



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jen Baker
Jeff Provenzano

SUBJECT: See Below

DATE: October 27, 2025

Approved

Date:

10/27/25

COUNCIL DISTRICT: 4

SUBJECT: Master Easements Agreement and Site Works Agreement with
Microsoft Corporation and Valley Water for the San José-Santa Clara
Regional Wastewater Facility

RECOMMENDATION

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

- (a) Master Easement Agreement with Microsoft Corporation in exchange for a payment of no less than \$9,274,314, including \$8,725,000 for the easements and \$549,314 for the City to purchase the potable water line serving the San Jose-Santa Clara Regional Wastewater Facility, that will:
 - (1) Convey permanent easements to install below-grade utilities, including potable water lines, recycled water lines, sanitary sewer lines, fire water lines, and storm drains across undeveloped buffer lands situated to the south of the San José-Santa Clara Regional Wastewater Facility operational area;
 - (2) Convey temporary construction easements as required to facilitate execution of the projects contemplated by this Agreement and enumerated in the staff memorandum;
 - (3) Convey an easement for the extension of McCarthy Lane and provide ingress and egress access across McCarthy Lane; and
 - (4) Convey a temporary construction easement to widen and improve Zanker Road to include bicycle lanes, a center median, pedestrian walkways, and bioswales; and
- (b) Site Works Agreement with Microsoft Corporation and Valley Water defining the scope, location, and terms of Microsoft Corporation's construction of a new visitor center on lands of the San José-Santa Clara Regional Wastewater Facility, which

October 27, 2025

Subject: Master Easements Agreement and Site Works Agreement with Microsoft Corporation and Valley Water for the San José-Santa Clara Regional Wastewater Facility

Page 2

are leased to the Santa Clara Valley Water District, and other site improvements;
and

- (c) Any other documents related to and necessary to execute, administer, and/or enforce the above Agreements.

SUMMARY AND OUTCOME

The Master Easement Agreement between the City and Microsoft Corporation (Master Easement Agreement and Microsoft, respectively) and the Site Works Agreement between the City, the Santa Clara Valley Water District (Valley Water), and Microsoft (Site Works Agreement) will provide Microsoft rights to develop necessary infrastructure on San José-Santa Clara Regional Wastewater Facility (RWF) lands, as depicted in the Attachment A: Easements Figure and Attachment B: Site Works Figure both of which are attached to this memorandum, to support construction of a data center project on lands Microsoft owns southeast of the RWF. Infrastructure constructed will be maintained by Microsoft until such time that the City allows the infrastructure to be converted to public use to support development on the buffer lands of the RWF property. The Master Easement Agreement includes the following elements:

- Allow the RWF to: modify or relocate any infrastructure constructed prior to public dedication in order to best leverage it for future RWF development;
- Require Microsoft to build its stormwater drainage line with added capacity in the burrowing owl habitat area, so potential future development on the RWF buffer lands will not require additional construction in the habitat area;
- Construct a number of area wide transportation improvements including widening Zanker Road, extending McCarthy Lane access, and signaling the intersection at McCarthy Lane and Zanker Road;
- Microsoft will pay a total of \$9,274,314.10, including \$8,725,000 for the easements and \$549,314.10 for the City to purchase the potable water line serving the RWF; and
- Provide Valley Water with a new Visitor Center, access road, and parking lot to serve the Silicon Valley Advanced Water Purification Center, which work will include other site improvements on the property that Valley Water ground leases from the RWF.

BACKGROUND

The City of San José is the administering agency for the RWF and co-owner of the RWF with the City of Santa Clara. As the plant's administering agency, the City is responsible for the acquisition and disposition of real and personal property. The RWF is the owner of buffer lands on the south side of the plant's operational area along Highway 237, at the Zanker Road interchange, of which 159 acres are planned for

future development. The RWF buffer lands have a restriction that prohibits uses incompatible with plant operations, including hotel or residential uses. The RWF's Master Plan area calls for the development of industrial uses that are compatible with plant operations.

In 2017, Microsoft acquired a parcel of land known as APN 015-31-054, which is located to the southeast of the buffer lands belonging to the RWF. Microsoft submitted plans to the City, proposing the construction of two data center buildings. In order to serve these data centers, Microsoft requires various utilities, which it proposes to place in easements crossing RWF buffer lands, including potable water, recycled water, a system to capture storm water runoff, and water for firefighting purposes. As there are no existing utilities or development adjacent to Microsoft's parcel, the necessary utility infrastructure needs can only be met by bringing connections in from the surrounding lands. The lands surrounding the Microsoft site include Coyote Creek, California State Route 237, and the buffer lands of the RWF.

The City, acting as the administering agency for the RWF, entered into negotiations with Microsoft to mitigate the impacts of the easements on RWF and Valley Water operations, and to design the infrastructure in a manner that maximizes future utility when the buffer lands are developed. Microsoft's initial design conflicted with RWF operational priorities and constraints, and with Valley Water's existing visitor center siting. Microsoft has deconflicted its plan by proposing to construct a new Visitor Center, an access road, and a parking lot for Valley Water's use, as well as a utility network in a manner prescribed by RWF staff.

ANALYSIS

Microsoft's project requires easements for infrastructure and access through RWF property. Some of this infrastructure will improve services for the entire area, including widening Zanker Road, extending McCarthy Lane access, signalizing the intersection at McCarthy Lane and Zanker Road, and running new utility infrastructure that can be utilized by the RWF's developments in the future. City staff have reviewed Microsoft's plans and provided feedback to mitigate impacts on the buffer lands and improve the infrastructure's usefulness for future buffer lands development.

Microsoft has agreed to pay a total of \$9,274,314.10. This includes \$8,725,000, which is the fair market value for all conveyed property interests under the Master Easement Agreement, as determined by a Uniform Standards of Professional Appraisal Practice-compliant Member, Appraisal Institute appraisal of fair market value prepared by Valbridge Property Advisors. The balance of Microsoft's payment is \$549,314.10, which RWF staff have determined to be the depreciated value of the potable water line that serves the RWF, plus reimbursement of soft costs. Microsoft will be responsible for all

liability that accrues from its activities under the Master Easement Agreement and the Site Works Agreement.

Municipal Water Potable Water Line

Microsoft cannot receive service from the potable water line serving the RWF because it is owned by the RWF. Microsoft's payment will allow the San José Municipal Water System to purchase the line from the RWF, which will allow Microsoft to receive service from the line. The RWF will continue to receive service from the line, and increasing usage of the line will improve the quality of the water serving the RWF. RWF's service payments to the San José Municipal Water System will be unchanged.

Accommodations for RWF Future Uses

The easement agreement will preserve maximum flexibility for the plant's future developer in the buffer lands. Should the future developer wish to rearrange service provision, the developer will not be blocked by what Microsoft is constructing now in the buffer lands. Staff and Microsoft have agreed to a plan granting the City the authority to convert Microsoft's proposed private utilities into public utilities when necessary. Microsoft will provide maintenance for all private utilities until such time as they are dedicated for public service.

Microsoft has also agreed to install an oversized stormwater line, sized to accommodate anticipated stormwater runoff for economic development lands in the RWF's buffer lands, where that storm drain crosses conservation easement lands to the west of the RWF buffer lands. This was requested by City staff to allow for future storm drain capacity while avoiding the need to construct again in a protected burrowing owl habitat area.

Zanker Road Widening

In conjunction with the construction of the proposed data center development and associated utility easements, Microsoft will improve Zanker Road to bring it into conformance with the 2018 *Complete Streets Design Standards and Guidelines*, and with the City of San José Better Bike Plan 2025. These roadway improvements will include widening Zanker Road, relocating existing infrastructure affected by that widening, and will include the installation of raised Class IV bicycle lanes, pedestrian pathways, bioretention swales, and potentially a center median island.

Additional road works will include the extension of McCarthy Lane eastward, to connect the current end of McCarthy Lane to the new Valley Water visitor center, and then onward to a private roadway on the Microsoft property. Microsoft's design will also incorporate the relocation of a Valley Water manhole, and make associated changes to the attached pipeline, in their Zanker Road works, and will (1) preserve an existing

drainage ditch along the east side of Zanker Road; (2) preserve safe driveway access from the dewatering plant, the transfer pump station, and warehouse access driveways; and (3) maintain improvements associated with the Construction Enabling Improvements Project. RWF staff have additional concerns with the widening of Zanker related to building frontage and signage, drainage ditches, and access points to the RWF operational area. These concerns will be provided during the plan review and incorporated into Microsoft's permits. Microsoft will be required to adhere to all permit requirements pursuant to its easement terms, to coordinate access with the RWF and restore all impacts to RWF property after construction.

Site Works Agreement

Microsoft's project, as initially designed, included a utility easement pathway that conflicted with the current location of the Valley Water Visitor Center on McCarthy Lane. To address this conflict, Microsoft reached an agreement with Valley Water to construct a new Visitor Center and parking lot for Valley Water public information and exhibits, and other site works, including relocating a Valley Water manhole outside of the widened Zanker Road footprint. The Site Works Agreement, if approved, will be between Microsoft, Valley Water, and the City. The Site Works agreement must be executed prior to, or simultaneous with, the Master Easement Agreement. The agreement will bind Microsoft to provide benefits to Valley Water on RWF-owned land, and the City has no obligations under this agreement.

EVALUATION AND FOLLOW-UP

Upon approval of the recommendations in this memorandum, the City Manager, or her designee, will negotiate and execute the proposed Master Easement Agreement and Site Works Agreement. Microsoft will then carry out pre-construction activities in winter 2025. Microsoft will start construction on the remaining aspects of its data center project in 2026. Installation of the utilities is expected to begin in spring 2026, followed by the Zanker Road widening and construction of the Valley Water Visitor Center. All of these improvements are projected to be completed by the end of summer 2027. The data center itself is expected to be completed in early fall 2028.

COST SUMMARY/IMPLICATIONS

Microsoft will pay a total of \$9,274,314.10, including \$8,725,000 for the easements and \$549,314.10 for the potable water line owned by the RWF. Revenues in the amount of \$8,725,000 for the easements conveyed under this agreement will be deposited into the San José – Santa Clara Treatment Plant Income Fund. Additionally, the RWF owns a potable water pipeline in the public right of way that supplies potable water from the San José Municipal Water System to certain areas of the RWF and that Microsoft would like

to utilize. The \$549,314.10 for the purchase of this potable water line will be deposited into the Water Utility Fund and subsequently transferred to the San José – Santa Clara Treatment Plant Capital Fund. This transfer will enable the Municipal Water System to acquire the potable water line from the RWF. Total revenues of \$9,274,314.10 received by the RWF will be disbursed in accordance with RWF ownership agreements. Corresponding appropriation actions will be brought forward subsequent to agreement execution as part of a future budget process.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, the City Manager's Budget Office, and the Departments of Planning, Building and Code Enforcement, Public Works, and Transportation.

PUBLIC OUTREACH

This memorandum will be posted in advance of the November 13, 2025, Treatment Plant Advisory Committee (TPAC) meeting. This memorandum will also be posted on the City's Council Agenda website for the November 18, 2025 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

This memorandum will be posted as part of the agenda packet for the November 13, 2025, TPAC meeting. As the TPAC meeting and consideration will take place after the public notice deadline for this memorandum, staff will share any formal recommendations provided by TPAC when this item is formally presented for City Council consideration.

CEQA

Addendum to the San José Data Center Final Environmental Impact Report, as Added (Planning Commission Resolution No. 25-009), File Nos. CP23-016 and ER20-219.

HONORABLE MAYOR AND CITY COUNCIL

October 27, 2025

Subject: Master Easements Agreement and Site Works Agreement with Microsoft Corporation and Valley Water for the San José-Santa Clara Regional Wastewater Facility

Page 7

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

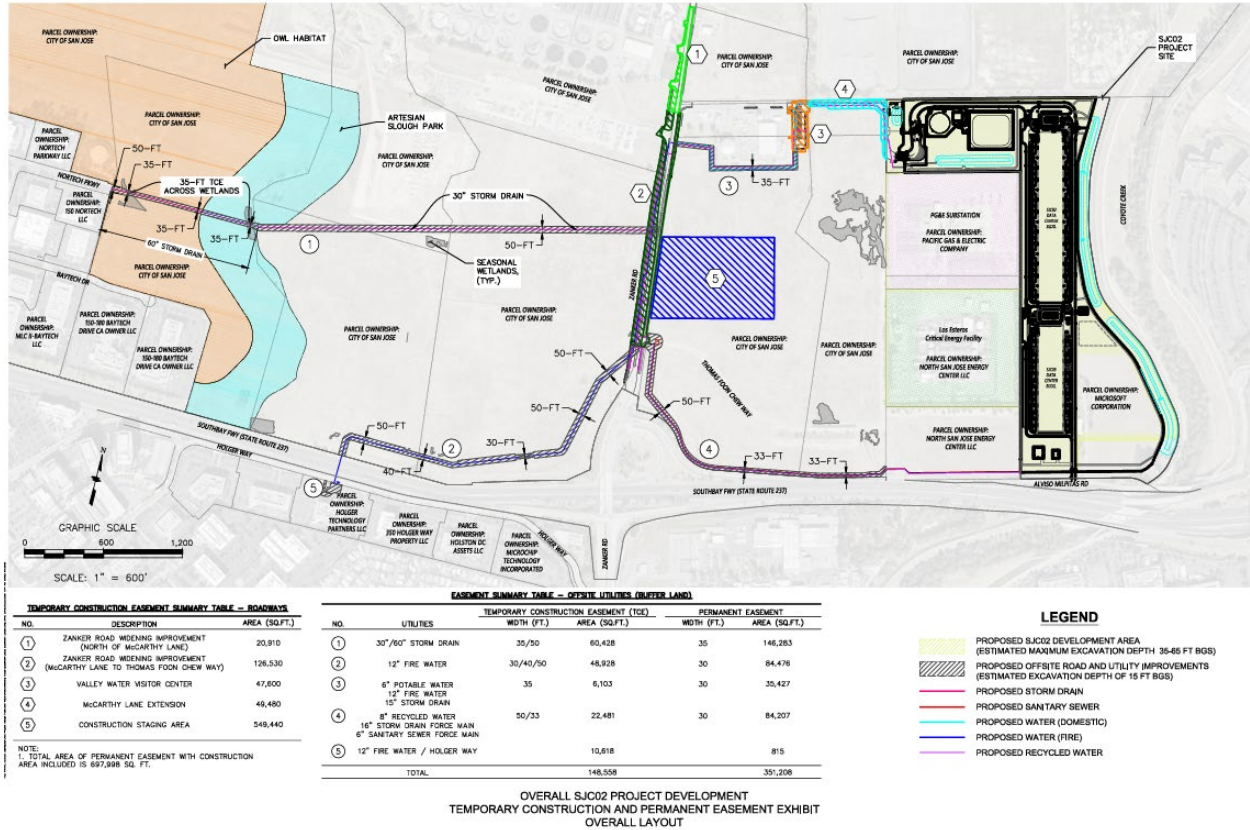
For questions, please contact Kevin Ice, Assistant to the City Manager, Director of Real Estate at kevin.ice@sanjoseca.gov.

ATTACHMENTS:

Attachment A: Easements Figure

Attachment B: Site Works Figure

Attachment A: Easements Figure



Attachment B: Site Works Figure

