



Chandler • Arizona
Where Values Make The Difference

MEMORANDUM Downtown Redevelopment - Council Memo DT08-009

DATE: SEPTEMBER 14, 2007

TO: MAYOR AND CITY COUNCIL

THRU: W. MARK PENTZ, CITY MANAGER *WMP*
RICHARD K. MULLIGAN, ECONOMIC DEVELOPMENT DIRECTOR *RKM*

FROM: TERI KILLGORE, DOWNTOWN REDEVELOPMENT MANAGER *TK*

SUBJECT: CONTRACT EXTENSION WITH ERNST & YOUNG IN AN AMOUNT NOT TO EXCEED \$20,000 TO PROVIDE CONTINUED FINANCIAL ANALYSIS SERVICES IN SUPPORT OF COMPLETING NEGOTIATIONS FOR THE SAN MARCOS COMMONS – PHASE II DEVELOPMENT AGREEMENT

RECOMMENDATION: Staff recommends authorization of a contract extension with Ernst & Young in an amount not to exceed \$20,000 to provide continued financial analysis services in support of completing negotiations for the San Marcos Commons Phase II Development Agreement.

BACKGROUND: In April 2007, the City retained Ernst & Young to conduct an analysis of the cost of construction, appropriate lease rates and purchase prices for land involved in the San Marcos Commons Phase II (Sites 1,2,3) development agreement that is currently under negotiation. The cost of the initial phase of analysis was \$29,929.

On June 28, 2007 Council authorized an additional \$16,000 in contract services to complete a more extensive cost benefit analysis needed to proceed with negotiations. In late July 2007, staff returned to Council in Executive Session to discuss proposed deal points. Based on feedback from this discussion, negotiations resumed with Desert Viking. In early August, Desert Viking, the developer on San Marcos Commons, retained a transactional analysis firm to further analyze the deal points.

DISCUSSION: The original analyses provided the City’s negotiating team with a strong understanding of future revenue flows, taxes generated, and developer cash flows, as well as the value of incentives being contemplated. Desert Viking’s transactional analysis is

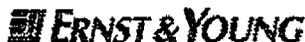
almost complete and it is likely there will be material revisions to the current deal points under consideration. To this end, the City needs additional hours from Ernst & Young to review the results of Desert Viking's model and provide financial consultation as the options under review grow more complex. Under terms of this scope of work, Ernst & Young will provide their services on an hourly basis, with a total amount not to exceed \$20,000. If the full amount of this extension is used, the total value of services provided by Ernst & Young will be \$66,000.

FINANCIAL IMPLICATIONS: The extension of the professional services contract will cost up to an additional \$20,000. Sufficient funds exist to pay for this cost in Account #101-1290-6111-DT0405.101.101.

PROPOSED MOTION: Motion to authorize a contract extension with Ernst & Young in an amount not to exceed \$20,000 to provide additional financial analysis services in support of completing negotiations for the San Marcos Commons – Phase II Development Agreement.

Attachments:

Extension of Letter of Understanding of April 4, 2007



Ernst & Young LLP
Ernst & Young Tower
One Renaissance Square
2 North Central Avenue
Suite 2300
Phoenix, Arizona 85004

Phone: 602 322 3000
www.ey.com

September 14, 2007

Mr. Richard K. Mulligan, CEcD
Economic Development Director
Office of Economic Development
City of Chandler
P.O. Box 4008, MS 416
Chandler, AZ 85244

Re: Extension of Letter of Understanding of April 4, 2007

Dear Mr. Mulligan:

This letter is an extension of the Letter Agreement of April 4, 2007, between the parties in which Ernst & Young LLP ("EY") agreed to perform certain real estate advisory services as described in Exhibit A to the Original Agreement (collectively, the "Services") for the City of Chandler (the "City") in connection with the City's proposed analysis of a proposed commercial redevelopment project in downtown Chandler known as San Marcos Commons II (the "Project") for a cost not to exceed \$30,000. On June 28, 2007, the City Council authorized an additional \$16,000 in contract services to complete a more extensive cost benefit analysis needed to proceed with the negotiations. In August, Desert Viking, the developer of the project retained a transactional analysis firm to further analyze the deal points.

EY will provide additional real estate advisory services for the City in connection with the City's analysis of the proposed San Marcos Commons II development project. These services will include review the results of Desert Viking's mode and provide financial consultations for the development project. EY will assist the City on an "as needed" basis related to the above project.

EY will assist the City on an "as needed" basis related to the above project to:

- Evaluate additional documents to be provided by the developer
- Attend meetings
- Complete additional research
- Prepare additional memoranda or update/change original draft report

Professional fees and expenses will be billed on a time and materials basis, with a not-to-

exceed limit of \$20,000. The City will be billed at an average blended hourly rate of \$315 per hour, plus direct expenses as outlined in the original Agreement. We will provide you with a bi-weekly summary of hours and tasks completed. You will only be billed for work completed and you can terminate this Agreement at any time.

This Extension is governed by and subject to the terms and conditions of the Letter of Understanding dated June 19, 2007.

If this Agreement accurately reflects the terms on which the City has agreed to engage EY, please sign a copy on behalf of the City and return it to: Steven Klett, Executive Director, Two North Central Avenue, Suite 2300, Phoenix, Arizona. You may also fax a copy of the signed authorization to 1-866-345-5158 to get the project started.

Agreed and accepted:

Ernst & Young LLP



By: _____
Steven Klett

Dated: September 14, 2007

Title: Executive Director

City of Chandler

By: _____
Title: Mayor

Date: _____

ATTEST:

City Clerk

Approved as to form:

Chandler City Attorney