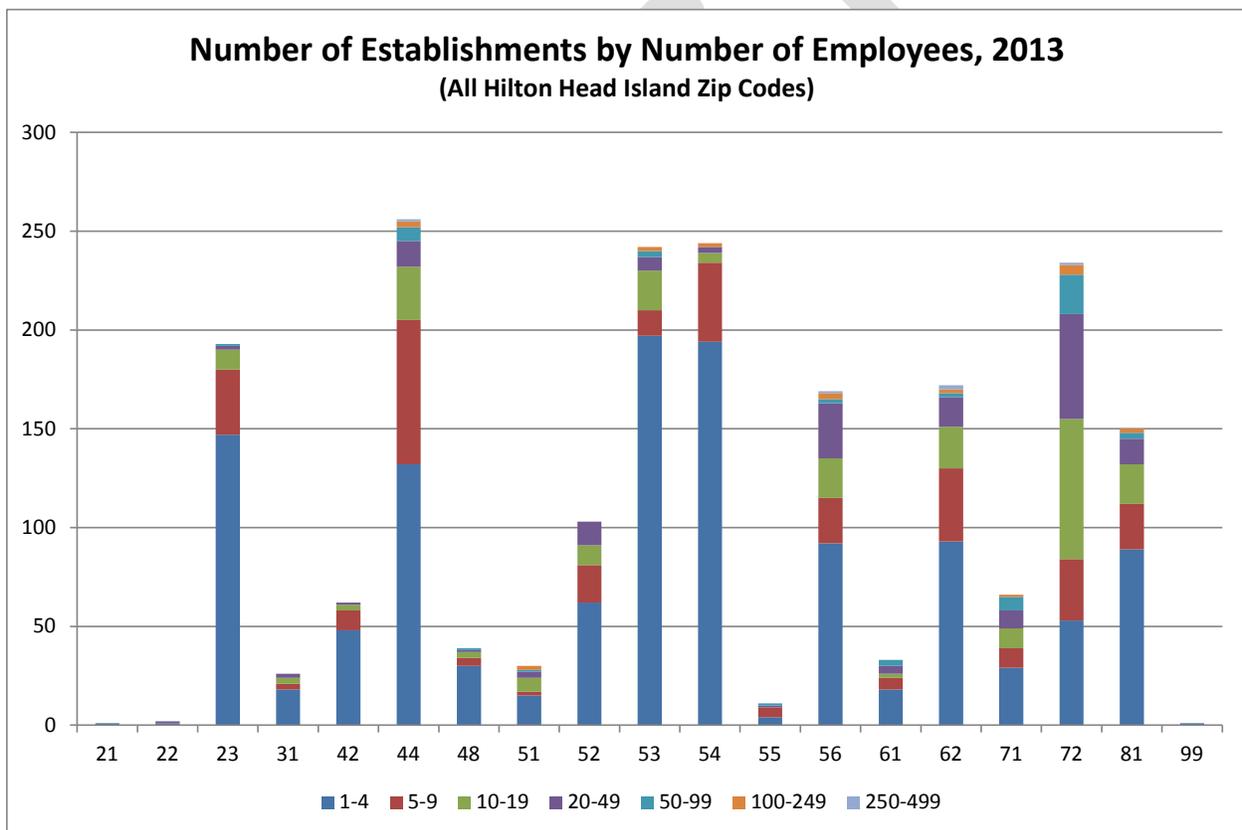
2013 Quarter 04 Wages for Beaufort County

<u>NAICS</u>	<u>Industry Sectors</u>	<u>Establishments</u>	<u>Workers</u>	<u>Avg Weekly Wage</u>
11	Agriculture, forestry, fishing and hunting	19	308	\$ 727
22	Utilities	7	158	\$1,144
23	Construction	604	3,090	\$ 848
31-33	Manufacturing	89	728	\$ 890
42	Wholesale trade	164	651	\$1,149
44-45	Retail trade	704	9,682	\$ 488
48-49	Transportation and warehousing	80	646	\$ 598
51	Information	65	474	\$ 707
52	Finance and insurance	225	1,463	\$1,370
53	Real estate and rental and leasing	355	2,069	\$ 842
54	Professional and technical services	587	1,952	\$1,453
55	Management of companies and enterprises	22	815	\$1,281

56	Administrative and waste services	385	3,593	\$ 594
61	Educational services	52	643	\$ 658
62	Health care and social assistance	405	5,958	\$ 905
71	Arts, entertainment, and recreation	111	2,063	\$ 485
72	Accommodation and food services	463	10,712	\$ 360
81	Other services, except public administration	446	3,285	\$ 643

Source: Bureau of Labor Statistics

By far, the two largest occupational sectors in Beaufort County are accommodations and food services (10,712 workers) and retail trade (9,682), which have two of the lowest average weekly wage rates of all of the sectors listed (\$360 and \$488, respectively). While these are county figures, the numbers of Hilton Head Island workers in these industry sectors is also very large and likely even more disproportionately concentrated in these two occupational sectors.



Source: Dr. Robert Carey, Clemson University; data from Census County Business Patterns

This graph represent Hilton Head Island employment by industry sector according to number of employees per firm. The numbers on the horizontal axis are the industry codes. A key is below:

21	Mining, Quarrying, and Oil and Gas Extraction
22	Utilities
23	Construction
31	Manufacturing
42	Wholesale Trade
44	Retail Trade
48	Transportation and Warehousing
51	Information
52	Finance and Insurance
53	Real Estate and Rental and Leasing
54	Professional, Scientific, and Technical Services
55	Management of Companies and Enterprises
56	Administrative and Support and Waste Management and Remediation Services
61	Educational Services
62	Health Care and Social Assistance
71	Arts, Entertainment, and Recreation
72	Accommodation and Food Services
81	Other Services (except Public Administration)
99	Industries not classified

This employment distribution presents multiple challenges to both the Town and Beaufort County. Although Hilton Head Island has a lower poverty rate than most South Carolina municipalities, a material number of Town of Hilton Head Island residents live below the poverty line. Even with multiple wage earners in a family, many families live near or below poverty levels. According to the most recent U.S. Census data (the 2011-2013 American Community Survey 3-Year Estimates), 7.7% of all Town residents had income during the previous 12 months below the poverty level. For children under 18, the percentage is 10.6%. To further illustrate the point, according to Beaufort County School representatives, nearly 40% of all students at Hilton Head Island High School District are eligible for federal free and reduced lunch programs.

Unless higher wage employment opportunities emerge, there is little economic promise and hope for Hilton Head residents living in poverty. In addition to the intrinsic difficulties faced by those living in poverty, individuals and families living near of below the poverty line often burden the social services budgets of local governments. The Town is adversely impacted on many levels, particularly since low income families often live in substandard housing lacking adequate infrastructure. The Town is currently exploring financing options for infrastructure expansions, particularly for paved roads and central sewer. The challenge to the Town is finding additional revenues to pay for these infrastructure improvements, in addition to the other expenses for which the Town is responsible.

Addressing these challenges will be difficult. Growing and attracting higher wage employment is difficult for any community, and attracting employers to a barrier island is even more difficult for many reasons.

Assessed Valuation

Stagnating property valuations is arguably the most critical challenge facing Town of Hilton Head Island leaders. Funding for all Town of Hilton Head Island services must be provided by taxes and fees collected by the Town. The high valuation of residential resort properties—both primary and second homes—has allowed property tax rates on Hilton Head Island to remain relatively low compared to most other South Carolina communities. But pressure to increase property taxes is increasing.

The development maturation of the Island has resulted in a stagnation of the Town’s assessed valuation, which correlates directly with the Town’s property tax revenues and the Town’s capacity to provide services. Residential real estate represents the largest component of the Town’s tax base. Based on 2014 data from the Beaufort County Tax Assessor, the total appraised value of all Town single family homes was \$9,272,571,000, and the total appraised value of all Town single-family condominiums/villas was \$3,375,677,100. The decline in residential real estate values, combined with a slowdown in the construction of new homes, villas and commercial projects, has significantly adversely impacted the Town’s tax base. Because Hilton Head Island is the largest contributor to Beaufort County property taxes, this decline in Hilton Head Island assessed valuation has significant implications for Beaufort County as well.

TOWN GOVERNMENT			
	Assessed Value*	Budget **	Millage Rate**
1990	\$244,027,611	\$26,664,301	12.50
2000	\$453,496,971	\$41,687,271	30.50
2010	\$949,555,131	\$71,901,772	18.54
2011	\$918,193,351	\$82,018,773	18.54
2012	\$927,151,628	\$87,588,079	19.33
2013	\$840,326,016	\$81,548,890	19.33
2014	\$817,099,066	\$82,524,586	20.83
2015	\$830,193,895	\$84,761,498	21.38

Source: * Beaufort County **Town of Hilton Head Island

Assessed valuations are determined by applying an assessment ratio (e.g. 4% for primary residents and 6% for non-resident property owners) to the total appraised value of property. As the chart above demonstrates, the assessed valuation of the Town of Hilton Head Island nearly doubled between 1990 and 2000, and it more than doubled between 2000 and 2010.

Since 2010, however, the assessed valuation of the Town has actually declined by over \$100 million compared to 2010, as new capital investment in the Island has been more than offset by the decline in values in both residential and commercial inventories as a whole.

This poses a significant challenge for the Town and its elected leadership. Without an expanding tax base, the Town will be faced with the unpalatable choice of either raising taxes or reducing services. Moreover, as the Town is being asked to provide additional services—from bicycle paths and road and sewer infrastructure to arts venues and other cultural amenities—the Town’s budget will be stretched even further. Without an increase in the Town’s tax base—either through new capital investment or appreciation of existing real estate—the Town will face increasing fiscal pressure to fund both current and future services.

7.6 The “Bluffton Factor”

One other significant issue impacting economic development in Hilton Head Island is the growth of the Town of Bluffton. Although the population of the Town of Bluffton is significantly less than the population of the incorporated Town of Hilton Head Island, Bluffton is one of the fastest growing municipalities in South Carolina. Moreover, there is rapid population growth in the areas surrounding the municipal jurisdiction of Bluffton, for which Bluffton serves as the commercial center. The availability of land for both new residential subdivisions and new commercial businesses within the Bluffton town limits and in the area immediately surrounding the Town has made Bluffton a significant and growing center of economic activity in Southern Beaufort County. Bluffton’s growth has also created for Hilton Head Island competition for new investment and jobs, including service jobs that compete directly with Hilton Head Island’s accommodations, food and beverage, and retail sectors.

Many high-profile businesses—including retail outlets and automotive dealerships— have left Hilton Head Island for off-Island locations in and around Bluffton. Perhaps less obvious is the slow but steady movement of many other businesses off-Island. Many professional service companies and contractors that previously served Hilton Head Island’s development industry have now moved to Bluffton, where many new residential communities and commercial projects are being developed. Medical service providers are opening offices off-Island and reducing their Hilton Head Island presence, and even Hilton Head Island restaurants are expanding into Bluffton, sometimes while downsizing their HHI footprint.

Following are the results of research conducted by University of South Carolina Beaufort Professor Dr. John Salazar comparing employment trends in Hilton Head Island and Bluffton from 2007-2013:

- In 2013, the HHI share of total HHI/Bluffton employment was 58% share while the Bluffton share was 42%
- Since 2007, HHI's share of Total HHI/Bluffton employment has declined from 67% to 58%, while the Bluffton share has grown from 33% to 42%
- The 2013 HHI Average Annual Wage was \$38,582.34 versus a 2013 Bluffton Average Annual Wage of \$41,174.38
- Since 2007, both HHI and Bluffton have experienced a 14% increase in Average Annual Wages
- Since 2007, Bluffton employment has increased by 19%, Bluffton employee compensation increased by 35%, and Bluffton proprietor income increased by 10%
- Since 2007, HHI employment decreased by 18%, HHI employee compensation decreased by 7%, and HHI proprietor income decreased by 5%.

Source: John Salazar, PhD, University of South Carolina Beaufort, based on IMPLAN data

A summer 2015 survey of existing Hilton Head Island businesses undertaken by Dr. Salazar on behalf of the HHIEDC found that this trend is continuing. Based on 301 survey responses from existing business representatives, approximately 10% indicated that they expected that their business would no longer be located on Hilton Head Island in three years. A significant majority of these survey respondents indicated that they would likely relocate to the Bluffton area.

While the Town of Hilton Head Island has many competitors in every aspect of its economy—including tourism, retirement, retail, office, medical and commercial—the Bluffton area poses a unique competitive challenge. The owners of many Hilton Head Island businesses have realized that if they relocate to Bluffton they will still be able to capture the Hilton Head Island market, since often there are limited competitors on the Island, and they can also serve the growing Bluffton, Okatie, Hardeeville, and even Beaufort and Savannah markets more easily from a central southern Beaufort County location. Moreover, because land is more available and commercial real estate sale and lease prices are generally lower off-Island, business owners (and the real estate brokers representing them) have found newer and more modern buildings for sale or lease at prices materially lower than comparably-sized older, poorer quality buildings on Hilton Head Island.

The factors causing the outmigration of businesses from Hilton Head Island are many. Some are demographic based on the relative growth of the Town of Hilton Head Island, where growth is slowing as the Island builds out, and Bluffton, where dramatic population growth is expected to continue indefinitely. Some are economic and driven by factors such as cost of real estate and access to labor. And some are less tangible. Regardless, if the leaders of the Town of Hilton Head Island desire to grow and diversify the Town economy, the impact of Bluffton and the off-Island migration of businesses must be better understood so that appropriate measures can be undertaken to retain businesses and simultaneously grow and attract new businesses to Hilton Head Island.

7.7 The Town's Economic Development Options

The Town of Hilton Head Island includes multiple constituencies with different perspectives on economic development. Much of Hilton Head Island's modern history has been shaped by battles over growth, which were often framed as economic development issues. Developers desired to sell real estate to new buyers, and as lots were sold and homes were constructed, many permanent residents wanted to slow or even stop growth on the Island. This tension between "pro-growth" and "no-growth" philosophies is not unique in retirement communities, but it was particularly acute in Hilton Head, which had attracted many affluent retirees because of the Island's natural resources and environmental stewardship.

As new development declined and the economy shifted toward tourism and real estate resales, tensions emerged between hospitality-related businesses and permanent residents who did not want to be burdened by additional visitors. Traffic impacts, in particular, were often flashpoints of conflict between retired residents and resort businesses. In recent years, however, those conflicts have largely subsided as most residents have come to understand the important economic and quality of life contributions of tourism to the Town of Hilton Head Island.

While the hospitality and residential real estate sectors are now acknowledged as the primary drivers of the Town's economy, the economic downturn from 2008-2010 caused community leaders to question the wisdom of having the Town's economy disproportionately reliant on only two economic sectors, particularly given the cyclical nature of tourism and real estate. The Town of Hilton Head Island must fund public services regardless of the Town's economic base and structure, and as the Town of Hilton Head Island emerged from the Great Recession, the Town Council recognized the vulnerability of the Town's economy and the Town's lack of control of its own economic future. With so much of the Town's economy reliant on tourism and real estate, Town leaders saw that the Town's economy was subject to the variations of global economic events and cycles over which the Town had no control.

The report of the 2012 Town Economic Development Advisory Committee noted the following:

"Previous work in the Mayor's Task Force, the Comprehensive Plan, and studies by others have identified the Hilton Head economy as very dependent on tourism, which is cyclical and impacted by recession and recovery cycles. There are also structural issues that affect our economy. Hilton Head is susceptible to the negative effects of an aging infrastructure, impacted by high vacancy rates of commercial office space, and at risk of future decline in property values and quality of life if a level of economic renewal is not achieved."

On the positive side, the hospitality/tourism sector of the Town of Hilton Head Island economy has fully recovered from the Great Recession, and absent another economic downturn, prospects for continued growth are excellent. The significant recent investments made by the Riverstone Group (owners of the Sea Pines Resort), the new Shelter Cove Towne Centre, and significant reinvestment in the Marriott, Omni, Sonesta, and Westin hotels all validate the future of Hilton Head Island as an attractive leisure destination. With visitation and RevPAR (revenues per available room) rising annually, the future of tourism in the Town appears bright. Although the tourism industry remains fiercely competitive, Hilton Head's beautiful beaches and abundant natural resources and outdoor recreational activities virtually guarantee that the Island will remain a popular tourist destination.

The question remains, however, whether an economy that is reliant on tourism will provide the revenues and resiliency that the Town's elected leaders need to sustain the provision of services desired by Town residents. After all, even in the face of record-setting tourism activity, residential real estate values remain stagnant on much of the Island. It was in part because of this concern—that a growth in hospitality would not by itself sustain the finances of the Town—that the Town created the Economic Development Advisory Committee and chartered the Hilton Head Island Economic Development Corporation. Town leaders had in 2012, and still have in 2015, a goal of building a “real community” of 40,000 residents that supports not only tourism and retirement but a broad-based economy with a wide spectrum of employment and housing opportunities. Achieving that outcome, however, will be challenging.

The Town of Hilton Head Island is at a crossroads. The Town has already made one significant economic transition—from development to tourism—and it now faces a second key decision point. There are fundamentally two future economic scenarios for the Town of Hilton Head Island. While there are many different ways the two scenarios could unfold, essentially there are a “default scenario” and an “interventionist scenario.”

Scenario Number 1: Hospitality and Real Estate: The “Default Scenario”

The default scenario is essentially one of sustaining the Town's current path without significant modifications to existing Town policies and investment. The most likely outcome over time from this approach will be an economy that is increasingly dependent on tourism and real estate resales. Almost all significant private sector commercial investment in the Town of Hilton Head Island since 2010 has been in the hospitality and retail sectors, and much of the retail investment is focused on leisure visitors. There has been almost no new investment in other sectors of the economy, including office, medical/professional, other non-retail commercial, or light manufacturing/warehousing. The existing Hilton Head Island real estate inventory to support those sectors was constructed decades ago to support the booming Hilton Head Island residential real estate development and construction industries. The private sector

is placing its investment bet on the continuing growth of the tourism industry; almost no other bets are being placed.

There is nothing inherently wrong with an economy based on tourism and real estate. That is typical among beachfront communities along the Atlantic and Gulf coasts. Such communities are, however, much more vulnerable to cyclical economic events and natural (e.g. storm events) or manmade (e.g. oil spill) disasters. As previously noted, they also generate employment that is concentrated in the lower end of the wage and skill spectrum. In addition, because Hilton Head Island once housed thousands of office and construction-related workers, in the absence of new development, the buildings once occupied by those companies and their workers will continue to deteriorate, with high vacancy rates and low rents, unless they are replaced or repurposed for other uses.

Tourism happens in a very competitive landscape. Hilton Head Island competes with other beach communities—particularly on the Atlantic and Gulf Coasts—for tourists, and the competitors are many. Many leisure visitors are attracted to new and fresh over old and outdated, which is why the recent investments in Hilton Head’s hospitality and retail sectors are particularly encouraging. Many vacation homes and villas, however, are older and have not been remodeled or updated, which adversely impacts the rental income, assessed valuation and positive economic impact generated for the Town. While market forces will likely drive renovations and tear-downs of single family homes, updating or replacing aging villa and time share communities will be extraordinarily difficult, if not impossible.

As development declined and development-related professionals moved off-Island, an increasing percentage of Hilton Head’s permanent population has become represented by retirees. The following chart shows the trend toward older permanent residents.

<u>Year</u>	<u>Population</u>	<u>Avg. Age</u>
1990	23,694	40
2000	33,862	46
2010	37,099	51

Because the choice of a retirement location also happens in a very competitive environment, it remains important that Hilton Head Island retain its attractiveness as a retirement destination. Many factors influence retirement decisions, including the price and quality of housing, local amenities, healthcare, community demographics, transportation access and state and local taxes. As coastal communities age, their popularity as both a leisure and retirement destination can decline. Moreover, there is increasing research which suggests that the Hilton Head Island development model—gated communities often built around golf amenities—will become less attractive to future generations of retirees.

The long-term impact of the default scenario on Town of Hilton Head Island and Beaufort County tax revenues and services is difficult to predict. Residential real estate is the largest component of the Island's assessed real property valuation. This includes homes and villas owned as primary residences, second homes, time and investment/rental properties. The market value of the Island's residential real estate peaked during the 2006-07 bubble, and it declined significantly during the Great Recession. While residential real estate values have recovered somewhat modestly since 2013, both single-family and villa values remain far below their 2006 peaks. Even with a record level of visitation in recent years, residential real estate values have not improved materially. That creates challenges for the Town of Hilton Head Island and Beaufort County, both of which need new revenues to fund services.

Scenario Number 2: Economic Diversity: The “Interventionist Scenario”

“The experience of Sea Pines and Hilton Head are instructive about what the private sector can and cannot accomplish. Attractive environments for those who can afford them are far easier to develop than places with housing and services for everyone who is part of a functioning community. Fraser set in motion a complex process that generated demand for housing that Sea Pines and other plantations could not supply, needs for public services that private companies could not provide, and a desire for public authority in the form of responsive local government that the private sector could not satisfy.” Michael N. Danielson, *Profits and Politics in Paradise*, 1995

In many respects, satisfying the demands for housing, employment and public services is even more challenging in 2015 than in 1995 when that book was written. Many professional jobs have left, buildings have aged, and less land is available to support new capital investment, in part as a result of the removal of private property from the marketplace by an aggressive public land acquisition strategy. New competitors to Hilton Head Island have emerged, including the Town of Bluffton. In the face of these changes, assessed valuations have stagnated, and opportunities for new Town revenues are severely constrained.

In Hilton Head Island, as in most communities, economic development goals include job creation, higher wages, and tax base expansion. Job growth occurs through combination of new business formation (entrepreneurship), existing business expansion, and new business attraction, all of which face significant hurdles on Hilton Head Island. In fact, as previously noted, Hilton Head Island is struggling against a strong tide simply to retain the businesses and jobs that are already located in the Town.

Beyond the traditional goals of job growth, higher wage employment, and tax base expansion, Hilton Head Town leaders have also articulated another economic development objective: economic diversification with a spectrum of employment opportunities outside hospitality and

real estate. But the creation of a strong and diversified economy is not solely an economic goal; it is an important component of a comprehensive strategy for the Town as a whole.

The Town's *2012-17 Sustainable Practices Action Plan* contains as one of its goals "Sustaining community prosperity through a diversified, strong local economy based upon resort, retirement and non-hospitality businesses." In addition, the recently adopted *Hilton Head Island Green Blueprint*, which is the final step in the Town's Audubon International Sustainable Communities Program, contained a similar goal: "Develop a more diverse, resilient and sustainable Island economy."

The goal of "economic sustainability" is subject to various interpretations, particularly on Hilton Head Island, given the Island's unique characteristics. At a minimum, however, it means an economy that provides employment and wages sufficient to support Hilton Head Island working families, and it means an economy that generates sufficient tax revenues to support the services desired by a majority of Town residents. It is uncertain whether the "default scenario" described in the preceding section will achieve either goal. While there is no assurance that the "interventionist scenario" will produce more favorable results, it is virtually certain that the public sector will have to play a much more active role if the Town is to achieve the Council's adopted goal for economic sustainability.

Achieving that goal will require a comprehensive community strategy. Creating the environment and opportunities for "broad and deep" economic development will unquestionably require a significant and proactive leadership role and intervention by the Town of Hilton Head Island. The challenge to Town leaders is how to grow and diversify the Town economy, enhance higher wage employment opportunities, attract younger families, and create new affordable housing options while maintaining the unique attributes that differentiate Hilton Head Island as a world-class leisure and retirement destination.

What that public intervention might include remains unclear. It will likely be determined in part by the Town's vision, the creation of which has been identified by Town Council as one of its highest priorities. While the Town Council has embraced the goal of creating a real community with diverse employment and housing options, the vision process is intended to solicit broad public input into how these objectives might best be achieved. It may include changing Town processes and regulations to make Hilton Head more competitive for new jobs and investment, and it could involve more proactive interventions, including public-private partnerships and direct investments. The vision process will help inform the Town of Hilton Head Island future desired by Town residents.

7.8 Goals and Implementation Strategies

The purpose of a local government Comprehensive Plan is to provide a plan—essentially a blueprint—to help guide the future of the community. Without a clear consensus vision for the future of the Town of Hilton Head Island, it is difficult to propose a prescriptive set of specific goals and implementation strategies, particularly regarding economic development. It is, however, possible to identify a set of economic development-related issues and challenges that can be addressed in the context of a community visioning initiative that will help inform the policy decisions and investments necessary to implement what will hopefully be a community consensus that evolves from the vision. Economic development is only one component of a comprehensive plan, although almost everything that is embodied in the comprehensive plan will have an impact on the Town’s future economic development.

At a macro level, the economic development goals of the Town of Hilton Head Island, as articulated by the Town Council, are the following:

1. Expand/grow the tax base of the Town to provide revenues to fund Town services and capital improvements;
2. Provide higher wage, higher skill employment opportunities for Town residents;
3. Provide economic diversification and resiliency so that the Town economy is not disproportionately reliant on a few economic sectors (e.g. tourism and real estate);
4. Maintain Hilton Head Island’s attractiveness as a leisure and retirement destination; and
5. Provide support and assistance to existing Town of Hilton Head Island businesses.

Achieving these goals will require a comprehensive approach. The strategies will differ, however, depending on the future vision established for the Town by the Town Council and its residents. There will be times when these economic development goals conflict, and trade-offs, concessions and compromises will be necessary. Depending on the vision, following are some of the issues and opportunities that the Town Council and leadership will likely need to address.

Tourism

As previously noted, tourism is a huge economic driver for the Town of Hilton Head Island. It is vital that the Town continue to maintain its reputation as a world-class leisure destination. The private sector is continuing to invest heavily in the tourism sector, as evidenced by significant re-investment by many of the Island’s oceanfront hotels, major new investments by the owners of Sea Pines Resort, and several new hotel projects currently being proposed by private hotel developers. All of this new investment validates the Town of Hilton Head Island’s attractiveness as a tourism destination.

The tourism industry nonetheless faces challenges. The beaches are Hilton Head Island’s greatest economic asset, and their protection is paramount. Beach renourishment is enormously expensive and is becoming increasingly difficult to permit because of species

protection concerns—specifically sea turtle nesting and piping plover habitat protection. Notwithstanding these difficulties, the beaches generally—and beach renourishment specifically—must remain a top priority by the Town, even if it must be done during popular beach seasons.

The interests of permanent Town residents and tourists sometimes conflict. One example is traffic. Recent data from the Circle-to-Circle Task Force shows that during the peak tourism season traffic exceeds the capacity of some roadways and intersections (e.g. Sea Pines Circle). With significant population growth occurring on the mainland, Hilton Head Island will continue to experience substantial annual increases in day visitors, in addition to other visitors attracted to Hilton Head Island during the peak season. Aligning tourism marketing efforts with road capacity will become gradually more challenging an issue for the Town.

Another major challenge facing the hospitality industry is providing and housing the workforce needed to support the major Island hotels, resorts and restaurants. The workforce requirements of the hospitality industry include a wide spectrum of workers—from permanent senior management personnel to seasonal and part-time workers. Many of the resorts rely on seasonal workers and international interns, and the high cost of housing these workers is proving to be a significant challenge to recruiting the workforce required to support Hilton Head Island’s resort industry. Housing is separately addressed in the Comprehensive Plan, but this particular housing concern needs to be addressed in an economic development context, since it directly affects many of the largest employers in the Town of Hilton Head Island.

Another issue facing Hilton Head Island’s tourism industry is the decline in the popularity of golf. This is already having an impact on several golf courses in the Town and in the surrounding area, and the golf industry is wrestling with this challenge nationally. Understanding the implications of this decline is important not only for the tourism industry, but for residential real estate values in golf course communities and for employment and the overall economy of Hilton Head Island, since golf is an important economic development component to the Hilton Head Island economy.

The Hilton Head Island-Bluffton Chamber of Commerce is the Town’s designated destination marketing organization, and the Town is working closely with the Chamber to ensure that the Town’s tourism priorities are being implemented through a contract with the Chamber. Changes in the tourism marketplace—from the decline in golf popularity to the preferences of the millennial generation for walkable, inclusive, communities and genuine experiences, make it increasingly important that the Town provide experiences for visitors to enjoy.

The Town is already providing many amenities responsive to these changing trends, from bicycle and walking paths to pet-friendly amenities. There are likely other opportunities that could be created and/or expanded, however, particularly to drive additional visitation in the

shoulder and winter seasons. These opportunities may include cultural heritage and history-related tourism; more group/association meetings, trade shows and corporate retreats; youth sports/tournaments; music, dance, theatre and arts events; festivals and others. Some of these offerings will require new investments in facilities, in addition to targeted marketing and promotion efforts. The role, if any, of the Town in providing or supporting these initiatives—either through direct investment, the provision of land, or other public-private partnerships—will be an important policy issue facing the Town Council.

Real Estate and Retirement

Tourism directly impacts real estate, since real estate purchasers—whether investment property buyers, second home owners, or permanent residents—first come to know Hilton Head Island as tourists. Therefore, as previously noted, it is critically important to the Town that Hilton Head Island remain an appealing place for visitors, not only for their direct economic benefit but for their impact on real estate demand. Sustaining demand for real estate is critical to maintaining and growing the property tax base and assessed valuation needed to generate revenues to support Town services.

Growing the appeal of Hilton Head Island for retirees represents a significant opportunity for the Town of Hilton Head Island. Retirees—particularly high net worth retirees—are an attractive target for the Town. Although Hilton Head Island attracts many retirees, there is currently no institutional effort to market the Town as a retirement destination beyond the marketing efforts of individual real estate companies. Retirees most often choose the Town of Hilton Head Island for retirement after discovering the Island as a leisure visitor. It may be appropriate to research opportunities to market and promote Hilton Head Island as a retirement destination, particularly to high net worth retirees, and to target this important market.

Retail

The private sector has invested heavily in retail redevelopment in recent years in the Town of Hilton Head Island, primarily as a response to the increasing number of visitors to the Island. Shelter Cove Towne Centre, the redevelopment of Pineland Station, and the proposed Heritage Plaza redevelopment, among others, all affirm the attractiveness of the retail sector on Hilton Head Island. Although the Town of Bluffton and the surrounding area has emerged as a center for national retailers, Hilton Head Island remains an attractive retail destination. Commercial real estate brokers report continued interest in Hilton Head Island from retailers, and outreach by prospective retailers to the HHIEDC confirms this.

The major issue facing the Town's retail sector is the retail capacity of Hilton Head Island. Whether it is grocery stores, liquor stores, drugstores, food and beverage establishments, or

others, there is a finite capacity for many types of retail businesses on Hilton Head Island. At some point new retailers simply take market share from existing stores. Recent redevelopments of aging retail centers have created new retail establishments, but they have also caused the relocation of existing retailers from one location to another, which creates economic dislocations.

Non-Hospitality/Real Estate/Retirement Businesses

This is unquestionably the most challenging of the Town's goals. The natural attractiveness of Hilton Head Island—with its beaches, waterways, temperate climate and natural beauty—provides an intrinsic appeal to leisure visitors and retirees. Even without marketing and promotion, those assets will attract visitors, retirees, retailers and real estate investors to the Town of Hilton Head Island. Those natural attributes, while also attractive to business owners from a quality of life perspective, do not by themselves make a compelling case for a business location. That is why few resort communities are successful attracting businesses that are unrelated to the resort, real estate and retirement sectors that predominate in most resort and retirement communities.

The Town of Hilton Head Island is the second largest barrier island on the United States East Coast. Although much smaller than Long Island, New York, and with a much smaller resident population (Long Island has 7.5 million residents, while Hilton Head Island has 40,000), Hilton Head Island nonetheless has the land mass and population to support an economy that offers a diversity of employment options. Validating this premise are a number of Hilton Head Island-based companies that are not in any way connected to local markets or services. The companies are here in every case because the owner(s) of the company wished to live and work on Hilton Head Island.

There are also many individual proprietors and small business owners who work from Hilton Head Island whose business is not conducted locally. Technology has enabled many business owners to work anywhere the principal of the business wishes to live, and air service allows them to travel as needed for their business. A significant number of consultants, independent sales representatives, and other small business owners whose business is not locally based have chosen to live on, and work from, Hilton Head Island.

Notwithstanding the lifestyle appeal of Hilton Head Island, businesses in the Town of Hilton Head Island must be profitable to be sustained. Business location decisions—whether a large enterprise, a small business or a sole proprietorship—are made in a very competitive environment, where many factors must be considered. They almost always include the availability and cost of real estate (purchase or lease), the availability and cost of labor, the availability and cost of utilities (including telecommunications), taxes and fees, the regulatory and permitting processes, and risk mitigation (business risks, natural/manmade disasters, etc.).

Hilton Head Island is at a competitive disadvantage on many of these factors. A recent survey of existing Hilton Head Island businesses identified several of these areas as impediments to the retention and expansion of many Town businesses, and they are a concern to many prospective businesses as well. This is another area where there is tension or conflict among Town goals where trade-offs will be required. For example, many existing business survey respondents expressed concern about limitations on signage, illumination, and Town permit processes, while other objected to taxes and fees. There have been changes made to the Land Management Ordinance and development permitting to simplify the process and encourage new investment and economic development. Additional changes could be considered to further improve the process, but such changes must be balanced against the Town's desire to tightly control growth and development. Similarly, any reductions in taxes or fees—whether business license fees or impact fees—will have an adverse impact on Town revenues, unless the reductions stimulate new businesses and new capital investment within the Town to offset the revenue reductions.

Infrastructure

As previously described, traffic and road capacity is an issue that has a direct impact on tourists and permanent residents, but it also impacts the appeal of the Town of Hilton Head Island for existing and new businesses. In particular, the single bridge to Hilton Head Island represents a major traffic choke point, and it will likely become a greater issue in the future as traffic grows. Since many Hilton Head Island businesses hire off-Island workers, the ease of access to Hilton Head Island will have a bearing on the ability of Town businesses to attract and retain workers. Similarly, as competition of these workers continues to grow on the mainland, it will become a significant cost issue for Island businesses as well, who will have to pay increasing premiums for workers to travel to Hilton Head Island.

An important infrastructure deficiency that Hilton Head Island must address is telecommunications. If Hilton Head Island is going to target technology-based businesses, the Island must offer state-of-the-art fiber/broadband Internet capacity and excellent cellular service at a competitive cost. The lack of telecommunications infrastructure also has a significant adverse impact on the tourism, real estate and retirement industries, since many individual visitors, group meeting planners, and retirees will not choose a location where these services are not available. While some areas of the Island are well-served with this telecommunications infrastructure, other areas are not. Efforts are underway to improve and expand these services on Hilton Head Island, but in some cases these solutions are several years away, and the costs are uncertain.

Hilton Head Airport (HHH) is an important Hilton Head Island asset, and the Savannah Hilton Head Island Airport (SAV) is also very important to the Town of Hilton Head Island economy.

HHH currently serves both commercial (US Airways/American service to Charlotte) and private general aviation aircraft, and SAV serves multiple commercial carriers providing non-stop service to several cities. Delta terminated commercial service to HHH in late 2010 when Delta announced it was phasing out the turboprop aircraft that served HHH.

The Beaufort County Airport Board's plan to extend the HHH runway to 5,000 feet is intended to improve both service and safety for both commercial and general aviation customers. The runway extension has been opposed, primarily from residents living proximate to the airport, and the Town is playing an important role to find an accommodation to minimize noise impacts on neighboring residential communities while supporting airport expansion. Direct air service to HHH is important to the economy of Hilton Head Island, by providing convenient access for tourists (including corporate hospitality), high net worth second home owners and retirees, and businesses. Currently, the proposed 5,000 foot runway expansion is scheduled to be completed by fall 2017, and it is important that everything be done to keep the project on schedule.

Education

Although education is part of the Population and Community Facilities Elements of the Comprehensive Plan, it is also an important economic development issue on many levels. One of the Town Council's goals is to make the Town attractive to a younger demographic, including young families. School quality is a huge factor evaluated by business owners who have school-age children and by workers with school-age children. The Town of Hilton Head Island is fortunate to have outstanding public and private elementary and secondary schools. Although the Island's public schools are part of the Beaufort County Schools and are not under Town jurisdiction, and the private schools are independent of the Town, the Town has a significant interest in the quality of education offered to its residents, and it is important that the Town continue to have best-in-class educational offerings and high-quality instructors throughout its public and private institutions.

Housing is also important to the quality of education because teachers generally wish to live reasonably close to the schools where they teach. Because of the high cost of housing on Hilton Head Island, the Town is unaffordable to many teachers, and this is regularly cited as one of the most significant challenges facing education administrators. This creates a competitive disadvantage for Hilton Head Island's schools, both public and private, emphasizing again the important nexus workforce housing has to economic development in the Town.

There are several new developments involving the County's higher education institutions that will benefit the Town of Hilton Head Island economy. They include the new University of South Carolina-Beaufort Hilton Head Island campus on Office Park Road, scheduled to open in 2018. This campus will initially house the University's hospitality management program, and the second phase will include the Osher Lifelong Learning Institute. In addition, the Technical

College of the Lowcountry recently announced a new pilot program for culinary arts training on Hilton Head Island, which if successful, could lead to a permanent program housed on the Island. All of these programs will have a short and long-term positive impact on the Town.

Additional Suggestions from 2010 Comprehensive Plan

Many of these economic development and infrastructure issues were addressed—directly or indirectly—in the 2010 Comprehensive Plan iteration. In addition, there also were several specific strategies suggested in the 2010 version. They include, among others, the creation of:

- Center for Gullah Studies
- Central Arts Facility
- Business Renewal Task Force (to focus on redevelopment/repurposing older, unoccupied buildings)
- Center for Economic Excellence for small business owners and entrepreneurs
- Land Planning/Green Practices Center of Excellence
- Center for Creative Retirement
- Institute for Learning and Arts

These were merely ideas suggested in the 2010 document; the document did not include an analysis of any of these ideas or how they would be funded. If the Town Council or others wishes to pursue any of these ideas further, significant additional work will need to be undertaken to determine their feasibility.

7.9 Conclusion

There have been many changes to the Town of Hilton Head Island economy since the 2010 Comprehensive Plan was written, including important structural changes. The Town now has new data that provide a much better understanding of the structural economic changes that have occurred in the Town since the Great Recession. Armed with this new information, the challenge to Town leaders will be to make adaptations to Town policies to achieve the economic goals desired by the Town Council and the residents they represent.

Economic development policy changes should not be made in a vacuum. They should be made in the context of all of the issues addressed in this Comprehensive Plan and the priorities identified therein. As previously noted, everything in the Comprehensive Plan—cultural and natural resources, housing, community facilities, transportation, recreation, and more—impacts economic development. Conversely, many economic development policy decisions will have an impact on some or all of those areas. Some of those impacts will be positive, and some will be adverse.

This Economic Development Element references the proposed Town of Hilton Head Island Vision Plan. While a comprehensive plan ideally represents a blueprint for a community's

future, it cannot inform a future without a vision of where the Town wishes to be. Specifically, it cannot provide guidance when Town goals come into conflict, as they inevitably will. The Town of Hilton Head Island is at an important crossroads, and the decisions made in the next five years will have a significant impact on the future of the Town through 2030 and beyond. Having a community consensus around the Town’s economic development goals—and the strategies needed to implement them—is a critically needed foundation to guide the Town’s future economic development efforts.

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