

THE SUCCESS OF PUBLIC/PRIVATE PARTNERSHIPS IN PIGEON FORGE

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Capstone Project

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Introduction

Public/private partnerships (PPP's) have become a very effective tool for communities as well as developers in recent years. Even though the utilization of PPP's is not a new practice, there is a growing trend for this approach throughout the United States. These types of partnerships can be defined in many ways, such as a cooperative venture between the public and private sectors or a business relationship between a private sector company and a government agency for the purpose of completing a project that will serve the public. PPP's can be used to finance, build, and operate projects such as public transportation networks, parks, and conventions centers, or assist developers with needed infrastructure. Financing a project through a public/private partnership can allow a project to be completed sooner or make it a possibility in the first place.

Across the United States, more and more government entities are recognizing and embracing the opportunities for growth through developmental relationships with the private sector. Businesses and developers are also attracted to areas where public bodies are willing to assist with economic development incentives, which create an environment of success for all stakeholders. Economic growth and new revenue opportunities are essential to the sustainability of an area and promoting these relationships can improve and enhance the quality of life for all its citizens.

Background

The City of Pigeon Forge is located in East Tennessee at the base of the Great Smoky Mountains National Park. The name originated from the Little Pigeon River and the "forge"

built by Isaac Love in 1817 and located at the current site of the Old Mill. Prior to 1986, Pigeon Forge was a relatively quiet little town with small scale “mom and pop” motels and restaurants located along the Parkway. In that year, Sevier County’s most famous resident, Dolly Parton, purchased Silver Dollar City, previously known as Goldrush Junction, and transformed the amusement park into Dollywood.

With the advent of Dollywood, and proactive City leadership, Pigeon Forge would be transformed into a major tourist destination. Dollywood opened in 1986, and the City experienced a 43% increase in gross business revenue from the previous year. Today, approximately ten million people visit annually, which in turn provides both job and business opportunities for workers as well as business owners and entrepreneurs.

From 1986 to 2007, Pigeon Forge continued to grow at an unprecedented pace with gross business receipts increasing over 500% in a twenty-one year period, with each year experiencing more growth and revenue than the previous year. The Parkway became lined with tourist locations such as hotels, restaurants, attractions, theaters, and retail operations. The city began to grow and become a mecca for tourism. The Gross Business Receipts for 2007 was approximately \$875,000,000.

One challenge for officials was how best to grow the city. Other than a few outlet malls, the majority of new businesses continued along the Parkway. As Pigeon Forge continued to grow, City leaders began to look for opportunities to expand and guide development. Due to a concentration of business and development along the Parkway, land prices remained higher on that corridor, with development costs much less in the area surrounding Teaster Lane, which

runs parallel to the Parkway. The average price per acre was approximately \$1.1 million on the Parkway while one block away the average value was approximately \$250,000 per acre. Also, an abundance of land was available that was easily accessible and prime for development, but without a vision and master plan, this area would likely remain vacant or not developed to its full potential.

The creation of a strategic development plan followed, which clearly articulated the desire of City Leaders to guide development east of the Parkway. The plan detailed a strategy to improve infrastructure, as well as create a Tourism Development Zone under the terms of the Convention Center and Tourism Development Financing Act of 1998. The act was intended to promote tourism development through the construction and/or expansion of convention centers and other public use facilities. It also allows cities to retain a portion of the sales tax revenue for new development and help retire the bonds issued to fund the public facilities and infrastructure in the zone. By creating the district, Pigeon Forge was committed to promoting the area and capitalizing on development that would be sustainable for years to come. The City was also committed to constructing an event center which would benefit the entire business community.

The plan also included a proactive approach to promote developable areas within close proximity to the event center, where new incremental sales tax could be generated and a larger portion of the state's share of generated sales tax could be retained by the City. The City identified approximately 200 acres, located on Teaster Lane, within walking distance to the Parkway, which is now in the Tourist Development Zone. The plan included promoting

interconnected, pedestrian friendly developments that included hotels, restaurants, retail, and condominiums for permanent residents. Also located in this area would be the event center that would be the geographical center of Pigeon Forge, as well as an extension of Jake Thomas Road that would make the developments easily accessible.

In 2007 the vision appeared to be coming to fruition. Belle Island, a mixed-use development with a market place, entertainment, restaurants, indoor and outdoor rides, and located on approximately twenty (20) acres was under construction. Other large development plans had been approved and the event center was in the design phase. The City also constructed a municipal parking lot to accommodate the expected increase of visitors to the area. All the planning and visioning was beginning to transform the city and expand the experience for visitors. Unfortunately, the following year, 2008, was not a banner year for development.

The Great Recession, which officially lasted from December 2007 to June 2009, began with the bursting of the eight trillion dollar housing bubble, and led to sharp cutbacks in consumer spending nationwide. It also led to a collapse in business investment, and Pigeon Forge was not exempt from the downturn. The Belle Island development was never completed while other potential developments along with the event center remained in the design phase, and the new municipal parking lot remained empty. Gross receipts decreased significantly, dropping 12% over a two year period, which was the first decline since the city began to emerge in 1986.

With challenges come opportunities. In 2009 the city began to rethink its vision and revise the strategic plan. The essence of the plan remained the same, which was to promote development in areas that seemed more undesirable than before the recession, but yet were located in the Tourism Development District. A second part of the plan was to consider public/private partnerships as a way to entice developers. This type of venture had not been utilized by the City in the past due to the continued influx of development. However, the economy was recovering slowly, and leaders realized that developers would need assistance because of increased bank and lending regulations.

Project Description

The 2009 vision for Pigeon Forge was similar to previous plans but with the realization that many developers faced hardships not experienced in the pre-recession years. Realizing that communities will change, but it takes planning to change for the better, the City determined public/private partnerships should coincide with the recruitment of developers for future sites, which still included the development of the Teaster Lane area.

Public partner responsibilities require creating and constantly updating a plan for development showing specific sites for private investment opportunities. The first course of action was creating an opportunity to revive the now defunct Belle Island Property and to assist in providing resources to make it attractive for potential developers. The property had been dormant for nearly three years with buildings rapidly deteriorating. In considering long-range public interest opportunities, the City evaluated the strengths, weaknesses, opportunities, and threats to determine what was most beneficial for both the city and the developer.

The strengths were the location, which was only a few hundred feet off the Parkway, as well as the amount of construction already completed before the default. Even though the buildings were deteriorating, the buildings were fifty (50%) complete including foundation, walls, and roofing.

One weakness for the development was access. Only a construction road was used from the Parkway with no access in the rear of the development. A second weakness was the current zoning district which appeared to limit the use to its fullest potential due to height limitations and permitted use requirements.

An important opportunity was the ability to incrementally guide development from the existing high traffic area of the Parkway that would eventually adjoin and connect other potential sites on Teaster Lane. Easily recognizable opportunities for the development consisted of addressing the weaknesses, which were the access and the existing zoning classification.

The major threat to reviving the project and providing a public/private partnership was money. This was due to the fact that gross receipts were down 12% from the previous years, and the majority of Pigeon Forge's tax base is derived from sales tax. The state of the economy was still uncertain, and convincing the public that providing assistance to this type of project was a win-win situation that could spur growth to other areas was expected to be a major hurdle.

A lot of time was spent by the City promoting this development that was considered a potential major revenue source and the hub of expansion. However, the larger picture painted

a grandiose plan that would convert approximately 200 acres of adjacent vacant land into a major revenue source for years to come. Once a development company with interest was identified, the City began negotiations to clearly articulate the plan and the intent to enter into a PPP that would help each of the stakeholders meet their expectations. When a buyer (Pigeon River Land Partners) was finally confirmed, the strategic plan the actions were implemented and negotiations were under way. Belle Island would be purchased for ten million and be transformed into the Island in Pigeon Forge.

As the plan evolved, the City agreed to a PPP which included a five million dollar investment into the project which would be used for the needed infrastructure and public improvements. The improvements include a city street, greenway, and bridge connecting the municipal lot, as well as waterline through the property. An access road connecting the Parkway to the vacant municipal parking, located a few hundred feet to the southeast, would provide a connection with Teaster Lane and was considered an opportunity that would benefit the entire community. The partnership also included dedication of land by the developers for an extension of the city's greenway. The City Planning Staff also drafted a revised zoning district, which was more conducive to expected development plans and clearly stated the intent of the district.

The purpose and intent of the C-7 Planned Unit/Public Use Development was to create a district that required collaborative efforts between the developers and City. The District required public dedication to facilitate the needs of tourists and residents alike. Public dedication could include land and/or building space for fire halls, police departments,

greenways, educational facilities, or other publically needed uses. Conversely, the City would provide services necessary to facilitate the health, safety, and welfare of tourists and citizens such as parking lots or garages, trolley service, vehicular access, traffic lights, on site safety services, and/or similar public uses.

As the Island progressed, the City began to look for opportunities to build an event center as a requirement of the Tourist Development Zone. Once again a public/private partnership developed. The plan coincided with the redevelopment of the Island and included the same development company. The \$45,000,000 structure would be built with incentives and a development agreement was entered into with Pigeon River Land Partners, LLC and the City's Industrial Development Board for construction of the City's event center. The criteria included a four (4) percent development fee for services, 1½ percent if the project is on time and under budget and 3½ percent for the build-out of The Island. The agreement was in place and the location would be south of the municipal parking lot and the geographic center of Pigeon Forge. Two major parts of the original plan were then much closer to a reality.

One-hundred and twenty acres bordering Teaster Lane to the east sat vacant. The land, once considered a major development opportunity, remained desolate and unoccupied. With the Island and event center under construction, the land became more marketable. The City continued moving forward with the strategic plan and was very proactive in promoting the area.

One market that the City had focused on in previous years was youth sports. Recognizing the tremendous economic impact available, the City began aggressively promoting

its beautiful parks while recruiting baseball and softball teams to participate in tournaments. Since 2000 the city had experienced impressive growth, but continued to look for opportunities to expand the market. Sports tourism is a nine billion dollar industry and is considered recession-proof according to Susan Whitaker, the former Director of Tourism for the State of Tennessee.

Development of the area was part of the strategic plan, and expanding sports tourism was an opportunity, but combining the two was not considered until the city began exploring potential prospects. Because strategic plans should never be written in stone, the conversation then turned to the Ripken Experience. Creative brainstorming by a task force of informed community leaders is essential to formulating strategic actions. Mayor David Wear said the idea came from a couple of people sitting around a table discussing ideas.

There were currently two such facilities: one in Aberdeen, MD, and the other in Myrtle Beach, SC. The vision for these complexes comes from Hall of Fame baseball player Cal Ripken, Jr., and his brother, twelve year Major League veteran Bill Ripken. Together, their dream was to provide a facility that offered kids the opportunity to experience baseball in professional-like venues.

As Pigeon Forge continued with the feasibility of developing such a sports complex, several questions had to be answered: how much acreage was needed? How much was the city willing to invest? What was the potential economic impact to the community? The Myrtle Beach facility opened in 2006, and the estimated annual economic impact is \$57 million.

The land issue was solved immediately with the same 120 acres that the City had been marketing since before the Great Recession. The investment included eleven million dollars designated to extending Jake Thomas Road and providing the needed infrastructure that has always been an important element of the plan. With the extension, even greater opportunities for development would be available. The extension would also be required to access the location for the sports complex. The City also agreed to invest approximately \$27 million for the purchase of fifty-one acres, as well as construction of a six-field sports complex that would become the Ripken Experience. A management contract was agreed upon and another public/private partnership was cemented. The plan to guide development east of the Parkway was now becoming a reality.

Results

The public can influence positive change with a vision and strategic plan for future development. Positive change in Pigeon Forge came in June 2014, when The Island opened. The development is accessed by a public road connecting the Parkway to Teaster Lane through the previously empty municipal parking lot. The site was re-zoned to C-7 Planned Unit/Public Use Development District. Currently, there are seventy-four businesses on the Island including restaurants and specialty food stores, forty-two retail shops, sixteen amusements, and one four star hotel. The economic impact was felt immediately with gross business revenue in Pigeon Forge up over 10% since the grand opening, with expected gross revenue for 2016 to be \$90 million. The municipal parking is no longer empty as visitors and locals alike enjoy the free parking and public transportation to the Island.

The 232,000 square foot LeConte Event Center was completed by Pigeon River Land Partners, LLC on time and under budget. The building opened its doors in October 2013, and currently averages an additional 26,400 visitors per month and an estimated 194,000 room nights for July 1, 2015, through June 30, 2016. Thirty-four events are scheduled for 2016, which is more than any previous year.

The Ripken Experience opened in May of 2016, and three-year projection estimates include more than 82,000 additional visitors, 30,000 more hotel nights booked, and an additional 38.5 million dollars a year in revenue. Jake Thomas Road, constructed as part of the partnership, is currently being engineered to extend to Veterans Boulevard to provide more development opportunities and better access and traffic flow through Pigeon Forge.

Accordingly, each project came to fruition because of public/private partnerships and the ability of the City to be prepared to address developmental needs. The City has amassed over one billion dollars in gross revenue each of the past two years, which is the most ever and 2016 appears to be even better with gross receipts up 18% already through April. Seventy-two acres across the street from the Island and event center and adjoining the Ripken Experience recently sold for 30 million dollars or \$416,493 per acre, which is significantly higher than pre-recession appraisals. Four hotels in close proximity have recently been approved and are under construction due to this growth. It appears safe to assume that each development would still be incomplete, land values on Teaster Lane would have remained the same, and the city's vision unfulfilled without the commitment and action of City leaders in pursuing the public/private partnerships.

Lessons Learned

The main lesson learned was there are many types of PPP arrangements, but selecting the most appropriate is essential to the success of any development. Although each of the PPP's utilized was different, they were all based on similar contractual agreements. The partnership with The Island included a "Design-Build", which the private sector design and builds infrastructure to meet public sector performance specifications with agreed cost share obligations. This model also included a component referred to as "Alternative Project Delivery". This model is predicated on the notion that certain risks are best managed by the private sector and others by the public sector. In this instance, ownership and maintenance requirements for the road surface would now be the responsibility of the City, while the Island would retain responsibility of sidewalks, street lights, and other items within the right-of-way.

The agreement under the terms of the Event Center construction would be considered a "Quasi-Design Build Incentive Agreement", which allowed Pigeon River Land Partners to construct the complex while meeting performance standards agreed upon by both parties. Completion of the Island as well as the Event Center as scheduled provided the incentives.

The Ripken Experience was a little more complex, since it entailed a "Design-Build, Joint Development Agreement", as well as an "Operation and Maintenance Contract". The "Design-Build" would be the responsibility of the City and include the Jake Thomas Extension. The "Joint Development Agreements" would allow the public to work directly with the private developer in the planning and execution of the development, while the "Operation and Maintenance Contract" allows the private entity to operate the publicly owned asset for a specified time.

Each PPP utilized was determined after carefully assessing the potential benefits through a comparison with the overall plan for the City, the projected return on investment, and assurance that the arrangements met all legal requirements. These assessments provide decision-makers with the tools and data necessary to determine the most appropriate and effective approach.

Each of these instances has provided the knowledge and experience to understand that public/private partnerships can be a very effective tool in growing a community; however, each circumstance is different and not without challenges. To prevent unnecessary challenges, it is important for public and private entities to understand their roles.

To be successful, the public sector must have a vision for the future of the community and a clear strategic plan. It is important to remember that ideas and opportunities change through the process, but the end result should be consistent with the vision.

Continually assessing the community's needs, capabilities, and sustainability, is essential. Information on available land and needed infrastructure, as well as funding mechanisms, should be reviewed and updated as needed. Being resourceful with funding, and aware of what grants and financing tools are available, are essential for an effective development strategy and execution of a public/private partnership.

Confidentiality is important in the initial discussions, but once an agreement has been reached, there must be transparency. The citizens must be aware of the benefits and rewards for the entire community and not just for the developers. The private sector's responsibilities

also must include a transparent process. The developer also must be willing to disclose information in return for public funding.

The private entities must also understand the public's vision for the community and be willing to create a shared vision that could include a myriad of ideas related to implementation, funding, and the time frame for the project. Each sector must also be clear concerning conflicts that might arise and have a decision-making process established, and in place. Like any relationship, communication is a must between all parties in order to build and maintain trust. This can be built through incremental actions that create an atmosphere of honesty and good faith.

In conclusion, each community must have a vision, a strategic plan, and a financial plan for growth opportunities. Public/private partnerships can be a very effective tool as part of the plan to help cities achieve greater success in a competitive economic climate. Tomorrow's opportunities are formulated today, which can result in growing and sustainable communities that provide growth for years to come.

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