CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

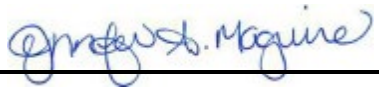
# Memorandum

**TO:** HONORABLE MAYOR AND CITY COUNCIL

**FROM:** Jen Baker
Jeff Provenzano

**SUBJECT:** **See Below**

**DATE:** October 27, 2025

Approved  Date: 10/27/2025

**COUNCIL DISTRICT: 4**

**SUBJECT: Request for Qualification Selection of Developer and Backup Developer for 159 Acres at the San José-Santa Clara Regional Wastewater Facility**

## RECOMMENDATION

Adopt a resolution authorizing the City Manager, or her designee, to:

(a) Select Prologis Inc. as the preferred developer pursuant to the Request for Qualifications offered, for the 159 acres of economic development land belonging to the San José-Santa Clara Regional Wastewater Facility, and select a joint venture between Catellus Development Corporation and Deca Companies as the backup developer for these lands;

(b) Negotiate and execute an Exclusive Negotiation Agreement with the selected developer for a term of two years with three one-year option terms at the City of San José's discretion; and

(c) Negotiate and execute an Exclusive Negotiation Agreement with the backup developer, for a term of two years with three one-year option terms at the City of San José's discretion, should negotiations with the selected developer fail to provide an agreement with the terms and conditions sought by the City of San José for this project.

## SUMMARY AND OUTCOME

City Council approval will direct the City of San José (City), as the administering agency of the San José-Santa Clara Regional Wastewater Facility (RWF), to award Prologis Inc. (Prologis) with an exclusive negotiation agreement (ENA) for two years, with three one-year option terms at the City's discretion, for the development of the RWF's 159

acres of economic development buffer lands. The terms of the ENA will be negotiated and finalized within 90 days. At the City's discretion, the period for negotiating the ENA may be extended for 30 days at a time. If the City and Prologis are unable to successfully negotiate the terms of the ENA, then the City will proceed with negotiating the terms of an ENA with the joint venture between Catellus Development Corporation and Deca Companies (Catellus-Deca).

Pursuant to the ENA, Prologis will define the terms of the development, including but not limited to, the definition of a land use plan, infrastructure plan, development phasing, financing plan, California Environmental Quality Act (CEQA) analysis, and a community outreach plan, and the City will negotiate a corresponding development and ground lease agreement that includes financial compensation for the RWF as landowner. Staff will return to City Council with the outcome of negotiations and seek authorization to enter into a development and ground lease agreement with Prologis.

In the event that negotiations with Prologis fail to result in a deal that staff would recommend to City Council, staff will enter into an ENA with the joint venture between Catellus-Deca before returning to City Council to seek authorization to enter into a development and ground lease agreement.

## BACKGROUND

The RWF is co-owned by the cities of San José and Santa Clara and operated by the City of San José. The RWF lands consist of approximately 2,680 acres, which include about 159 acres of buffer lands located on Zanker Road, adjacent to Highway 237 (Property), designated in the Plant Master Plan (PMP)[1] for economic development. The 159 acres are roughly bounded by the Los Esteros Energy Center to the east, Artesian Slough to the west, Highway 237 to the south, Silicon Valley Advanced Water Purification Center, and the RWF operational area to the north.

The RWF purchased a variety of properties to function as buffer lands, including the subject Property in 1998, to prevent incompatible uses from developing adjacent to the plant's operational area. In 2000, a Declaration of Covenants, Conditions, and Restrictions was recorded against the Property's title that prohibits odor sensitive development such as residential (including single-family residences, multi-family units, residence inn or club, boardinghouse, or similar facility with overnight occupancy), hotels or motels, schools, freestanding day care facilities, hospitals, convalescent or nursing care facilities, churches, or outdoor amphitheaters. In 2013, both the San José and Santa Clara City Councils adopted the PMP and certified the PMP environmental

[1] https://www.sanjoseca.gov/your-government/departments-offices/environmental-services/water-utilities/regional-wastewater-facility/capital-improvement-program/plant-master-plan#:~:text=The%20Plant%20Master%20Plan%20and%20EIR%20Certification%20was,will%20benefit%20you%2C%20your%20family%2C%20and%20the%20community

impact report. The PMP's land use plan provides a comprehensive framework for the long-term development of RWF lands, consistent with plant operations. The economic development designation in the PMP for the Property specified a combination of approved uses such as light industrial, office/research and development, retail commercial, and/or combined industrial/commercial. The PMP also set aside 180 acres for protection as burrowing owl habitat, which later increased to 201 acres of protected habitat, and 40 acres for recreation uses.

City staff consulted with the State Department of Housing and Community Development and received a notice of exemption determination establishing that the potential development of the Property is exempt from the Surplus Lands Act. This is due to the recorded use constraints and the RWF's Agency Use requirement to prohibit incompatible uses adjacent to the Property.

The PMP's goals for economic development include the following: creating jobs, including supporting San José's Green Vision to create Clean Tech jobs; generate lease revenue to the RWF; generate property, sales, and income tax revenue to the City; and promote opportunities for synergy with the RWF and available assets, such as treated water and energy, and promoting the City's Green Vision by implementing renewable energy systems, green buildings reuse of recycled water, and green infrastructure.

In early 2024, City staff issued a Request for Qualifications (RFQ) to identify a development consultant to assist the City in identifying a developer for these lands. A consulting agreement was ultimately signed with Keyser Marston Associates, Inc. (Keyser Marston) on August 25, 2024. Keyser Marston was tasked with working with the City to develop the requirements, objectives, and selection process to inform a solicitation document for a master developer, notifying the development community of the solicitation, assisting the City in reviewing and evaluating responses submitted, and assisting the City in negotiations with the selected developer. The City Manager's staff worked closely with Keyser Marston to define the RWF's priorities and parameters for potential development, to define site opportunities and constraints for developer consideration, and to prepare an RFQ intended to identify suitable developers with a viable concept as well as the financial and experiential capabilities to develop these RWF lands to their highest and best use.

In July 2025, the City entered into an agreement with the Pacific Gas and Electric Company (PG&E) to secure a commitment on speed and certainty of power for large energy users. As part of the agreement, PG&E committed to provide a total of 250 MW of capacity via a dual feed connection from the Los Esteros 230 kV substation in North San José within 30 to 36 months of receiving a written agreement from the City or

assigned developer to proceed with the project.[2] PG&E indicated that while no future power commitments have been made, they are willing to study projected load growth and collaborate with the developer to address future power needs.

## ANALYSIS

On May 12, 2025, the City released an RFQ solicitation in accordance with San José Municipal Code Title 4 and the City's "Process Integrity Guidelines" as set forth in City Council Resolution 77135, seeking a developer for the Property. The City's consultant, Keyser Marston, researched and compiled a list of 231 likely developers and brokers representing developers that were screened for the ability to take on a project of this scale, and the RFQ was distributed to those parties. Notification of the RFQ was provided to 19,433 separate parties through the "Biddingo" system, which publishes the City's bid opportunities for contractors and consultants, and there were 30 downloads of the RFQ based upon that publication. The City Manager's Office of Economic Development and Cultural Affairs hosted a developer tour, focused on identifying development opportunity sites around San José and adjacent portions of the Santa Clara Valley. In addition, Keyser Marston hosted a website with the RFQ online, available for download and review throughout the solicitation process.

On May 23, 2025, the City conducted a site walk and question-and-answer session, open to all interested parties. Responses to the RFQ were due to the City by August 1, 2025. The RFQ responses were reviewed and ranked by a panel of five people representing the City of San José as majority owner and administering agency, and the City of Santa Clara as minority owner. The panel consisted of four City of San José representatives (two Deputy City Managers, the Director of Real Estate, and the Director of Environmental Services) and a representative of the City of Santa Clara (Principal Engineer). Since power availability is such a significant and unique component of the property, a representative from PG&E participated as a non-scoring panel member during the oral presentations.

The three submittals received and referred to the panel were submitted by Prologis, Catellus-Deca, and TC. No. Cal. Development, Inc., a subsidiary of the Trammell Crow Company (Trammell Crow Company). All three respondents are strong, nationally recognized developers. The selection panel reviewed the submittals for their completeness and their strengths relative to the criteria contained in the RFQ., as listed below. The panel's review included consideration for: (a) which submittal would most

[2] The 30 to 36 months is dependent upon the timely receipt of required permits, including CEQA and those from the City of San José, as well as the timely receipt of any required regulatory approvals, including concurrence by the California Independent System Operator (CAISO). The initial project may require customer action during transmission contingencies until other required electrical projects are approved by the CAISO, constructed, and put into operation by PG&E. PG&E will coordinate with the customer about any required actions.

likely reliably generate the highest return for the RWF, its stakeholder agencies and ratepayers; (b) how effectively and quickly each submittal would respond to the expected availability of at least 250 MW of new power supply to this area; and (c) whether the respondent provided a realistic land use plan that allowed for near-term development and long-term expansion. The panelists reviewed these written submittals based on the specific criteria for selection as presented in the RFQ, depicted below:

| Criteria No. | | Number of Points |
|---|---|---|
| **1** | Vision – Land Use Plan that maximizes the project opportunities offered by the site and site amenities, including City agreements relative to utility supplies. | **20** |
| **2** | Quality of Response – completeness and responsiveness to development objectives: land use objectives, including compatibility with RWF operations, and financial objectives. | **15** |
| **3** | Financial structure, terms, and revenue proposed. | **15** |
| **4** | Track record in developing high-quality infill technology, engineering, or advanced manufacturing development projects. | **10** |
| **5** | Financial capacity and track record in public/private partnerships that required significant equity funding for entitlements. | **10** |
| **6** | Experience of members of the development team. | **10** |
| **7** | Total percent of developable land (acres) to be developed under the Developer's project submittal. | **10** |
| **8** | Proposed project and site development coordination plan with other Site partners. (A single site developer who does not need to coordinate with partners will be awarded these 10 points.) | **10** |
| **TOTAL** | | **100** |

In addition, up to 20 points were available to be awarded for those invited to make an oral presentation to the panel.

Overview of Responses

Each respondent submitted a big picture submittal, showing the general direction that the development group believed was the best response to the RFQ criteria. While the proposed projects were presented as purely hypothetical exercises at this point, they indicate the direction and prioritization of uses for each of the respondents. On the basis of this general project direction, and upon analyzing the financial and business details of each submittal, the panelists ranked Prologis and Catellus-Deca very similarly, while Trammell Crow Company fell nearly 10 points below both of the other respondents, in the average point rankings. Therefore, only Prologis and Catellus-Deca advanced to oral interviews and presentations.

*Prologis*

Prologis proposed building the site out entirely with data centers and advanced manufacturing. Their schematic shows 1.684 million square feet of data center space, in

four two-story buildings on four separate parcels. They also include 785,000 square feet of advanced manufacturing space in four buildings. The project includes five electric substations to support the energy needs of these uses. The Prologis conceptual site plan is attached to this memorandum. (Attachment A).

*Catellus-Deca*
Catellus-Deca proposed roughly three-million square feet of flex space that could include data center space, research and development, or business park, and 562,000 square feet of retail space located near the Highway 237 exit. The project would be built out in two phases and include a little over half of the flex space, as well as the retail space, in the first phase. The Catellus-Deca conceptual site plan is attached to this memorandum (Attachment B).

*Trammell Crow Company*
Trammell Crow Company proposed to construct approximately 3.2 million square feet of warehouse space, 54,000 square feet of office space, and 60,000 square feet of retail space. The panel did not invite Trammell Crow Company to the oral presentation stage of the solicitation.

Oral Presentations and Panel Recommendation
Prologis and Catellus-Deca presented to the panel on September 19, 2025. Each panelist could award up to 20 additional points based on the presentation, to be added to the points already awarded for the written presentations. The panel awarded more points to Prologis than to Catellus-Deca in recognition of the Prologis submittal's strengths, which include:

- In-house financing capability and commitment to finance 100% of project development costs;
- A balanced mix of uses between data center and advanced manufacturing, and no consideration for uses with less revenue generation, like distribution warehouse or retail;
- An optimized approach to data center development in California including buildings sized to maximize flexibility, appropriate parcelization of the land, and a clear path to utilizing the 250 MW of available power in phase I;
- A plan to work with PG&E to secure an additional phase of power after the initial 250 MW;
- A reasonable internal rate of return for the developer and a corresponding ground lease structure that mitigates risk for the RWF; and
- A project team with an extensive book of successful comparable projects.

The strengths of the Prologis submittal stood out to the panel when weighed against the other submittals. The land use mix considered maximizes the potential economic returns of the land when weighed against consideration of warehouse, distribution, and retail spaces. Unlike the other submittals, Prologis' approach to developing data centers

is optimized for California regulations, and the lease structure minimizes risk to the RWF. Finally, PG&E attended the oral presentations and corroborated the panel's determination that the Prologis submittal provides the clearest path to leverage the initial phase of power and to secure an additional phase of power beyond the first 250 MW.

Accordingly, the panel recommends that Prologis receive an ENA to develop the Property. The panel recommends Catellus-Deca as a strong second-choice developer to move into the prime position if ENA negotiations between the City and Prologis do not lead to a successful outcome.

Staff informed the respondents of the panel's decision to recommend Prologis as the preferred developer and Catellus-Deca as the backup developer. All respondents were asked to inform the City if they intended to protest the panel's recommendation by October 24, 2025, and no protests were received

Exclusive Negotiation Agreement

The ENA will include the terms of a negotiation cost recovery agreement and a list of and schedule for milestones to be completed by the developer and the City during the ENA period. Anticipated interim milestones to be identified in the ENA include: a community outreach plan; the completion of community outreach; a land use plan; preliminary infrastructure plan; preliminary phasing plan; preliminary financing plan; a business term sheet; a preliminary fiscal impact analysis, preparation of an EIR and other related clearances; and a Draft Development and Ground Lease.

## EVALUATION AND FOLLOW-UP

Upon the City Council's confirmation of the preferred and backup developer team, the City Manager, or her designee, will begin conversations to define an ENA with the preferred developer team that will include the terms of a negotiations cost recovery agreement and a list of and schedule for milestones to be completed. Within 90 days, subject to extension at the City's discretion, the ENA will be executed by the City and the developer, at which time the developer will begin to formulate a development plan including the proposed structures and layout, infrastructure plan, construction phasing, uses and tenants for the developed site, financing structures for construction, and a community engagement plan. The developer will be expected to engage the community throughout the process and to use all reasonable efforts to respond to community concerns. The City will then negotiate ground lease terms, including potential base rents and profit sharing, and the development and ground lease agreement, which will capture the ground lease payments to the RWF and site programming terms. The project design developed during this time will be subject to future CEQA review and potential revisions to the General Plan, the PMP, or a Specific Plan.

Should staff elect to discontinue negotiations with Prologis and enter into an ENA with Catellus-Deca, then the Catellus-Deca team would begin all work described above according to a similar timeline.

Any proposed development and ground lease agreement will be heard by the Treatment Plant Advisory Committee, and authorization will be required from the City Councils of Santa Clara and San José. Staff will seek this authorization after CEQA analysis is complete, which is expected to be approximately two to five years after execution of the ENA.

## COST SUMMARY/IMPLICATIONS

No revenues or expenses will be incurred in connection with pursuing an ENA with the selected developer. Any potential revenues to the RWF from a future development and ground lease agreement will be addressed when staff return to City Council at a later date with recommended lease terms and conditions for consideration.

## COORDINATION

This memorandum has been coordinated with the City Attorney's Office, City Manager's Budget Office, and the Planning, Building, and Code Enforcement Department.

## PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the November 18, 2025 City Council meeting.

The Santa Clara City Council will also hear the recommendation. As of the writing of this memorandum, the City of Santa Clara has not scheduled a date for Council consideration. Staff will provide an update at the November 18, 2025, City Council meeting with details and timing for Santa Clara's City Council consideration.

## COMMISSION RECOMMENDATION AND INPUT

This item is scheduled to be heard at the November 13, 2025, Treatment Plant Advisory Committee meeting. A supplemental memorandum with the Committee's recommendation will be included in the amended November 18, 2025 City Council meeting agenda.

## CEQA

Not a Project, File No. PP17-007, Preliminary direction to staff and eventual action requires approval from decision-making body.

## PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

Jen Baker
Director, City Manager's Office of Economic Development and Cultural Affairs

/s/
Jeff Provenzano
Director, Environmental Services Department

For questions, please contact Kevin Ice, Assistant to the City Manager, Director of Real Estate, City Manager's Office of Economic Development and Cultural Affairs, at kevin.ice@sanjoseca.gov.

## ATTACHMENTS:

Attachment A: Prologis Conceptual Site Development Plan
Attachment B: Catellus-Deca Conceptual Site Development Plan

# Attachment A: Prologis Conceptual Site Development Plan

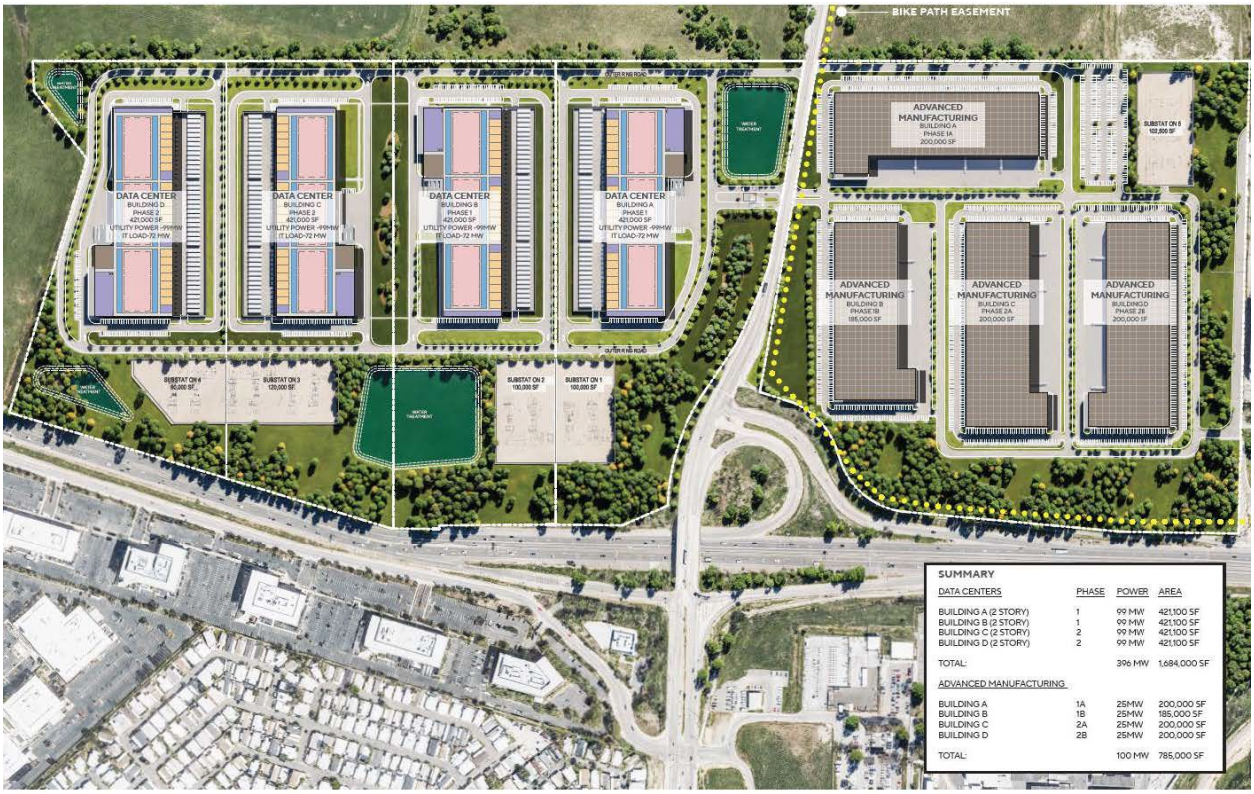
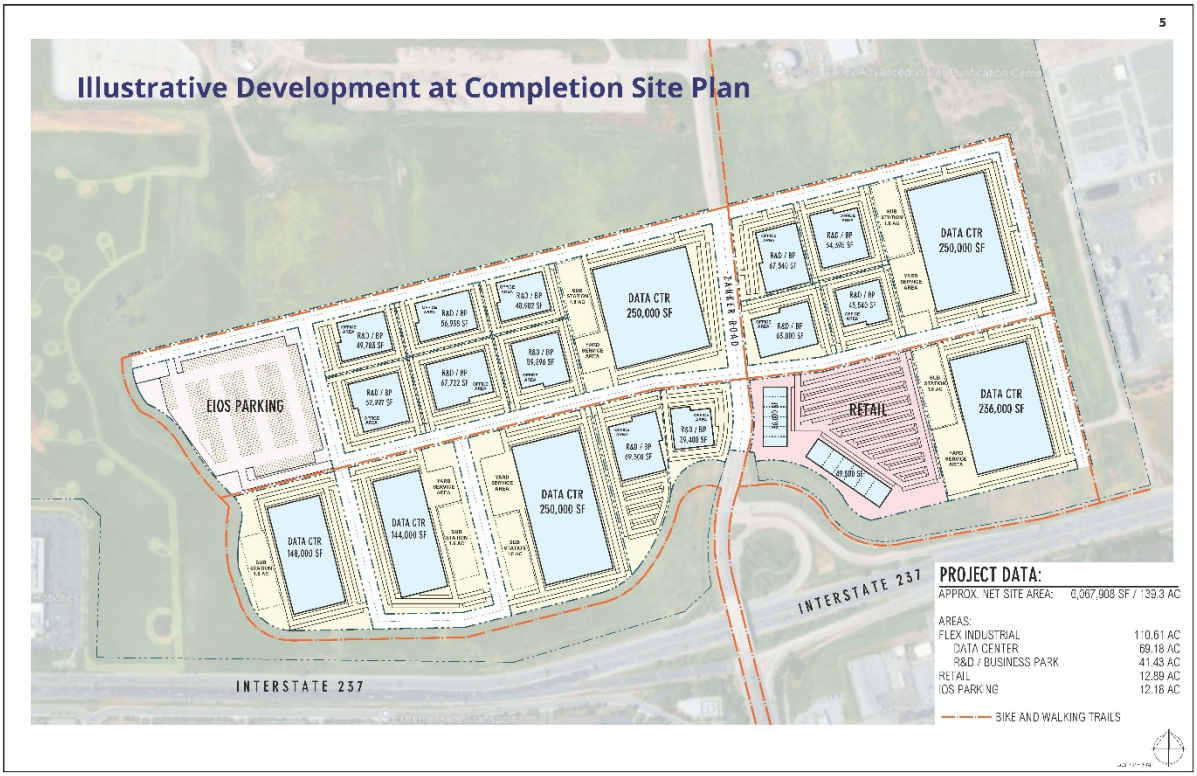



Exhibit A – Vision (Site Plan)

Attachment B: Catellus-Deca Conceptual Site Development Plan