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City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 5, 2018
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:

Expansion of Public-Private Partnership (P3) Opportunities.

ISSUE: How to increase the use of public-private partnerships in the City?

RECOMMENDATION: That City Council allocate \$40,000 from the FY 2019 Contingent Reserve to the City Manager's Office in order that a new public-private partnership coordinating position can be established in order to enhance and grow the City's use of public-private partnerships in the delivery and financing of City facilities, infrastructure and services.

BACKGROUND: Public-private partnerships (P3's) between the private sector and the governmental sector have been long established as an effective tool to take advantage of the benefits of the private sector (knowledge, efficiency, finances, tax benefits, economies of scale, etc.) in the delivery of public sector services, and the development and financing of public sector infrastructure and facilities. The City has had significant experience with the use of public-private partnerships. Examples are:

1. **Energy from Waste Facility:** This facility receives Alexandria and Arlington's solid waste and through incineration in an environmentally sound manner, converts the energy in the solid waste into electricity. Alexandria and Arlington partnered through a very complicated set of agreements with a private sector provider in the 1980's who built and operates this facility (which to replicate today would likely cost \$300 million to construct).

2. Non-Profits: The City partners with dozens of non-profits in the delivery of services to the Alexandria community. Services range from providing food to low-income residents, home delivered meals to seniors, after-school programming, volunteer coordination, animal control, etc. Non-profits not only bring specialized expertise to the table, but they often raise significant parts of the cost of delivering services thereby reducing the City's costs of service delivery. Non-profits also are able to effectively garner volunteer labor and expertise in the delivery of services. Non-profits can also be more nimble in addressing issues than a large governmental bureaucracy.
3. Real Estate Development: The City has partnered through the development process with real estate developers to provide public amenities such as streets, parks and open space, public parking, affordable and workforce housing, and public infrastructure. In some cases, the private sector continues to maintain and operate these public amenities (such as John Carlyle Park) at no cost to the public.
4. Affordable and Workforce Housing: About two decades ago the City began working with non-profit housing groups to plan, build and operate affordable and workforce housing. In many of these cases, federal low-income housing tax credits with private sector investors were used as a key part of the financing plan for new or rehabilitated affordable and workforce housing. Fire Station 209 in Potomac Yard with its 64 unit affordable and workforce housing above the fire station was a nationally innovative example of a private sector developer, a local government and a non-profit housing provider coming together to create a now trend setting project that meets a number of the City's fire protection and affordable housing goals.
5. Provision of New Facilities: The City has also employed the private sector in design-build projects such as the DASH operations and bus storage facility where the private sector provided a unique and cost-effective solution to a parking need vs. limited land conflict. This was the first design-build of a municipal bus facility in Virginia.
6. Operations and Services: The City has utilized the private sector via competitive contracting to provide many City services such as grass mowing, janitorial services, recycling collection and disposal. In these cases the cost structure, flexibility, efficiency, economies of scale and expertise enable the service to be delivered at a lower cost than what the City government could deliver the service for.
7. Public Financing: Another form of public-private partnerships is the creation of tax incentives, tax increment financings and other ways of the public facilitating private sector development in order to induce economic growth and an increase in the City's jobs and tax base. The National Science Foundation building development is an example of this, where a City partial real estate tax abatement was instrumental in the winning by the private developer of that federal government office space competition which brought over 2,000 jobs to the City and increased City tax revenues.

As one of the recommendations contained within the City Manager's FY 2019 proposed budget, a new public-private partnership facilitation position was proposed in order to increase the number of public-private partnerships in the City particularly in the area of capital investments. This was in part a follow on to the Joint City-Schools Capital Investment Task Force work and recommendations. With a long list of capital needs and with limited funding, increasing the use of the private sector in the funding and the provision of facilities and infrastructure would be in the City's long-term financial interest. Each dollar saved via a public-private partnership is a dollar that can be invested in other facility or operational needs.

Public-private partnerships are complicated arrangements in that the definition of the public facility or operations needs to be explicitly defined, including the allocation of responsibilities, risks and financial obligations between the private and the public sector. Long-term partnerships where the private sector is responsible for facility maintenance and asset renewal are extraordinarily detailed, complicated and require significant staff resources upfront to develop and negotiate those long-term agreements.

It is recommended that a new full-time position for public-private partnership coordination be funded in the City Manager's Office. The position would likely function at an Assistant City Manager level, as it needs to be senior and experienced enough to make this effort successful. This position would be responsible for working closely in partnership with the various City departments and related agencies such as Planning & Zoning, Alexandria Economic Development Partnership, General Services and the City's procurement and contracting office to coordinate the development, negotiations and execution of public-private partnerships. Collaborating with the Alexandria City Public Schools would also be beneficial where there are opportunities for joint facility development exist which might include both City and School operations.

Having a position for public-private partnership development will also create a position with a sole focus on public-private partnerships, rather than it being a secondary or tertiary responsibility of many persons in the City government. This will enable new ideas and concepts from other governments across the U.S. and in Europe to be brought the forefront, as well as an increased more concentrated effort to be put in place. In addition, it is contemplated that this position would become the person who would be responsible in the real estate development arena and/or other parties for the day-to-day negotiations of public-private partnership agreements between the City and the private sector, whereas now that function sits with the City Manager. As has been the case in the

past this will require close collaboration with AEDP and Planning & Zoning.

The location of this position in the City Manager's Office is recommended for a number of reasons. First, public-private partnerships cross departmental and organizational lines (and only can be effective if the numerous parties collaborate), so having someone located in the City Manager's Office will be more effective, as well as make the priority of generating public-private partnerships more visible to the entire City government organization. Second, public-private partnerships that involve the City will entail in most all cases some level of capital or ongoing operating expenditures from the City government. Therefore, it is the City government that needs to be developing and making those decisions that could have significant financial implications for the City. Finally, public-private partnerships entail the allocation of risk and responsibility between the private sector and the public sector, so that level of risk and how responsibility is divided needs to be managed within the City government.

FISCAL IMPACT: When the FY 2019 budget was proposed, it contained \$75,000 in the City Manager's Office for this position and \$100,000 in the CIP. This reflected the expectation that about 60% of this position's time would be spent on the capital related projects and 40% on operating projects and programs. This reflected salary and fringe benefit costs (about \$150,000) for 12 months and \$25,000 for start-up and support costs. Council set aside the \$75,000 in FY 2019 Contingent Reserve. At this time, it is projected that only about \$40,000 will be needed from contingent reserve for about three months of FY 2019, given the time recruitment of a person in this position may take. The CIP monies will roll forward to FY 2020 to support this position.