



POLICY AND SERVICES COMMITTEE

Regular Meeting
Tuesday, April 13, 2010

Chairperson Yeh called the meeting to order at 7:04 p.m. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Yeh (Chair), Holman, Price, Shepherd

Absent: none

1. Oral Communications

None.

2. Review of the Stanford University Medical Center Facilities Renewal and Replacement Project Fiscal Impact Analyses.

Chair Yeh said there would be a ten minute presentation from Stanford University.

Deputy City Manager, Steve Emslie briefly discussed the project. He addressed the professional disagreement that can exist among economists. He said the expense estimate needed to be clarified. There were differences between the estimate from Applied Development Economics (ADE) and CB Richard Ellis (CBRE). He addressed a sentence in the report that stated "ADE and City Staff believes that CBRE's finding is not correct". He said it wasn't necessarily incorrect, rather it was determined from a different methodology. He said that the Peer Review Consultant, ADE Consultant, Mr. Svensen Svensen was available to answer any Committee questions. He said that Stanford's Economic Analyst Amy Herman from CBRE was also present to explain their side of the calculations.

Deputy Director of Administrative Services, Joe Saccio said his presentation would be very high-level. He said the Stanford University Medical Center (SUMC) renovation and expansion project included a new hospital building, renovations and expansion of Lucile Packard Children's Hospital (LPCH), reconstruction of the School of Medicine (SoM), as well as a new medical office

building. The construction was scheduled to take place over a 15 year horizon, and increase the facility by approximately 1.3 million square feet. All work would meet State mandated seismic safety standards per SB 1953, address capacity issues, changing patient needs, and modernization requirements. The City and SUMC completed independent fiscal impact analyses. SUMC contracted with CBRE and the City contracted with ADE (funded by SUMC). The analyses were conducted to determine potential impact on delivery of City services and administrative functions as well as the impact on current and future infrastructure needs. The analyses could also be used to compare the fiscal costs of alternative approaches to development, to determine the fiscal neutrality of the project, or it could suggest a need for additional revenues. Assumptions and estimates such as the potential revenue sources and increased demand for services were included in both analyses. These estimates were used to determine the net fiscal impact of the project. The CBRE Report indicated that the potential tax and fee revenues generated by the project would be able to fund the anticipated costs of providing municipal services to the projects over the next 30 years. The report projected revenues of \$25.1 million, and expenses of \$17.5 million. It also projected a surplus of revenues over expenses of \$7.6 million. The ADE peer review indicated that the potential revenues generated by the project would not be sufficient to fund the anticipated costs of municipal services over the same time period. The review projected revenues of \$23.9 million, expenses of \$25 million and a deficit of \$1.1 million. He said that one of the major differences with the studies was that CBRE assumed more of the administrative costs were fixed over time. Whereas ADE's assumption was that growth would be experienced, eventually affecting payroll. He reiterated that the two studies were close on the revenue projections. The impact revenues on both studies were around \$8 million.

Amy Herman Senior Managing Director with CBRE, said that estimating City revenue was a standard procedure. She said there were many different processes for estimating costs. The CBRE approach involved determining how much a department would need to expand to accommodate a new project. She said many departments would not need to hire additional people for the 1-2% increase in daytime population. The Police and Fire Departments would not require new facilities or additional road maintenance. The treatment of employees versus residences was another difference between the two surveys. Most companies estimate employee impact as equivalent to between 1/3 and 1/2 of a resident. Both studies used the more conservative factor of one employee to 1/2 of one resident. CBRE estimated the portion of each department that represented fixed versus variable costs and applied a 10-50% variable cost allocation for administrative and non-life safety requirements. For Police and Fire they estimated a 70-80% variable component. She said that generally the larger departments were given a higher percentage variable cost. They were also conservative with the revenue estimates which included

spending by new employees excluding auto related expenditures and shopping center spending. Neither study included the revenue benefits from the construction. CBRE gathered data for similar cities but not for project applicants. These studies indicated the average cost per employee, not counting Fire and Police were 100% higher than estimates. CBRE's central impact analysis was valid although less conservative than the other study. She said regarding the \$18 million projection, it only represented 1-2% of the workforce. The implication for the rest of the City should be considered.

Council Member Shepherd asked CBRE if the current employee cuts would have made a difference on their analysis.

Ms. Herman said current employee cuts would impact the study, as it was benchmarked to the budget that was available at the time.

Council Member Shepherd asked what portion of property taxes would be retrieved considering the non-profit status of the hospital.

Ms. Herman said the hospital itself was not a property generating tax entity. There would be an in-lieu property tax paid by the medical providers.

Council Member Shepherd asked about the buildings that had been taken out of service.

Ms. Herman said their analysis looked at the net increments for the properties involved with the project. It did include a net loss for some buildings and a gain for the greater level of medical office development.

Council Member Shepherd said many buildings had been coming out of service and asked for Staff's opinion on what effect that had.

Mr. Saccio said it was one of the major differences that caused the property tax distributions in the different analysis.

Council Member Price asked if Staff had considered the different methodologies between the two surveys regarding Staff and administrative costs.

Mr. Emslie said Staff was currently willing to accept the differences pending a guarantee of revenues.

Council Member Price asked if they have looked at other development agreements that would use methodologies.

Mr. Emslie said they hadn't found a property in lieu of payments. Some services had been exacted out of development agreements. The most significant would be the PAMF agreement with the City of San Carlos which had a lump payment paid out over time.

Sr. Assistant City Attorney, Cara Silver said the matter comes before the Council on May 4, 2010, at which time Staff would have some examples prepared.

Council Member Price asked about the Contractor Use Tax. She wanted to know if it was orthodox to have language in the agreement to insure those activities take place.

Ms. Silver said it was reasonable to have language such as that in the agreement and the City Attorney's Office was working on some specific language to bring before Council with respect to reporting on the Use Tax.

Council Member Holman asked for clarification regarding the Staffs acceptance of the CBRE's numbers. She said no inflation was calculated into either analysis and the assumption was made that Staff costs would remain the same.

Mr. Emslie said the revenue projections were close.

Mr. Saccio said tracking the revenues and expenses were difficult. The revenues could be tracked within a specific area in the City. The expense side was difficult to project over time. They've asked ABE to factor this in. He said a mechanism should be developed.

Council Member Homan asked about a full cost recovery on the staffing side.

Mr. Emslie said that was valuable input for Staff. The intent was to make the project as revenue neutral as possible.

Council Member Holman said this discussion was for the 30 year period. She said the project life should be considered. She said there would be a cost for providing services for the life of the project which was presumably longer than 30 years.

Mr. Emslie said the 30 year horizon was used as the length of time of the City's commitment. The City would have land use control after that.

Council Member Holman said that when we give up our ability to land use after 30 years, when part of the project was for 50 years.

Ms. Silver said some of the obligations in the Development Agreement were proposed to extend to 50 years. Staff discussed with ADE the length of the horizon. The thought was that after 30 years it became very speculative.

Council Member Holman said the horizon made sense, but the buildings would still be there after 30 years.

Mr. Svensen said they did look at a longer time frame given the different assumptions. He said if it was extended beyond the 30 years the surplus revenue would run out and over time there would be a deficit. The assumption would be that City finances would improve during the time. A mechanism could be employed to keep revenues and costs in balance for a project.

Chair Yeh asked if given the time frames of the different analysis there was a range. He said he didn't see that the differences were a negative. He asked why the Enterprise Funds weren't reflected in the surveys.

Mr. Svensen said they followed CBRE's analysis. A major focus of a fiscal analysis was to compare cost to revenue. He said that with Enterprise Funds there was an ability to match revenues with funds since they were direct user charges. The Enterprise Funds were within the City's purview where as other revenues weren't.

Ms. Herman agreed with Mr. Svensen, adding that they were on a cost recovery basis.

Mr. Saccio said much of it was based on volume creating a relationship where cost could be recovered where there wasn't that ability on the General Fund side.

Chair Yeh asked about Provision of Enterprise Services in an emergency situation.

Mr. Emslie said that major capital costs in the area of utilities, unless it were directly related to the project, would have to be paid for. They didn't find any major fees in the project area. The Development Agreement was a mechanism to deliver a benefit. If that back up power was mutually agreed to it could be discussed even though it was a bit out of the normal conditions.

Chair Yeh said he was curious about the revenue guarantee as it included an annual expenditure analysis. He asked if there was an agreement with Stanford about what costs would be included in the actuals analysis.

Mr. Saccio said that agreeing on a methodology would be part of the discussion.

Chair Yeh said the methodology seemed important and having that agreement up front would be beneficial. He asked about requirements to obtain a seller's permit and about the contract sizes. He asked if the intention was to demonstrate how much of a barrier that process was, or if Stanford had indicated they wouldn't be willing to take part in this process.

Mr. Emslie said they indicated a willingness to obtain the permit.

Chair Yeh asked if that made them less likely to consider a revenue guarantee.

Mr. Emslie said there hasn't been a return to that discussion yet.

Council Member Holman asked about the revenue analysis. She said there was a difference in being willing to work toward that and achieving it. She expressed concerns about the language that discussed the voluntary process of obtaining the permits.

Mr. Saccio said that Stanford controlled the contractors and would have to include language in the individual contracts to get those permits. If there was a revenue guarantee it would benefit Stanford to get those revenues.

Council Member Shepherd asked about the differences in the General Fund numbers regarding Police and Public Works. She wanted to know how much capacity they would have to bulk up.

Mr. Svensen said those services fit under the general difference with most of the services in the way they analyze it. Over the 30 years they were viewing the project as having variable costs from the City. There would be some direct staffing implications for Police and Fire. It was also a consideration for the administrative departments. City costs do increase and may involve increases other than FTE. He said the differences in those departments were from cost projections based at 100% and CBRE used 80% of the budget as basis causing lower future projections.

Council Member Price asked if the studies had any assumptions regarding a roller coaster impact of staffing levels. She said that there would be more recessions and more boom times, as a result staffing levels will change.

Mr. Svensen said the initial analysis assumed that the revenues and costs at the time of the project completion would be static over a period of time. Both analyses have showed the project generating negative revenues for the City.

beyond 30 years. The economy would go up and down; neither analysis factored those fluctuations into their reports.

Council Member Holman asked when this was going to Council.

Mr. Emslie said the tentative date was May 4, 2010.

Council Member Holman asked at what other times Council would see the fiscal analysis.

Mr. Emslie said it would accompany most of the Land Use Entitlement discussions.

Council Member Holman said they did not have all the information for the fiscal analysis yet. Topics such as intersection improvements needed for traffic increases were not included. She asked if the fiscal analysis would have to be amended to accommodate such changes.

Ms. Silver said Council would not formally approve the fiscal analysis. Staff would keep Council informed on issues such as the Conditionals of Approval that might be tied to fiscal impact.

Council Member Holman asked if those Conditions of Approval had been identified yet.

Ms. Silver said they had not.

Council Member Holman expressed concern regarding the ABAG requirements. She said there was no idea what the outcome was. If 1,000 units, for example, were required to be zoned for as a result of this project, there was no analysis for the impact on infrastructure and services those new units would create. She asked how that information could be captured.

Ms. Silver said the fiscal model looked at the demand the project would have on City services, including the residential impact, so there was some element of that in the fiscal impact.

Mr. Svensen said the fiscal model was developed to support the Comprehensive Plan update process. It did have all the facilities analyzed including any Land Use changes the City was looking at.

Council Member Holman asked about the identified school impacts at Lucile Packard. She asked if there were features on-site.

Ms. Herman said there were.

Council Member Price said the discussion of the impact fees was set. She asked if there something beyond the normal practice for the impact fees for Palo Alto Unified School District (PAUSD). Those fees were set by the state; she asked if this was something different.

Mr. Emslie said because the children's hospital would expand the number of beds they would have an on-site school.

Council Member Price confirmed that would be for the patients.

Mr. Emslie said that was correct.

Council Member Price said that at some point this should be referred to as these two fiscal analyses per the report. She said that when the environmental impact details were analyzed there would be a fiscal impact portion there as well. She confirmed that these findings will need to be accepted as informational, related to every step of the project, but then as more information comes in Council would have additional information to evaluate.

Mr. Emslie said that was correct and was a large component to the analysis.

Ms. Herman said Stanford conducted separate negotiations with PAUSD.

Council Member Holman asked if it was this document or another one where they would get information on the impact employees would have on the PAUSD school population.

Mr. Emslie said that analysis has not been done, but could be provided at a future time.

Council Member Holman asked about the proposed annexations, and what the benefits to Palo Alto would be for accepting them. She said it would be beneficial to the decision making process if those annexations were broken out in the analysis.

Mr. Emslie said they did not take those changes into account.

Council Member Holman asked if it could be estimated as part of the application.

Mr. Emslie said the annexations were small and wouldn't amount to much, but could be factored into future analyses.

Council Member Holman said she looked forward to seeing that information.

Mr. Emslie said the analysis would be on-going and more detailed going forward. Stanford would only be required to pay their proportionate share of mitigation, so there would be an unfunded component that would be an important part of the analysis.

3. Review of the Stanford University Medical Center Facilities Renewal and Replacement Project Development Agreement Proposal and City's Preliminary Counter Offer.

Deputy City Manager, Steve Emslie gave a presentation on the Development Agreement with Stanford University. He said that a Development Agreement is an agreement between the two parties; it cannot be imposed unilaterally upon either one of the parties. He discussed the proposed Development Agreement terms stating there was a minor difference in the Transportation and Trip Reduction Benefit due to the time frame. He discussed the guiding principals used for preliminary negotiations; minimizing fiscal impacts to the City, requiring project mitigation, preserving community health care and enhancing the City infrastructure. He summarized the healthcare component saying that the City wanted to extend the payments to the life of the agreement, continue appropriate privileges for practitioners, continue SUMC's community programs, fund a new Emergency Operations Center (EOC), and explore innovative health care in the area of broadband/fiber to the premises. He spoke regarding cost neutrality and transportation mitigation. The most expensive part of the transportation program was the GO Pass, which required all employees to be counted regardless of the number of employees that use it. They were looking at potentially achieving the GO Pass goals in some other way. He also spoke regarding the pedestrian and bicycle linkages benefit, the housing benefit with new required zones to address job housing imbalance, the school impact, and the economic and community vitality component

Norman Beamer, 1005 University Ave spoke regarding his disappointment that the Staff had not recommended getting Stanford to make land available for flood retention purposes. He said he did support the project, but this was an opportunity to get that benefit.

Mike Petersen, Stanford University Medical Center, spoke regarding the GO Pass. He said there had been a rate increase after it was introduced in June, causing the discrepancies. He said the GO Pass had been discussed at length. He said that 20% of Stanford's workforce used the GO Pass, and they are suggesting the project be expanded to the hospital as well.

Council Member Shepherd asked if the University employees already had the GO Pass.

Mr. Petersen said they did.

Council Member Shepherd requested confirmation that 20% of the University employees used the GO Pass.

Mr. Petersen said it was between 18 & 20%.

Council Member Shepherd asked for confirmation about expanding into the University.

Mr. Petersen said the program was already being used at the University; his discussion was to expand it to the hospital.

Council Member Shepherd asked how many employees worked at the hospital.

Mr. Petersen said about 9,000.

Council Member Shepherd asked how many employees were from Palo Alto.

Mr. Petersen said approximately 8% of the workforce live in Palo Alto.

Council Member Shepherd asked about the impact the new federal health plan would have on the people using the current program.

Mr. Emslie said he didn't precise information, but he believed it would have an impact.

Council Member Shepherd asked how many Palo Alto residents were served by the hospital. She said she was trying to understand how many people the shuttle would serve.

Mr. Petersen said he didn't have that number, but it could be provided.

Council Member Shepherd said it was important to come up with a few lined entries to help people that were already in the community move through the City. She asked Staff to discuss the expanded shuttle program.

Mr. Emslie said that City Staff and the Valley Transportation Authority (VTA) analyzed the shuttle program and their bus route system. The resulting demand analysis showed some missing links in the shuttle program. This provided a clear idea of what routes could be considered for expansion.

Council Member Shepherd asked about the school line.

Mr. Emslie said that had been truncated, but would be under consideration to expand again. He suggested that the California Avenue route could also be expanded as it wasn't being served by the shuttle at the time. .

Council Member Price asked if Staff could clarify the jobs/housing component.

Mr. Emslie said it would be premature at this point to detail that component. It would be included in the Draft EIR but those findings had been finalized.

Council Member Price asked about the reduced vehicle trips. She said that Stanford assumed Caltrain continued to offer services as they currently do. She said it was clear that the future of transportation will change over the course of the agreement. She said that any language on the topic needs to be flexible. She discussed linkages between the shopping center and Stanford; she said it was likely that the shopping center would be modified, so the language needed to be written to accommodate these uses remaining complementary. She asked about the relationship between the design guidelines and the Draft EIR, she asked if it was sufficient to attach it to the report they way it currently was.

Ms. Silver said that the guidelines would likely be attached to the entitlement permit as well as the development agreement.

Council Member Holman requested clarity on the intention behind the health care benefit.

Mr. Emslie said there were two components. One was making sure the uninsured or underinsured had a safety net to continue receiving benefits. Secondly, there was a contribution to non-profit groups in the City that were aligned with the health care mission.

Council Member Holman asked for clarification regarding the meaning of underinsured. She said she wanted to understand where this was on the scale regarding health benefits to the community.

Mr. Emslie said that the hospitals had a program to work with the lower income residents through Medi-Cal. But there was a gap in the middle income level residents. The conversation was intended toward that group of people.

Council Member Holman asked what the extent of coverage was compared to this plan.

Mr. Petersen said there was a charity program for patients who could not pay. He addressed the \$3 million dollar portion, saying that the intent was not to replicate current services. The intent was to determine what was missing. For example there was a lack of home health care, which could be an area funding would be provided for. He addressed the earlier question of the federal health care program. He said it was too early to tell exactly how much coverage that would provide.

Council Member Holman asked if this was determined to be an adequate benefit, if it would have clear language.

Ms. Silver said they want clear language, but that the same time they need a living document to be able to change with changing legislation. At this point, she said Staff wanted to know if they were heading in the right direction.

Mr. Petersen added that periodic reports would be given to Council.

Chair Yeh asked about the time frame extension, if it was seen as \$10 million spread over 10 years.

Mr. Emslie said they were planning to expand the dollar amount.

Chair Yeh said the process has been constructive. He asked about the mutually beneficial components of the agreement. He asked if child care services were being considered for the employees to create a family friendly employment option and encourage parents to take public transportation.

Mr. Emslie said it had not considered.

Chair Yeh asked if Stanford had considered it.

Mr. Petersen said it was not part of the proposal. Stanford University already had an active child care program, which hospital employees were able to participate in.

Chair Yeh said he wanted to put that out there for consideration. He asked about the \$30 million identified for community and economic development and how it tied back to fiscal analysis.

Mr. Emslie said it was intended as a starting point.

Chair Yeh said that the current discussion with SLACK had to do with the transition line. He said maintaining essential utilities to the hospital was

critical. He asked if it could be added as an infrastructure project to make sure the essential services were available in an emergency.

Council Member Shepherd asked why the land for the flood plain was off the list.

Mr. Emslie said when the list was pared down Stanford indicated a preference for community benefits that were aligned with community health care. The provision of upstream water retention in the event of a storm was off mission.

Council Member Shepherd said it wasn't listed in the guiding principles.

Council Member Price asked about the annual review mentioned in the letter from Mr. Petersen. She asked to see some language in the agreement that made it clear that performance criteria were agreed to for the annual review. She said it made sense to have some flexibility in case a particular program wasn't productive, there could be an alternative reviewed by the City. She also said it would be useful to have some flexibility with the Economic and Community Vitality \$30 million going to infrastructure. She said there was a common interest in the community between all parties, and felt positive that the negotiations would be successful.

Council Member Shepherd said she was concerned about the allocation with Caltrain. She said if there were a way to shuttle employees and patients to the hospital it would benefit the community. She added that she was also concerned about the increase in City Employees that would be required. She also asked if the EOC would be a part of the hospital.

Mr. Emslie said it had not been defined yet.

Council Member Shepherd asked if the \$30 million would go toward that or would it only go toward infrastructure.

Mr. Emslie said it was subject to negotiation. It was not meant to be a joint EOC. The hospital seemed a good location.

Council Member Holman said there was some form of a second utility provider that could be used for the hospital. She said if the hospital was the trauma center for the area, running on generators was scary. Having a second source utility would be a community benefit. The \$30 million would be 1% if it were a \$3 billion project. The decision was not to impose housing impact fees but to impose that in the development agreement.

Mr. Emslie said that was correct.

Council Member Holman said that ABAG would continue to have its restrictions. At a cost of \$500,000 a unit, that's only 46 units of housing. Using that for housing development there is only a community benefit of \$6.9 million to use toward infrastructure or services. She asked if \$30 million was the right number. She said she was interested in the student population being supported by fees that would be paid. She said, regarding the upstream flood control, the purpose of a Development Agreement was that there didn't need to be a nexus. She agreed that this could be our only chance to ever require that.

She said the request was to make the land available for public safety. She said there were some items that had no cost to the applicant. They should extend the lease on El Camino Park. They should insure that utility substations were not subject to rents. She said the road in College Terrace that ran from Amherst down to El Camino should be included as a pedestrian bicycle path. She said there had been a time-line that was approved by the public, and then in an update meeting there was another time-line with updated dates, but the sequence of dates were different and it wasn't approved by Council. The timeline currently being provided was is also different. She asked if these could be brought to Council for comments.

Ms. Silver said the Balloon Chart would be translated into a Gant Chart.

Chair Yeh asked if the next presentation on this project was still scheduled for May 10, 2010.

Mr. Emslie said the date wasn't confirmed yet, but that the Planning Commission would be reviewing it at their next meeting.

Council Member Holman asked what presentation the Planning Commission would see.

Mr. Emslie said it would be the same presentation that the Policy and Services Committee had.

Council Member Holman asked if they would have the comments from the Finance and Policy & Services Committee available.

Mr. Emslie said they would.

4. Discussion for Future Meeting Schedules and Agendas

Chair Yeh said that Staff had wanted the Committee to confirm an April date to hold a Special Meeting. He asked if Thursday, April 22, 2010 would work for the Committee Members.

Council Member Price said she had a commitment at that time.

Chair Yeh asked if April 21, 2010 would work better.

Council Member Shepherd said she had a commitment at that time.

Chair Yeh said that on the next agenda they had a Colleagues Memo related to council packet release and the authors of the other memo which focuses on infrastructure have requested it be taken up at the next meeting. The priorities matrix would be discussed at the first meeting in May.

Council Member Holman said that protocols were also referred to Policy and Services.

ADJOURNMENT: Meeting adjourned at 9:18 p.m.