

Edgewater: The Power of Public-Private Partnerships

By Betsy Giusto, Ph.D.

TRANSFORMING A BROWNFIELD INTO A MIXED-USE DESTINATION

When a small municipality and a developer team up to undertake an epic project that will completely transform one of the largest tracts within a city's boundaries, this partnership can serve as a national model and win the International Economic Development Council's Public-Private Partnership Award for 2006! This is precisely what happened in Webster, Texas, with Cherokee Investment Partners' cooperation, investment, and partnership! **Edgewater is a master-planned, mixed-use destination that is being developed on 574 acres located in the center of the city.** Once a power plant, this former brownfield posed considerable development hurdles that could only be overcome by the public-private partnership that was forged between the city and developer.

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edgewater:

THE POWER OF PUBLIC-PRIVATE PARTNERSHIPS

By Betsy Giusto, Ph.D.

While public-private partnerships have become a common term, the reality is that this method of cooperation and coordination is essential and extraordinary. Edgewater is a prime example of a remarkable project that would never have been launched solely by the municipality or the private company. The public-private partnership that aims to transform a sizeable brownfield into a mixed-use destination is dependent upon attributes that both the municipality and the private company possess—leadership, economics, innovation, experience, and motivation.

A small municipality and a developer have teamed up to undertake a mammoth project that will completely transform one of the largest and most unsightly tracts within a city's boundaries. If it were not for the public-private partnership that was forged between the City of Webster, Texas, and Cherokee Investment Partners, the world's largest firm specializing in brownfield redevelopment, Edgewater would never have been born.

While the City of Webster is located just south of Houston, Webster encompasses only 6.7 square miles and is home to 9,000 residents. The partnership that was created between the city and Cherokee Investment Partners remediates and redevelops a 574-acre tract that is located in the nucleus of the city and constitutes nearly 9 percent of the city's total real estate. Further, as the project adds 2,600 new residents, Webster's population will increase by 29 percent.



The City of Webster, Texas, and Cherokee Investment Partners receive the International Economic Development Council's Partnership Award for Edgewater in September 2006. Accepting the award in New York are standing from left, Betsy Giusto, City of Webster; Matt Young, Cherokee Investment Partners; Council Member Natalie Dolan; Mayor Donna Rogers; Council Members Carlos Villagomez, Beverly Gaines, Melvin Ellis, and Floyd Myers; and kneeling, Bob Douglas, The Johnson Development Corp.

When a city and developer work together to dismantle and eradicate an obsolete power plant that is located on prime real estate positioned in the very center of town, remediate a number of environmental contaminants, design a mixed-use destination that accommodates over 2,600 new residents, create more than 375,000 square feet of new retail, construct a marina with accompanying infrastructure, develop at least 31 acres of park land for public access, preserve wetlands along a creek, and fund over \$32 million of capital improvements by working together – then, this project is extraordinary!

Betsy Giusto, Ph.D., is economic development director for the City of Webster, Texas.

TRANSFORMING A BROWNFIELD INTO A MIXED-USE DESTINATION

When a small municipality and a developer team up to undertake an epic project that will completely transform one of the largest tracts within a city's boundaries, this partnership can serve as a national model and win the International Economic Development Council's Partnership Award for 2006. This is precisely what happened in Webster, Texas, with Cherokee Investment Partners' cooperation, investment, and partnership. Edgewater is a master-planned, mixed-use destination that is being developed on 574 acres located in the center of the city. Once a power plant, this former brownfield posed considerable development hurdles that could only be overcome by the public-private partnership that was forged between the city and developer.

Within a very short time period, the City of Webster and Cherokee Investment Partners solidified a long-term relationship and formulated innovative financing structures incorporated within development and utility agreements that would enable this brownfield redevelopment project to transpire. In return for a blighted brownfield housing an obsolete power plant, Webster and Cherokee are creating Edgewater – a mixed-use destination that will result in sustainable growth, new economic opportunities, new residents, new businesses, new jobs, new parks, and preservation of natural resources.

BIRTH OF EDGEWATER

In June 2005, when Texas Genco announced that it would sell the Webster power plant, Webster officials determined that this was an opportune time to shape the destiny of one of its largest tracts. While City Council rezoned the tract from heavy industrial to planned unit development to promote a mixed-use, non-industrial project, Webster's Economic Development and Community Development Departments worked with the seller, real estate brokerage firm, and potential purchasers to foster a development that would be beneficial to all parties. The timing for the sale of this tract was further compounded by NRG Energy's acquisition of Texas Genco, announced in October 2005. If the Webster power plant were not sold by early 2006, the plant would become an asset of NRG Energy, and no sale would be forthcoming.

Due to a number of issues surrounding this tract, including environmental contamination, power plant demolition, challenging tract configuration, acres of flood zone, numerous electrical transmission lines, and gas pipeline easements, only one company was willing to forge a partnership with the city and purchase the brownfield – Cherokee Investment Partners.

It is important to note that the tract was being sold "as is," which meant that the contamination identified in the Phase I Environmental Site Assessment had to be remediated, and the more than 30 facilities located on the tract, either inside the immediate power plant area or outside the generating plant footprint, had to be dismantled and removed. As there were nine recognized environmental conditions identified at the site, along with sizeable power plant facilities to be dismantled, it is no wonder that only one development company was amenable to taking on this Herculean project.

THE RIGHT PARTNER

Cherokee Investment Partners, headquartered in Raleigh, North Carolina, with offices in Austin, Denver, and London, is the largest firm in the world specializing in the acquisition, remediation, and redevelopment of underutilized or environmentally contaminated sites.



This former industrial facility, located on the southwest portion of the 574-acre tract, was retired in 2002. Nine recognized environmental conditions were identified in the Phase I Environmental Assessment.

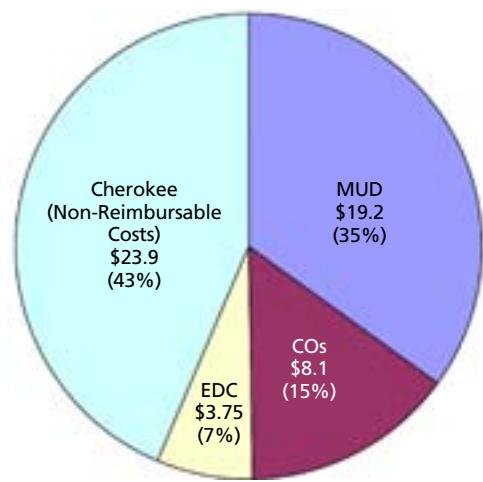


This project includes demolition and remediation of more than 30 facilities, including three generating units. The largest generating unit was imploded on January 13, 2007.

With Cherokee's excellent reputation for investing in environmentally-impaired real estate, performing remediation, and redeveloping sites to enhance economic vitality, the city was eager to foster a partnership with this company whose mission is to revitalize America's cities and achieve economic, social, and environmental results.

Despite many development challenges, within four months, the City of Webster and Cherokee Investment Partners worked in concert to formulate innovative financing structures incorporated within development and utility agreements that would enable this project, with development costs of \$55 million, to be launched. First and foremost, both parties solidified a long-term commitment with one another. A municipal utility district was created to fund over \$19 million of improvements, consisting of utilities, excavation for a navigation system, interior lakes, parks, and trails. Next, the city agreed to issue certificates of obligation to provide reimbursement for demolition, remediation, interior streets, sidewalks, screening, and

Funding Formula for Initial Development Costs of \$55 Million



Cherokee Investment Partners advanced funded 100 percent of the initial development costs. Only 57 percent is reimbursable through three sources: the formation of a municipal utility district; City of Webster's issuance of certificates of obligation, as development occurs and appraised value escalates; and Webster Economic Development Corporation's reimbursement after four performance criteria are met.

landscaping. The city's issuance of debt, capped at \$8.1 million, would reimburse Cherokee after certain development milestones were met. Finally, the Webster Economic Development Corporation agreed to provide reimbursement for the mile-long main corridor that would span the entire development from NASA Parkway to Clear Creek.

Cherokee Investment Partners exhibited its willingness to invest in a long-term relationship with Webster to transform blighted brownfields into a vibrant development, as the company is funding more than \$23 million that is not subject to reimbursement. Further, Cherokee assumes all risk as it funds in advance 100 percent of initial development costs, as identified in the Capital Improvement Plan, which total \$55 million. (See Capital Improvement Plan.)

Webster city staff, City Council, and the Webster Economic Development Corporation worked with Cherokee Investment Partners' Vice President Kyndel Bennett and his team to formulate innovative financing structures incorporated within a development agreement and utility services contract that would enable Cherokee to advance fund 100 percent of \$54.9 million in development costs and obtain reimbursement for 57 percent of those costs from three sources, once performance criteria were met. The three funding sources include the

municipal utility district, certificates of obligation, and the Webster Economic Development Corporation.

Cherokee worked with the city to submit a land plan and detailed capital improvement plan that clearly identified all of the projects and funding responsibilities of the three entities – city, Economic Development Corporation, and Municipal Utility District. While the land plan featured a mixed-use destination to accommodate 375,000 square feet of retail, a marina with accompanying navigation system infrastructure, 31 acres of public park land, preservation of wetlands along Clear Creek, single-family and multi-family residential that would add 2,600 to Webster's population, the \$32 million capital improvement plan identified roads, utilities, sidewalks, landscaping, excavation, bulkheads, engineering, parks, trails, remediation, and demolition that would transform this defunct, contaminated power plant into a vibrant master-planned community.

ECONOMIC IMPACT

As a result of this partnership, the economic benefits to the City of Webster are considerable. In return for a blighted brownfield housing an obsolete power plant, Webster and Cherokee are creating a mixed-use destination that features a marina, retail development, office, single-family, multi-family, and high-density residential districts, and preservation of a large land area at Clear Creek for a public park with trail system, all amid a pedestrian-oriented "walkable" community. Economic projections for the redevelopment project are conservatively estimated to exceed \$55 million within two

Economic projections for the redevelopment project are conservatively estimated to exceed \$55 million within two decades and are based on sales tax, water and sewer revenue, and property tax, as this project will result in \$265 million in new property value.

Capital Improvement Plan				
Cost Item	WEDC Improvements	City Improvements	District Improvements	Total Costs
Total Major Road Costs	\$ 3,719,044	\$ -	\$ -	\$ 3,719,044
Total Common Utilities Costs	\$ -	\$ -	\$ 2,790,924	\$ 2,790,924
Total Lift Station Costs	\$ -	\$ -	\$ 720,398	\$ 720,398
Total Marina/Island/Lake Costs	\$ -	\$ -	\$ 4,999,926	\$ 4,996,926
Total Detention/Retention Costs: Interior Lake	\$ -	\$ -	\$ 928,663	\$ 928,663
Total Detention/Retention Costs: Marina/Island	\$ -	\$ -	\$ 3,253,759	\$ 3,253,759
Total Water, Sewer, & Drainage	\$ -	\$ -	\$ 5,097,658	\$ 5,097,658
Total In-neighborhood Paving	\$ -	\$ 5,157,730	\$ -	\$ 5,157,730
Total Screening, Signage, Lighting, And Landscaping	\$ -	\$ 2,383,524	\$ 307,045	\$ 2,690,589
Total Parks and Trails	\$ -	\$ 64,350	\$ 933,075	\$ 997,425
Total Remediation	\$ -	\$ 2,047,100	\$ -	\$ 2,047,100
Total District Costs/Market Study	\$ -	\$ -	\$ 210,000	\$ 210,000
Total	\$ 3,719,044	\$ 9,652,704	\$ 19,241,668	\$ 32,613,416



The project is located within the nucleus of the City of Webster and constitutes nearly nine percent of the city's real estate. The tract features more than 2,300 feet of frontage along NASA Parkway, in addition to 7,000 feet along Clear Creek.

decades and are based on sales tax, water and sewer revenue, and property tax, as this project will result in \$265 million in new property value.

The redevelopment of a former power plant with all of its impediments into a vibrant, master-planned, mixed-use development appeared impossible and overwhelming until the City of Webster teamed up with Cherokee Investment Partners. The result is a destination with sustainable growth, new economic opportunities, new residents, new businesses, new jobs, new parks, and preservation of natural resources.

A MODEL FOR CITIES TO EMULATE

This redevelopment project can easily be replicated if several components are present. First, the city must believe strongly that the development will be of significant benefit to the community in terms of economic vitality and improved quality of life. Next, the city must know that without a partnership – without a willing, motivated private entity – the development would not transpire.

Both the city and the developer must seek to attain mutually beneficial results by setting parameters of time, funding levels, and expected outcomes. If the city and developer begin with a vision, solidify the vision through site plans, capital improvement plans, and financing plans, and partner in such a way that the city's risk is minimal and the developer is capable of advance funding, then the project has great potential for success. When a city can provide a specified level of reimburse-



Planned and developed by Johnson Development Corp., the master-planned community will feature a marina, 31 acres of public park land, "finger" lakes, walking trails, a variety of residential housing for 2,600 residents, and 375,000 square feet of retail development.

ment to a developer for a project that is tied to performance criteria, rather than speculatively providing incentives on the front end, the project has a far greater chance of being launched.

In the case of the City of Webster and Cherokee Investment Partners, this is precisely what occurred: Webster City Council was enamored of the project and approved reimbursements (as delineated in a development agreement and utility services contract) to the developer based on performance milestones. The city, therefore, incurred no risk – reimbursements would occur after infrastructure was completed and revenues were generated from the project.

For example, the first phase of reimbursement to Cherokee Investment Partners will be \$3.75 million by the Webster Economic Development Corporation, after the developer dismantles and remediates the power plant, constructs the major boulevard with sidewalks, landscaping, and lighting, installs utilities, and develops a park. The second phase of reimbursement to the developer will be issued by the city in three increments that total \$8.1 million, which will be triggered as the project's appraised value increases by \$90 million. The remaining development costs that will be reimbursed to Cherokee are district improvements that total \$19.2 million, defined in the Capital Improvement Plan, which will be funded by the Municipal Utility District.

IMPORTANCE OF LEADERSHIP

While many opportunities exist to forge public-private partnerships that have the potential to transform communities and create incredible projects that will result in economic growth and vitality, leadership is the key attribute that solidifies any development. In the case of Edgewater, Webster City Council could be described as progressive, unified, enlightened, and motivated. City Council depended upon city staff, namely the city manager, director of finance, director of community development, and the Economic Development Department, to be innovative, quick, thorough, and inspired.

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Additionally, City Council depended upon Cherokee Investment Partners. Early in the complex process to form the partnership, Cherokee Investment Partners demonstrated its leadership traits – reliability, accessibility, high-performance, integrity, experience, and intelligence.

A public-private partnership implies cooperation – and that is precisely what the Webster City Council, the Webster Economic Development Corporation, city staff, and Cherokee Investment Partners did – they cooperated. They invested in one another. From the beginning, they were determined to overcome hurdles to achieve the goal – Edgewater. ☰



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