



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Nanci Klein

SUBJECT: SECOND AMENDMENT TO AN
AGREEMENT WITH HR&A
ADVISORS, INC.

DATE: August 6, 2020

Approved

Date

8/7/2020

RECOMMENDATION

Approve the Second Amendment to an Agreement with HR&A Advisors, Inc., increasing the amount of compensation by \$270,000 for a total amount of compensation not to exceed \$695,000, to continue assistance with negotiating a Development Agreement with Google.

OUTCOME

The amended agreement will enable staff and consultants to continue negotiating and evaluating the financial aspects of the Downtown West proposal including the cost to meet City requirements, project feasibility and the appropriate value of the Community Benefit package.

BACKGROUND

HR&A Advisors, selected through an RFP process, has assisted the City in its negotiations with Google beginning in 2017. The original agreement was executed in the amount of \$290,000. The Agreement term was to June 2020.

In December 2019, the Council approved the first amendment to the Agreement with HR&A to increase the amount to \$425,000 and extend the term to June 30, 2021. HR&A's work is complex and iterative; Downtown West could be phased and delivered in a variety of ways and HR&A's analysis should respond to changing market conditions and evaluate these differing delivery strategies. Infrastructure and city requirements could also be provided in a variety of ways, resulting in varying financial impacts, impacting the project's financial feasibility and ultimately the Community Benefits package that can be provided.

ANALYSIS

HR&A Advisors brings considerable national and international economic and negotiating experience to the City. HR&A's depth of knowledge and experience is critical in the negotiations with Google, given the complexities of its development vision and the economics of development in San Jose.

Analysis and negotiations with Google touches almost every department in the City. HR&A works with the negotiating team and key members of the participating City departments on a regular basis. COVID-19 has added a level of complexity and need for additional iterations to the scope of the project. When the COVID-19 pandemic arrived, the project plans and schedules were extended. Analysis of the project became even more complicated. COVID-19 market impacts may result in less or somewhat different user space needs in the short and mid-term. Project feasibility needs to be analyzed based on best available information for rents, construction costs, availability of capital and occupancy rates amongst other factors. Current schedules anticipate City Council action on a Development Agreement and associated Community Benefits Package by April 2021.

The additional funding enables the collaboration with HR&A to address these and many other associated issues. HR&A's scope is likely to include continued financial analysis of different development scenarios and supportable Community Benefits Package. HR&A will also support City departments to analyze and refine the Community Benefits Package, with a focus on affordable housing, community stabilization and workforce development/job pathways.

The proposed Second Amendment to the Agreement increases the amount by \$270,000, for a total Agreement of \$695,000. There is no change in the end date of June 30, 2021. Funds for this Agreement are included in the reimbursement agreement between the City and Google, approved by the City Council on June 17, 2019.

CONCLUSION

To successfully complete the Development Agreement with Google and enable delivery of Community Benefits as directed by the City Council, the Agreement with HR&A needs to continue. The addition of \$270,000 to the Agreement is necessary to maintain the work begun to analyze and effectively negotiate the required project elements.

EVALUATION AND FOLLOW-UP

Staff anticipates presenting insights into the Development Agreement and Community benefits package at a City Council study session scheduled on September 24, 2020.

CLIMATE SMART SAN JOSE

The recommendation in this memo has no effect on Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

This memorandum will be posted on the City’s Council Agenda website for the August 18, 2020 Council Meeting.

COORDINATION

This report was coordinated with the City Attorney’s Office and the City Manager’s Budget Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

COST SUMMARY/IMPLICATIONS

The amended agreement will be funded by the Diridon Station Area Development Planning appropriation in the General Fund, which is primarily funded by Google through a reimbursement agreement with the City.

BUDGET REFERENCE

The table below identifies the fund and appropriation to fund the amendment to the agreement recommended as part of this memo.

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Agreement	2020-2021 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
001	202S	Diridon Station Area Development Planning	\$2,212,000	\$270,000	VIII – 15	06/23/2020, Ord. No. 30437

* The 2020-2021 Operating Budget was reviewed and approved by the City Council on June 16, 2020 and adopted on June 23, 2020.

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CEQA

Not a Project, File No. PP17-001 Feasibility, and Planning Studies with no commitment to future actions and File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/

NANCI KLEIN

Director of Economic Development

For questions, please contact Bill Ekern, Diridon Project Director, at (408) 535-7637.