

# Memorandum



CITY OF DALLAS

DATE January 18, 2019

TO The Honorable Members of the Economic Development & Housing Committee:  
Tennell Atkins, Chair, Rickey D. Callahan, Vice-Chair, Lee M. Kleinman,  
Scott Griggs, Casey Thomas, II, B. Adam McGough, Mark Clayton, Kevin Felder,  
Omar Narvaez

SUBJECT **Response to Questions Regarding the Public Private Partnership Guidelines (P3) Briefing**

## Summary

On January 7, 2019, the Economic Development and Housing Committee (EDHC) was briefed on the Public Private Partnership Guidelines (P3), a state procurement program. The purpose of this memorandum is to provide additional details regarding the purpose of adopting P3 program guidelines for the City of Dallas.

## **What is a P3?**

A Public-Private Partnership is a method of procurement resulting in an arrangement between a public entity and private entity to deliver a service or facility for public use. A P3 transaction allows public and private entity to share resources and expertise to complete a project. Additionally, both entities share certain risks and rewards for the development of project. P3 projects also provide multiple benefits compared to the traditional Design Bid Build (DBB) method of delivering a project. P3s typically allow for improved project cost certainty, improved project timing, and improved project quality.

P3 project structures can take many shapes, and in fact the Texas statute specifically encourages creativity and innovation. In many P3 projects, the public entity does not pay for the project in the same fashion as a DBB project delivery. Instead, the private sector may capitalize a project through the design, construction, and often the operation and maintenance of the project. Under a design, build, finance, operate, and maintain (DBFOM) P3 model, the private entity is responsible for the design and construction along with the operations and maintenance of a facility for a period of times as specified in the agreement between the public and private sector. The DBFOM structure typically has the private sector return the asset to the public sector at the end of the contract term.

## **What are the benefits of P3?**

A well-structured P3 project has several benefits to the public sector:

1. **Risk Transference.** Within the P3 structure there is risk transference from the public authority to the private sector. The table highlights some of the risks associated with a traditional project versus a P3 project.

Risk	Traditional		P3	
	Public Sector	Private Sector	Public Sector	Private Sector
<b>Design</b>	X			X
<b>Construction</b>		X		X
<b>Entitlements</b>	X			X
<b>Completion</b>	X			X
<b>O&amp;M</b>	X			X
<b>Technology</b>	X			X
<b>Design and Build</b>	X		X	X

The P3 structure transfers the design and construction to private risk from the public owner to the private developer. Additionally, since the private developer assumes the Operating and Maintenance (O&M) risk, the project is usually designed to minimize operational and maintenance costs.

2. **Cost Savings.** A P3 is designed to implement innovation and leverage the creativity of the private sector to achieve cost savings through faster delivery timeframes, more certainty of schedule, better cost certainty, and other improved cost parameters.
3. **Cost Certainty.** Cost certainty can be achieved in a P3 structure by positive performance metrics that reward projects for projects that are completed on time or under budget. P3 projects also eliminate the conventional lowest construction bid approach, as well as the separation of the design and construction responsibility. The P3 model holds the private sector accountable for all phases of the design and construction of the project.
4. **Schedule Certainty.** P3 projects motivate the private entity to deliver a project on time so that it can begin revenue generation or reduce debt financing. Unlike a traditional project which is based on the contractor getting paid on milestones, P3 payments are typically paid when a project is completed; thus, the private sector is encouraged to complete the project on-time or ahead of schedule.
5. **Innovation.** The P3 model transfer a greater amount of risk to the private entity. These risks include schedule delays, cost overruns, operations and maintenance, and the obligation to turn the facility over in a condition that meets the requirements of the public owner. The private sector is incentivized to utilize project specific technologies that increase project efficiencies during construction and operations.
6. **Financing.** Unlike traditional projects, P3 incorporate a long-term financing structure that includes operations and maintenance after the project is complete. Under a P3 structure, the private sector bears the O&M risk versus the public sector. Due to the predictability of the operational costs of project, the overall financing costs for a project are lower due to better forecasting and predictability and efficiencies in project

delivery. Additionally, a P3 structure allows the developer to access tax-exempt financing along with other public financial programs.

**Sample P3 Process**

The following table lists the steps in sample P3 procurement process

Step	Action	Description
1	RFI	<ul style="list-style-type: none"> <li>• Pre-procurement phase</li> </ul>
2	RFQ	<ul style="list-style-type: none"> <li>• Shortlist bidders</li> <li>• Bidders demonstrate financial and technical capacity</li> <li>• Starts the procurement process</li> <li>• Includes overview of contractual relationships</li> </ul>
3	Draft RFP	<ul style="list-style-type: none"> <li>• Opportunity for feedback from shortlisted bidders</li> <li>• Uses information from RFI and RFQ processes</li> </ul>
4	Final RFP	<ul style="list-style-type: none"> <li>• Includes feedback learned in RFI, RFQ, and draft RFP processes</li> <li>• May include draft agreement</li> <li>• Concludes with selection of preferred bidder</li> </ul>
5	Closing	<ul style="list-style-type: none"> <li>• Agreement executed with chosen bidder</li> </ul>

**Is a tire recycling facility or any other project under consideration for P3?**

No projects are under consideration for P3 procurement at this time. The suggested guidelines could be utilized at the discretion of the Office of Procurement Services for any future projects that fits the criteria of the statute.

As discussed at the Committee meeting, the Office of Economic Development received an inquiry in 2017 from a tire recycling facility interested in locating in Dallas. The facility developer inquired about P3 but ultimately decided it was not a good fit for the project.

Should you have any questions, please contact me at (214) 670-1696.



Courtney Pogue, Director  
 Office of Economic Development

- c: TC Broadnax, City Manager
- Chris Caso, City Attorney (I)
- Carol A. Smith, City Auditor (I)
- Billerae Johnson, City Secretary
- Preston Robinson, Administrative Judge
- Kimberly Bizer Tolbert, Chief of Staff to the City Manager
- Majed A. Al-Ghafry, Assistant City Manager
- Jon Fortune, Assistant City Manager
- Joey Zapata, Assistant City Manager
- Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer
- M. Elizabeth Reich, Chief Financial Officer
- Directors and Assistant Directors