

August 17, 2004

To: Council Committee for Lots 2 and 5

From: John Stainback

Re: **Alternative Developer Solicitation Methods for Chapel Hill**

There are eight (8) alternative developer solicitation methods. These methods include:

1. The one-step traditional Request for Proposal (RFP)
2. Pre-qualify developers and issue an RFP
3. The two-step RFQ/RFP
4. The three-step RFI/RFQ/RFP
5. Interview developers to pre-qualify and issue RFQ/RFP
6. Issue RFQ with option to negotiate or issue an RFP
7. Issue an RFQ, then proceed to negotiations
8. Sole Source

Solicitation Methods Recommended for Consideration of the Council Committee

Based on three important factors: 1) the extensive experience of our company; 2) the desire to avoid the impact of increasing interest rates, and 3) our desire to minimize the substantial increase in construction materials, we recommend the Council Committee focus on the following developer solicitation methods:

1. Pre-qualify developers and issue an RFP
2. The two-step RFQ/RFP
3. Issue RFQ with option to negotiate or issue an RFP

Overview of the Three Recommended Solicitation Methods:

Method One: Pre-qualify Developers and Issue an RFP

The driving force behind this method is to eliminate the Request for Qualifications (RFQ) process. By eliminating the RFQ process, the Council Committee will save time and money. The average time required to complete the RFQ process is 12 to 18 weeks. The Town and SPPRE have allowed 14 weeks to complete the RFQ process. If the Committee selected this method, it would require one to two weeks for our firm to complete the research and select the development companies to receive the RFP. Of course, the Town staff and the Committee would need at least a week to review our recommended list of pre-qualified developers.

The Town would miss the opportunity to advertise the development opportunities. The Town would also miss the opportunity of completing a Pre-Proposal Conference. The purpose of a pre-proposal conference is to "sell" the development opportunities to the real estate and related industries and receive feedback, as well as better understand the concerns of potential development candidates.

Method Two: The Two-Step RFQ/RFP Process

The two-step RFQ/RFP process is by far the most popular method to solicit developers. We estimate that 75 to 85 percent of public entities use this method. We believe the majority of public entities use this method because it has proven to be successful. It opens up the competition to any and all developers. Moreover, it allows firms such as architects, engineers and contractors to assemble a multidisciplinary team to respond to the RFQ.

The major drawback to this method is that it requires so much time to complete. We have allowed 37 weeks excluding two weeks for the Christmas Holidays to complete the RFQ/RFP process.

When compared to the RFP process, developers prefer the two-step process, because it substantially reduces their risk. Developers dislike the one-step RFP method because they are forced to invest an enormous amount of time and money to prepare a highly technical proposal when they could be one of 20 to 30 firms submitting a proposal. From the perspective of a developer, in order to compete for the project, they are forced to invest this time and money with a three to five percent (3% to 5%) chance of being selected. So they prefer to submit their qualifications in response to an RFQ and then hopefully be "short-listed" to three or five firms to receive an RFP. If there are three firms short-listed, each firm now has a 33 % chance of being selected, so the investment is warranted.

Method Three: Issue an RFQ with the Option to Negotiate or Issue an RFP

This method is appealing in two ways: 1) If we found a team that was a perfect "fit" for the Town and the proposed projects, we have eliminated the cost (the fee for SPPRE) and the time

required to complete the RFP process (37 weeks), and 2) if the Council Committee does not feel that they have adequate information to select a team they have the "option" of issuing an RFP.

The advantage of this method is that it allows the Council Committee the option to avoid the lengthy RFP process. The problem with this method is what if the Committee selects a team and proceeds directly to negotiations and concludes that they have selected the wrong team, or uncover that they are not a good private partner, the Committee has to start negotiations with the second ranked team.

The underlying concept of this method is that the public partner quickly selects a team based on their RFQ process and then they quickly become a partner of the developer. In other words, the public and private partner become a team and structure and implements the proposed project.

The other major problem with this method is that if the Council Committee proceeds directly to negotiations, avoiding the RFP process, they lose the opportunity of receiving and reviewing several in depth proposals in response to the RFP. In other words, the Committee may feel that they have insufficient information to proceed directly to negotiations. Of course, the Committee has the option of requiring the developers to respond to an RFP.

Some developers really like this method, because they have a chance to win a major project and avoid the costly RFP process.

SPPRE Recommendation

Based on having worked with the Town staff, Town Council and the Council Committee, we believe the two-step RFQ/RFP process will provide sufficient information to select a developer, which best fits the Town's analytical, methodical and demanding requirements.