



City of Palo Alto

City Council Staff Report

(ID # 3277)

Report Type: Consent Calendar

Meeting Date: 11/13/2012

Summary Title: SUMC Annual Report and Development Agreement Review

Title: Approval of Stanford University Medical Center Annual Report and Compliance with the Development Agreement

From: City Manager

Lead Department: Planning and Community Environment

Recommendation

Staff recommends that the City Council:

1. Find that the Stanford University Medical Center (SUMC) Parties (Stanford Hospitals & Clinics, Lucile Packard Children's Hospital, and Stanford University) has complied in good faith with the terms and conditions of the Development Agreement for the 2011-2012 reporting period; and
2. Find that the SUMC Parties are not in default with the terms and conditions of the Agreement.

Executive Summary

The City Council is required to review the Development Agreement between the SUMC Parties and the City of Palo Alto on an annual basis to ascertain compliance with the terms of the agreement. The SUMC Parties have submitted the annual report for the 2011-2012 period that summarizes the current construction activities and the actions taken to fulfill the obligations of the Agreement. Of particular note, the SUMC has moved well ahead of schedule to provide Caltrain GoPasses to Hospital staff, hire a Transportation Demand Management coordinator, and purchased two new Marguerite shuttles, resulting in a 39% alternative transportation mode split. As described in the supplement to the annual report, the SUMC Parties have paid approximately \$20.8 million in public benefit fees to the City. The City has committed approximately \$315,000 for activities related to Project Safety Net and 27 University Avenue. Additionally, Council recently committed \$1M from the Infrastructure, Sustainable Neighborhoods & Communities, and Affordable Housing fund to the Stevenson House rehabilitation project. Staff expects to bring the discussion regarding future use of the funds at an upcoming Council meeting in early 2013.

Background

On June 6, 2011, the City Council approved Comprehensive Plan amendments, zoning changes, a conditional use permit, annexation and design applications for the Stanford University medical Center Facilities Renewal and Replacement Project (the "Projects"). The Projects include the construction of a new Stanford Hospital and clinics buildings, an expansion of the Lucile Packard Children's Hospital, construction of new School of Medicine buildings, renovation of the existing Hoover Pavilion, construction of a new medical office building and parking garage at Hoover Pavilion, roadway improvements along Welch Road and Durand Way, and SUMC design guidelines. A Development Agreement (the "Agreement") vesting these approvals was entered into between the SUMC Parties and the City and was effective on June 6, 2011 and continued for thirty (30) years from the effective date. The Agreement requires annual City Council review of the SUMC Parties compliance. This report covers the SUMC Parties activities during 2011-2012, the first year of the Agreement.

Discussion

As described in Section 12, "Periodic Review of Compliance", the City Council is to review the Agreement annually to ascertain the SUMC's Parties compliance with the terms of the Agreement. Section 12 also includes the reporting requirement for the SUMC Parties and the City to demonstrate good faith compliance with the Agreement. The attached 2011-12 Annual Report (Annual Report) dated July 5, 2012 (Attachment A) from SUMC describes the SUMC Parties' activities related to implementation of the Agreement.

Construction Activities

Construction activities during this period include:

- Hoover Pavilion Renovation- Site work and renovation of the exterior and interior features of the building began in Summer 2011. Exterior restoration work include cleaning and repairs to the exterior façade, removal, restoration and re-installation of the existing wood windows, installation of interior structural supports and strengthening the concrete slab foundation. Modern mechanical, plumbing and electrical systems have been installed and tenant improvements are underway. The scheduled completion of this work is in December 2012.
- Hoover Pavilion Parking Garage- Site work and construction has begun on a new 1,084-stall parking garage, intended for patients and staff. The scheduled completion of this work is in June 2013.
- Welch Road Utilities Project- This project involves the replacement and installation of utilities to support the New Stanford Hospital and the Lucille Packard Children's Hospital expansion. Work is being completed in two phases. Each phase involves reducing automobile travel to one lane during construction. During each phase, utilities trenches are

dug, old lines are removed and replaced and new utilities are installed. New sidewalks, roadway median islands, landscaping and lighting are installed during each phase. The first phase was recently completed and work has begun on the second and final phase. Work is expected to continue through mid-2013.

- Lucile Packard Children’s Hospital- Site preparation efforts at LPCH are ongoing and include mass excavation, installation of shoring walls, and utility line relocation. Building permits for the LPCH expansion are currently under review by the Office of Statewide Health Planning and Development (OSHPD). It is expected that the initial construction permits will be issued in late 2012.
- New Stanford Hospital- Site preparation activities have commenced at the area surrounding the site of the New Stanford Hospital (NSH). Work includes utility infrastructure upgrades at Pasteur Drive, relocation of specific protected trees, and installation of a driveway through Kaplan Lawn that will serve the future NSH main entrance.

No new square footage has been constructed during this reporting period. Approximately 160,000 square feet of floor area has been demolished on the LPCH site.

Compliance with Development Agreement Obligations

In addition to the construction summary and the summary of net new square footage added within the past year, the Annual Report also summarizes the SUMC Parties’ progress in meeting the terms described in Section 5 of the Agreement, “SUMC Parties’ Promises”. This section describes the SUMC Parties’ obligations with respect to the following items:

- Health Care Benefits;
- Fiscal Benefits;
- Traffic Mitigation and Reduced Vehicle Trips;
- Pedestrian, Bicycle and Automobile Linkages;
- Infrastructure, Sustainable Neighborhoods & Communities, Affordable Housing, and
- Climate Change.

The Annual Report summarizes the activities within the reporting year. The obligations are further summarized in Table 1: Development Agreement, Section 5 – SUMC Parties’ Promises (Attachment B). City staff has reviewed the information within the Annual Report and has determined that it is complete and correct.

Traffic Mitigation and Reduced Vehicle Trips

The SUMC Parties have made substantial progress in meeting the traffic and alternative transportation obligations of the Agreement. Specifically, they have accomplished the following:

- Purchased annual CalTrain Go Passes for all eligible employees as of January 1, 2012, three years ahead of the September 1, 2015 requirement as stated in the Agreement;
- Purchased two additional shuttle busses for the Marguerite Shuttle service;
- Hired a Transportation Demand Management (TDM) coordinator, three years ahead of the September 1, 2015 requirement as stated in the Agreement, and
- Achieved a 39% alternative transportation mode split for the hospital employees, meaning 39% of employees are using alternatives modes to get to work rather than driving alone.

The SUMC Parties and City staff will continue to monitor the TDM program throughout the term of the Agreement and will report annually to the Council.

Supplement to the Annual Report

In addition to the SUMC Parties' submittal of the Annual Report, City staff is to prepare a supplement to the Annual Report (the "Supplement"), as described in Section 12(d) of the Agreement. The supplement is to include an accounting of the funds received from the SUMC Parties to satisfy the obligation outlined in Section 5 of the Agreement, a description of the account balances, and a summary and description of expenditures from the funds. The Supplement is contained in Attachment C.

In summary, the SUMC Parties have contributed \$20,800,333 in public benefit funds as of June 30, 2012. Interest income was \$1,340,172.40. The SUMC Parties will pay an additional \$11.7M in public benefit funds upon issuance of the first hospital foundation permit, expected in late 2012 or early 2013 and an additional \$11.7M upon issuance of the first hospital occupancy permit, expected in 2018. The City has committed approximately \$315,000 of the funds for two projects: \$247,368.70 for contract services related to the 27 University Avenue/John Arrillaga Project, which is located within the area originally designated for pedestrian and bicycle linkages and connections to the Palo Alto Intermodal Transit Center, and \$27,517.77 for activities related to the Project Safety Net program.

Sales and use taxes in Q3 and Q4 of 2011 and Q1 2012 resulting from construction-related activities were approximately \$21,263.

Future Use of Development Agreement Funds

City staff is aware of Council's request for a more detailed discussion regarding the use of the SUMC Agreement funds. The Agreement provides the City with the flexibility to use the funds on projects it deems important. The Agreement specifically identifies \$1.7M of the Infrastructure, Sustainable Neighborhoods & Communities, Affordable Housing fund to be used

in the same manner as funds collected pursuant to the housing fee ordinance. The Agreement also identified the Project Safety Net effort as a recipient, in whole or in part, of the \$4M payment to the fund for Community Health and Safety programs. No other specific projects or programs are identified within the Agreement.

On November 5, 2012, the Council authorized \$1M of the \$1.7M for the Stevenson House rehabilitation project. Those funds will not be disbursed, however, until mid-2013.

Staff expects to bring the discussion regarding future use of the funds at an upcoming Council meeting early in 2013.

Resource Impact

There are no negative impacts from the Agreement that affect the City's General Fund. As summarized above, the City has received approximately \$22.1M in public benefit payments, interest and unrealized gains and approximately \$21,263 in construction sales taxes.

Policy Implications

This report does not represent any changes to existing City policies.

Environmental Review

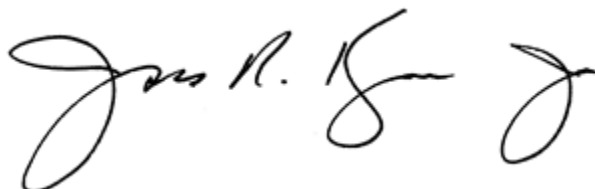
Finding Stanford University's compliance with the Terms of the Agreement is not a project under the California Environmental Quality Act, and no environmental assessment for the annual compliance review is required. An environmental impact report for the entire SUMC project was prepared and certified by the City Council prior to approval of the Development Agreement.

Attachments:

- Attachment A: 2011-2012 SUMC Parties Annual Report (PDF)
- Attachment B: Table 1 - Development Agreement, Section 5: SUMC Parties' Promises (DOCX)
- Attachment C: SUMC Annual Report Supplement (DOCX)

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Department Head: Curtis Williams, Director

A handwritten signature in black ink, appearing to read "Curtis Williams", is written over the printed name of the Department Head.

City Manager Approval:

James Keene, City Manager



2011-12 ANNUAL REPORT

PREPARED FOR THE CITY OF PALO ALTO | JULY 5, 2012

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EXECUTIVE SUMMARY

On June 6, 2011, the Stanford University Medical Center (“SUMC”)—comprised of Stanford Hospital & Clinics, Lucile Packard Children’s Hospital, and Stanford University—entered into a Development Agreement with the City of Palo Alto, committing to provide a range of community benefits in exchange for vested development rights to develop and use the SUMC Project facilities in accordance with the approvals granted by the City, and a streamlined process for obtaining subsequent project approvals. The Stanford University Medical Center Renewal Project (“Renewal Project”)—driven by a growing demand for healthcare services, state-mandated seismic safety requirements, and the need to replace outmoded facilities with modern, technologically advanced spaces—will transform the way that healthcare is delivered and research is conducted.

Today, following the one-year anniversary of the execution of the Development Agreement, Renewal Project activities are well underway. Though no new square footage has been added in this first year, design and construction activities are moving steadily forward. The Hoover Pavilion renovations are now within six months of completion; utilities upgrades on Welch and Quarry Roads are progressing according to schedule; and construction drawings for the New Stanford Hospital and the Lucile Packard Children’s Hospital Expansion are currently under Office of Statewide Planning and Development (OSHPD) review, with the first foundation permit expected to be issued in August 2012.

Against this backdrop, SUMC submits its first Annual Report in compliance with Section 12(c) of the Development Agreement, and looks forward to continued collaboration with the City of Palo Alto in advancing the goals of both the Stanford University Medical Center and the broader community.



BACKGROUND AND PURPOSE

The Palo Alto City Council's unanimous approval of the entitlements for the Stanford University Medical Center Renewal and Replacement Project in July 2011 has paved the way for a historic investment in new and replacement facilities at SUMC. The project approvals—including new zoning for the Project sites, a conditional use permit, architectural review approval, and the execution of a Development Agreement—will allow for the construction of approximately 1.3 million net new square feet of hospital facilities, clinics, medical offices, and medical research spaces, and will enable the hospitals to optimize the delivery of healthcare services to patients, and maintain their position as leading providers of world-class healthcare.

The current work that is underway to construct the SUMC Renewal Project includes the renovation of Hoover Pavilion to accommodate modern clinics and medical offices; the relocation and replacement of underground utilities along Welch and Quarry Roads; site preparation for the rebuilding of Stanford Hospital & Clinics; and site preparation for the expansion of Lucile Packard Children's Hospital. The construction work will also ultimately include the replacement of School of Medicine facilities to provide state-of-the-art laboratories and support space, and new clinic and medical office buildings.

In order to facilitate this important replacement and expansion work, SUMC entered into a Development Agreement with the City of Palo, which includes a comprehensive package of community benefits and voluntary mitigation measures. In exchange for these benefits, the City has vested for a period of 30 years SUMC's rights to develop and use the property in accordance with the project approvals, and will streamline the process for obtaining subsequent approvals.

The terms of the Development Agreement (Section 12(c)) provide for a periodic review of compliance, and require that SUMC submit an Annual Report to the City of Palo Alto's Director of Planning and Community Environment each year within 30 days of the anniversary of the agreement effective date (June 6, 2011). The Annual Report is to summarize the progress on the Renewal Project, including a list of net new square footage for which a certificate of occupancy has been received, and a description of the steps that SUMC has taken to comply with the obligations listed in the Development Agreement. With this report, SUMC fulfills these requirements. Within 45 days of receipt of this Annual Report, the City will prepare a Supplement to the Annual Report, to provide an accounting of the City's expenditures from each of the City Funds and how they were used.



2011-2012 SUMMARY OF PROGRESS

The Renewal Project has gained considerable momentum in the past year, with several of the project components showing substantial progress. In the section to follow, SUMC provides an overview of central goals for the project elements that presently are under construction or nearing construction, a synopsis of progress and a preview of near-term upcoming activities.

HOOVER PAVILION

One of the first phases of the Renewal Project has been the renovation and modernization of Hoover Pavilion, the original Palo Alto Hospital. The building's 1931 façade is being carefully restored, while the interior of the structure is being retrofitted to accommodate modern medicine. Once complete, the Hoover Pavilion will house community physicians, Stanford Hospital clinics, and the Stanford Health Library. The surrounding grounds will be transformed to include varied landscaped spaces, including a lawn and Redwood grove.

Site work and renovation of Hoover Pavilion began in Summer 2011, and significant progress has been made in less than one year. A total of nine trees have been boxed and stored for replanting. Exterior restoration work is progressing steadily—this has included a cleaning of the building façade, as well as major and minor concrete repairs. The original wooden windows have been removed from the structure, refurbished offsite, and reinstalled. On the interior, structural work has been completed—including the installation of overhead structural supports and concrete slab strengthening—and modern mechanical and plumbing systems have been installed. Interior tenant improvement construction continues, and is scheduled for completion by December 2012. Tenant move-in coordination plans are currently underway.

Meanwhile, work has begun on the Hoover Garage, a new 1084-stall parking structure for patients and staff. Former Hoover outbuildings and sheds have been removed to make way for the new garage, and shoring and excavation work has now begun. The garage is scheduled for completion in June 2013.



2011-2012 SUMMARY OF PROGRESS

WELCH ROAD UTILITIES

The Welch Road Utilities Project (WRUP) lays the groundwork for the New Stanford Hospital and the Lucile Packard Children's Hospital Expansion, and is a vital step in ensuring the underlying functionality of the new medical facilities. Work involves the replacement of existing older underground utility services along Welch and Quarry Roads—including water, gas, electrical, and telecommunications infrastructure—as well as the construction of new utilities to serve the new hospital facilities once they are built. This effort also includes the widening of Welch Road, one of the main arteries into the medical center campus, and the construction of several roadway surface improvements such as sidewalks, crosswalks, planted medians, street lighting, and two new signalized intersections.

The WRUP is to be completed in two major phases. The first phase began in Fall 2011, with the widening of Welch Road between Quarry Road and South Pasteur Drive, and the commencement of utility construction on the newly widened Hospital side of the roadway. Underground utility work also began on Quarry Road between Welch Road and the Falk Center, and on North Pasteur between Blake Wilbur Drive and Sand Hill Road. Thus far, completed utility work includes the installation of a new gas line, piping for hot and chilled water systems, and the installation and activation of a new water main on Welch Road. Work is currently underway on a new power distribution system; electrical vaults have been reconstructed, and the City of Palo Alto is currently working to install wiring.

Also included in WRUP's first phase is the re-working of the Blake-Wilbur parking lot. Work is currently underway. This work scope includes construction of a new entrance to the Advanced Medicine Center with utilities below, construction of a new Ambulance Drive at the southern edge of the existing lot, and the installation of new storm and electrical utilities. The parking lot will be reconfigured. Eight protected redwoods and oaks taken from other areas of the SUMC sites will be replanted as part of the landscaping and a new irrigation system will be installed. The new Blake-Wilbur parking lot is expected to be complete by October 2012.

WRUP moves into its second and final phase in Fall 2012, when underground utility work will shift from the hospital side of Welch and Quarry Roads to the opposite side of the roadway. Work here is expected to continue through mid-2013. This second phase will also include the demolition of 1101 Welch Road, Parking Structure #3, and Blake Wilbur drive, in order to make way for the New Stanford Hospital and Garage. Demolition is expected to take place during the 4th quarter of 2012.

To enable completion of WRUP work under existing roadways, significant traffic changes have been implemented. Welch Road has been converted to a one-lane, one-way road going west from Quarry Road to Pasteur Drive, and will remain as a one-way road through mid-2013. Meanwhile, North Pasteur Drive is closed to traffic, and South Pasteur has been converted to a two-way road to accommodate traffic in and out of Stanford Hospital. Supplemental wayfinding signage, project information kiosks, and messaging programs have been put into place in order to guide patients and visitors through the area during this construction period.



2011-2012 SUMMARY OF PROGRESS

LUCILE PACKARD CHILDREN'S HOSPITAL

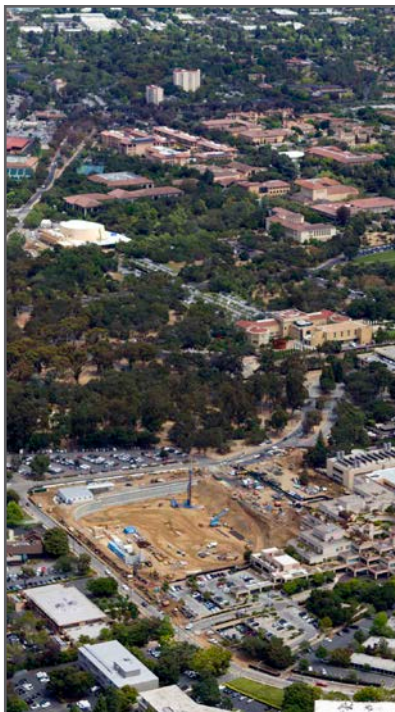
Lucile Packard Children's Hospital is opening an expanded facility in response to growing community needs for specialized pediatric and obstetric care. The new expansion will be located adjacent to the current Packard Children's Hospital, and will provide patients and doctors with the most modern clinical advancements and technology. It will also create a more patient- and family-centered environment of care, with additional single-patient rooms and more spaces for families to be with their child during treatment and recovery.

The Packard Children's expansion will feature a new entrance lobby, public concourse with dining, three floors of nursing units, and new patient rooms. Spaces have been designed with an attention to natural light and views, and the exterior grounds—more than 3.5 acres of outdoor areas and gardens—will provide a park-like setting for patients, families, and visitors.

The Packard expansion is still in the early phases of development, with site preparation currently underway, and construction drawings for the new hospital under Office of Statewide Health Planning and Development (OSHPD) review. Site preparation efforts, which began in August 2011, have consisted of site clearing—including the demolition of the existing medical office buildings at 701 and 703 Welch, and the relocation of 13 protected oak and redwood trees—as well as utility relocation, and the construction of a shoring wall and new utility tunnel. Mass excavation is now underway, with dewatering systems in place, and trucks hauling soil away from the site.

Work has been in progress concurrently at the existing Packard Children's Hospital to accommodate ongoing construction activities, including an egress relocation project that reroutes exiting from the Day Hospital to avoid the mass excavation area. A key part of this effort—the installation of a temporary steel egress bridge on the back side of the existing hospital—has recently been completed.

OSHPD foundation permit issuance for the LPCH expansion is expected for Fall 2012, with construction of the foundation to begin shortly thereafter. The existing hospital will remain fully operational during construction.



2011-2012 SUMMARY OF PROGRESS

NEW STANFORD HOSPITAL

Stanford Hospital & Clinics is constructing new and replacement hospital facilities that will usher in a new era of advanced patient care. Growth in patient volumes and rapidly changing medical technology have rendered much of the existing midcentury hospital infrastructure inadequate, while new seismic safety requirements have accelerated the need to construct replacement facilities.

The New Stanford Hospital will substantially increase capacity, and will also address a rapidly advancing medical landscape. High-tech spaces such as Surgery, Radiology, and Intensive Care will be replaced to accommodate the latest advances in medical technology, while still retaining the flexibility to adapt to future innovations. Facilities will feature new patient rooms, an enlarged Level-1 trauma center and Emergency Department, and new surgical, diagnostic, and treatment rooms. The new facility will create a healing environment responsive to the needs of patients, visitors, and staff. Upper-level pavilions will feature light-filled patient rooms, and a mid-level garden floor will offer dining, conference, and educational facilities, as well as social and spiritual support spaces.

The construction drawings for the New Stanford Hospital are currently under OSHPD plan review. A permit for shoring and mass excavation has already been issued, and a permit for the foundation and structural system is expected to be issued by August 2012. All remaining OSHPD permits are anticipated to be issued by early 2013. For the new hospital garage, final construction drawings are being developed, and will be submitted to the City of Palo Alto for plan review and construction permits later this year.

While construction drawings for the new facilities are under review, site preparation activities have commenced. Utility infrastructure improvements are underway along North Pasteur and the Promenade, with new water, waste water, and storm drain facilities being installed. Site clearing activities are expected to occur in the coming months, with the relocation of several protected trees, and the demolition of the medical office buildings at 1101 Welch, and of PS-3, the existing hospital's patient and visitor parking structure. Patient and visitor parking will be temporarily relocated to the PS-4 underground structure during this time, and PS-4 garage restriping is currently underway to enable this transition. And presently, Kaplan Lawn is being transformed to include Kaplan Drive—this new road, framed by the lawn's existing heritage oaks, will eventually serve as the main entrance to the new hospital.



2011-2012 SUMMARY OF PROGRESS

SCHOOL OF MEDICINE

The Stanford University School of Medicine will replace four outmoded research buildings with three state-of-the-art facilities designed to support contemporary translational research. The new facilities—to be called the Foundations in Medicine (FIM) buildings—will accommodate 21st century medical advancements and enable the development of new medical innovations. The new FIM buildings will feature integrated laboratory suites, with easier access between labs and support facilities, enabling transparency, flexibility, and collaboration. The new facilities will be surrounded by landscaped areas and tree-lined walkways.

The Foundations in Medicine development is not yet underway. In the interim, the site that will ultimately be developed as FIM1 is planned for use as a temporary valet parking area for Hospital visitors. An application for site development is currently under review by the Architectural Review Board, and site work is expected to begin during late Summer 2012, pending City approval.



2011-2012 SUMMARY OF PROGRESS

NET NEW SQUARE FOOTAGE

The following table summarizes the net new square footage for which a certificate of occupancy has been issued.

PROJECT COMPONENT	GROSS SQUARE FOOTAGE
NEW STANFORD HOSPITAL	
None	0
LUCILE PACKARD CHILDREN'S HOSPITAL EXPANSION	
701 Welch demolished	(56,300)
703 Welch demolished	(23,500)
Total	(79,800)
FOUNDATIONS IN MEDICINE	
None	0
HOOVER PAVILION	
None	0

COMPLIANCE WITH DEVELOPMENT AGREEMENT OBLIGATIONS

This section of the Annual Report summarizes the steps that SUMC has taken to comply with their obligations in Section 5 of the Development Agreement.

HEALTH CARE BENEFITS

SUMC provides certain intrinsic benefits to the community, as both a global leader in medical care and research, and as a community healthcare services provider. The Renewal Project enables SUMC to continue its important work, and the addition of more beds for adults and children will help to alleviate overcrowding. Additionally, the new hospital facilities will provide critical emergency preparedness and response resources for the community in the event of an earthquake, pandemic, or other major disaster.

Section 5(a)(ii). Fund for Healthcare Services

The Hospitals have designated the amount of \$3 million for Healthcare Services which will increase to \$5.6 million by December 31, 2025. No further action is required until 2026. This amount will be reconciled with the construction tax use payments as described in Development Agreement Section 5(b)(ii)(C).

Section 5(a)(iii). Fund for Community Health and Safety Programs

SUMC has contributed a single lump-sum payment of \$4 million to establish a Community Health and Safety Program Fund for the City of Palo Alto. This fund is to be distributed to selected community health programs that benefit residents of the City, including the Project Safety Net Program, a community-based mental health plan for youth well-being in Palo Alto. SUMC provided the entire required contribution to the Community Health and Safety Program Fund on August 25, 2011. No further action is required by the SUMC to comply with this Development Agreement provision. As required by Development Agreement Section 12(d), the City will provide yearly Supplements to the Annual Report to provide an accounting of the City's expenditures from this fund, and the purposes for which the expenditures were used.



COMPLIANCE WITH DEVELOPMENT AGREEMENT OBLIGATIONS

PALO ALTO FISCAL BENEFITS

The Renewal Project brings considerable fiscal benefits to the City of Palo Alto. The project is expected to generate at least \$8.1 million in sales and use tax revenues for the City, and multiple mechanisms have been put into place to ensure that this target is met. The Development Agreement also provides for further fiscal benefits to the City, including a payment by SUMC to fund the City's operating deficit, and the payment of utility user taxes and school fees.

Sections 5(b)(i) and 5(b)(ii). Payment of Sales and Use Taxes

As required by the Development Agreement, the SUMC submitted the Construction and Use Tax monitoring report to the City on June 29, 2012. The SUMC parties will continue to submit such a report annually during the construction period for the Renewal Project so that the City can determine the share of construction use taxes that it has received as a result of the Renewal Project. Each year, within 60 days of receiving the monitoring report, the City will provide its determination of the amount of construction use taxes that it has received as a result of the Renewal Project during the preceding calendar year. In August 2026, the SUMC and the City will conduct a reconciliation process to confirm that the City has received at least \$8.1 million in construction use taxes as a result of the Project, as further described in Development Agreement Section 5(b)(ii).

To date, SUMC has taken the following steps to maximize the City's allocation of sales and use taxes associated with Project construction and operation. Documentation of each of these items is included in the initial construction use tax monitoring report already submitted. Future monitoring reports will not repeat prior documentation.

- The SUMC Parties have obtained all permits and licenses necessary to maximize the City's allocation of construction use taxes derived from the project, including California Seller's Permits and Use Tax Direct Pay Permits. Copies of permits and licenses are attached to the monitoring report in Appendix A, *California Seller's Permits and Use Tax Direct Pay Permits*.
- SUMC has designated and required all contractors and subcontractors to designate the project site as the place of sale of all fixtures furnished or installed as part of the project. Directives to contractors are attached to the monitoring report in Appendix B, Sales and Use Tax Memorandum to Contractors.
- SUMC has designated and required all contractors and subcontractors to designate the project site as the place of use of all materials used in the construction of the project. Supporting documentation is attached to the monitoring report in Appendix B.
- SUMC has required all contractors and subcontractors to allocate the local sales and use taxes derived from their contracts directly to the city. SUMC has used best efforts to require contractors and subcontractors to complete and file any forms required by the State Board of Equalization to effect these designations. Supporting documentation is attached to the monitoring report in Appendix B.
- Both Hospitals have obtained use tax direct pay permits from the State of California for their existing facilities in order to increase the City tax allocation for the Hospitals' purchases. The Hospitals will maintain the use tax direct pay permit for the life of the project. Supporting documentation is attached to the monitoring report in Appendix A.
- Finally, SUMC has assisted the City in establishing and administering a Retail Sales and Use Tax Reporting District for the Renewal Project, to enable the City to track the generation, allocation, reporting and payment of sales and use taxes derived from the Project.

COMPLIANCE WITH DEVELOPMENT AGREEMENT OBLIGATIONS

Section 5(b)(iii). Funding of Operating Deficit

In order to assure that City costs associated with the Renewal Project do not exceed revenues to the City resulting from construction and operation of the project, SUMC has provided to the City a single lump sum payment in the amount of \$2,417,000. This payment was made on August 25, 2011. No further action is required by the SUMC to comply with this Development Agreement provision.

Section 5(b)(iv). Payment of Utility User Tax

SUMC will pay the City a utility user tax at a minimum rate of 5 percent of all electricity, gas, and water charges allocable to new construction completed as part of the project for the life of the project. This rate may be increased by the City as provided by Section 2.35.100(b) of the Municipal Code. No new construction has yet been completed for the SUMC Renewal Project, so this requirement has not yet been triggered.

Section 5(b)(v). School Fees

SUMC will pay to the City—who is then to forward to the Palo Alto Unified School District—school fees upon issuance of each building permit from the City or OSHPD, in the amount that is generally applicable to non-residential development at the time of payment based upon net new square footage, as defined in the Development Agreement.

School fees have been paid for both the Lucile Packard Expansion and the New Stanford Hospital in the amounts of \$188,815 and \$153,802, respectively. These fees were paid and certified in advance of issuance of building permits, as OSHPD policy now prohibits the issuance of building permits for new construction without certification from the appropriate school district that all required fees have been paid.

COMPLIANCE WITH DEVELOPMENT AGREEMENT OBLIGATIONS

TRAFFIC MITIGATION AND REDUCED VEHICLE TRIPS

SUMC has taken a number of steps to mitigate the potential traffic impacts projected at full project buildout. Already, SUMC provides a robust transportation demand management program, offering a variety of incentives for employees to forego driving alone to work. As the Renewal Project moves forward, SUMC will take the following actions outlined below.

Section 5(c)(ii). Menlo Park Traffic Mitigation

SUMC has agreed to contribute to the City of Menlo Park a total of \$3,699,000 for use in connection with traffic mitigation, infrastructure enhancements, and the promotion of sustainable neighborhoods and communities and affordable housing. This contribution is to be made in three equal payments; the first payment of \$1,233,000 was made on August 19, 2011. The remaining two payments are to be made within 30 days from issuance of the first Hospital foundation permit, and within 30 days from issuance of the first Hospital occupancy permit.

Section 5(c)(iii). East Palo Alto Voluntary Mitigation

SUMC has contributed a single lump sum payment of \$200,000 to East Palo Alto to be used for roadway and traffic signal improvements on University Avenue. This payment was made on August 19, 2011. No further action is required by the SUMC to comply with this Development Agreement provision. In the event that the SUMC does not meet alternative transportation mode goals specified in the Development Agreement by 2025 and is assessed a \$4 million payment under Development Agreement section 5(C) (ix)(B), the City will be required to remit \$150,000 of such payment to the City of East Palo Alto.

Section 5(c)(iv). Contributions to AC Transit

The Hospitals have committed to offering the following contributions to AC Transit within 30 days from issuance of the first Hospital occupancy permit:

- The Hospitals will contribute a one-time payment of \$250,000 to AC Transit to be used for capital improvements to the U-Line to increase capacity (Section 5(c)(iv)(A)).
- The Hospitals will offer to make annual payments to AC Transit in a reasonable amount, not to exceed \$50,000, to be used for operating costs of the U-Line to maintain a load factor for bus service to SUMC of less than 1 (Section 5(c)(iv)(B)).
- In order to encourage Hospital employees living in the East Bay to use public transit for their commute, the Hospitals have committed to using best efforts to lease 75 parking spaces at the Ardenwood Park and Ride lot, or an equivalent location, at a cost not to exceed \$45,000 per year (Section 5(c)(iv)(C)).

These offers have not yet been made to AC Transit because the first Hospital occupancy permit has not yet been issued.

Section 5(c)(v). Opticom Payments

Within 30 days from issuance of the first Hospital occupancy permit, the Hospitals will pay \$11,200 to the City of Palo Alto to be used for the installation of Opticom traffic control systems at the following seven intersections: 1) El Camino Real/Palm Drive/University Avenue; 2) El Camino Real/Page Mill Road; 3) Middlefield Road/Lytton Road; 4) Junipero Serra/Page Mill Road; 5) Junipero Serra/Campus Drive West; 6) Galvez/Arboretum; and 7) the Alpine/280 Northbound ramp. This payment has not yet been made because the first Hospital occupancy permit has not yet been issued.

COMPLIANCE WITH DEVELOPMENT AGREEMENT OBLIGATIONS

Section 5(c)(vi). Caltrain GO Passes

The Development Agreement requires that the hospitals purchase annual Caltrain GO Passes for all existing and new Hospital employees who work more than 20 hours per week at a cost of up to \$1.8 million per year, beginning on September 1, 2015. This obligation is to continue for a period of 51 years. Hospital management accelerated the purchase of the annual GO Pass for Hospital employees, and began providing free GO Passes to employees commencing on January 1, 2012, three years ahead of original schedule. Further details regarding the GO Pass purchase can be found in the 2012 SUMC Alternative Mode Share report, which was submitted to the City on July 5, 2012.

Section 5(c)(vii). Marguerite Shuttle Service

The Hospitals will fund the reasonable costs, in an approximate amount of \$2 million for the purchase of additional shuttle vehicles for the Marguerite shuttle service, as and when required to meet increased demand for shuttle service between the project sites and the Palo Alto Intermodal Transit Station. In addition, the hospitals will fund as annual payments the reasonable costs, in an approximate amount of \$450,000 per year, to cover the net increase in operating costs for the Marguerite Shuttle. Demand for the Marguerite shuttle has increased in the past year, and the Hospitals have funded the purchase of two additional shuttles to meet this increased demand.

Section 5(c)(viii). Transportation Demand Management Coordinator

The Development Agreement requires that the Hospitals employ an onsite qualified Transportation Demand Management (TDM) Coordinator for SUMC, commencing on September 1, 2015, and continuing through the life of the Renewal Project.

Because the Hospitals accelerated the purchase of the Caltrain GO Pass, the Hospitals also accelerated the hiring of the TDM Coordinator. This position was filled in March 2012, and the new TDM Coordinator has begun working to raise awareness among SUMC commuters about alternative transportation options and commute incentive programs. This individual is also responsible for providing alternative commute planning assistance and responses to customer inquiries, writing and editing electronic and print communications, and coordinating and staffing outreach events, such as free transit pass distributions and employee fairs.

Section 5(c)(ix). Monitoring of TDM Programs

The Hospitals are required to submit annual monitoring reports showing the current number of employees employed over 20 hours per week; the number of employees using an alternative transportation mode as documented by a study or survey to be completed by the Hospitals using a method mutually agreeable to the City, and the efforts used by the Hospitals to attempt to achieve the Alternative Mode Targets identified in the Development Agreement. The Development Agreement specifies payments to be made in the event that such targets are not met during particular time periods. SUMC submitted its Baseline Alternative Mode Share Report to the City on July 5, 2012. The Baseline Report shows an alternative mode split of 39% for the Hospitals. This mode split exceeds the Alternative Mode Share targets for 2018, 2021 and 2025.

COMPLIANCE WITH DEVELOPMENT AGREEMENT OBLIGATIONS

LINKAGES

To further encourage use of Caltrain, bus, and other transit services, and to enhance and encourage use of pedestrian and bicycle connections between SUMC and Palo Alto, SUMC has funded or will fund the following specific infrastructure improvements.

Section 5(d)(i). Intermodal Transit Fund

SUMC has provided to the City one lump sum payment of \$2.25 million for improvements to enhance the pedestrian and bicycle connection from the Palo Alto Intermodal Transit Center to the existing intersection of El Camino Real and Quarry Road. Up to \$2 million of this amount is to be used by the City for the development of an attractive, landscaped passive park/green space with a clearly marked and lighted pedestrian pathway, benches, and flower borders. SUMC paid the entire required amount for the Intermodal Transit Fund on August 25, 2011. No further action is required by the SUMC to comply with this Development Agreement provision. As required by Development Agreement Section 12(d), the City will provide yearly Supplements to the Annual Report to provide an accounting of the City's expenditures from this fund, and the purposes for which the expenditures were used. The City is required to construct the improvements prior to issuance of the Hospital Occupancy Permit.

Section 5(d)(ii). Quarry Road Fund

SUMC has provided to the City one lump sum payment of \$400,000 for improvements to and within the public right-of-way to enhance the pedestrian and bicycle connection from the west side of El Camino Real to Welch Road along Quarry Road, including urban design elements and way finding, wider bicycle lanes, as necessary, on Quarry Road, enhanced transit nodes for bus and/or shuttle stops, and prominent bicycle facilities. SUMC paid the entire required amount for the Quarry Road Fund on August 25, 2011. No further action is required by the SUMC to comply with this Development Agreement provision. As required by Development Agreement Section 12(d), the City will provide yearly Supplements to the Annual Report to provide an accounting of the City's expenditures from this fund, and the purposes for which the expenditures were used. The City is required to construct the improvements prior to issuance of the Hospital Occupancy Permit.

Section 5(d)(iii). Stanford Barn Connection

SUMC will construct up to \$700,000 of improvements to enhance the pedestrian connection between SUMC and the Stanford Shopping Center from Welch Road to Vineyard Lane, in the area adjacent to the Stanford Barn. The SUMC is required to construct these improvements prior to issuance of the first Hospital Occupancy permit.

COMPLIANCE WITH DEVELOPMENT AGREEMENT OBLIGATIONS

INFRASTRUCTURE, SUSTAINABLE NEIGHBORHOODS AND COMMUNITIES, AND AFFORDABLE HOUSING

Section 5(e). Infrastructure, Sustainable Neighborhoods and Communities, and Affordable Housing

SUMC will contribute a total amount of \$23.2 million toward City of Palo Alto infrastructure, sustainable neighborhoods and communities, and affordable housing. The Development Agreement requires this amount to be contributed in three equal payments. The first payment, in the amount of \$7,733,333, was made on August 25, 2011; the second is to be made at the time that the first Hospital foundation permit is issued, and the final payment is to be made within 30 days from issuance of the first Hospital occupancy permit. As required by Development Agreement Section 12(d), the City will provide yearly Supplements to the Annual Report to provide an accounting of the City's expenditures from this fund, and the purposes for which the expenditures were used. The City will use \$1,720,488 of these funds in the same manner as funds collected under the City's housing fee ordinance.

CLIMATE CHANGE

Section 5(f). Climate Change Fund

SUMC will contribute a total amount of \$12 million toward City projects and programs for a sustainable community, including programs identified in the City's Climate Action Plan, carbon credits, and investments in renewable energy and energy conservation. The Development Agreement requires this amount to be contributed in three equal payments. The first payment, in the amount of \$4 million, was made on August 25, 2011; the second is to be made at the time that the first Hospital foundation permit is issued, and the final payment is to be made within 30 days from issuance of the first Hospital occupancy permit. As required by Development Agreement Section 12(d), the City will provide yearly Supplements to the Annual Report to provide an accounting of the City's expenditures from this fund, and the purposes for which the expenditures were used.

SATISFACTION OF CONDITIONS OF APPROVAL

SUMC will satisfy all Conditions of Approval by the dates and within the time periods required by the project approvals, and has taken several steps in order to ensure that this requirement is met (Section 5(h)). The Conditions of Approval encompass conditions imposed by the Architectural Review Board, mitigation measures enumerated in the Mitigation Monitoring and Reporting Program, and conditions attached to the Conditional Use Permit.

In order to implement, monitor, and report on the implementation of this diverse array of conditions, SUMC, with input from City planning staff, has created two Excel spreadsheet tracking and reporting tools. These spreadsheets are designed to serve as a centralized repository for compliance monitoring information and documentation, and are updated by the SUMC project teams on a regular basis, and reviewed by the City.

CONCLUSION

As the Renewal Project closes on its groundbreaking year, SUMC looks forward to continued engagement with the City of Palo Alto as the project forges ahead.

Table 1: Development Agreement, Section 5 - SUMC Parties' Promises **2012**

DA Section	Description	Summary	Activity	Complies?
Health Care Benefits				
5(a)(ii)	Fund for Healthcare Services	Financial assistance for Palo Alto residents	Establishment of \$3M SUMC fund	Yes
5(a)(iii)	Fund for Community Health and Safety Programs	\$4M fund for selected community health programs for Palo Alto residents	Payment of \$4M on 8/25/11 to establish City fund	Yes
Fiscal Benefits				
5(b)(i), (ii)	Payment of Sales and Use Taxes	Activities to maximize sales and use taxes paid to the City	See Attachment X	
5(b)(iii)	Funding of Operating Deficit	\$2.4M fund to address long-term deficits	Payment of \$2.4M on 8/25/11 to establish fund	Yes
5(b)(iv)	Payment of Utility Users Tax	5% tax on all electricity, gas and water charges on new construction.	No new construction completed; tax is not applicable at this time	NA
5(b)(v)	School Fees	Payment of PAUDS fees for net new square footage	\$342,617 fee paid for LPCH and NSH expansion.	Yes
Traffic Mitigation and reduced Vehicle Trips				
5(c)(ii)	Menlo Park Traffic Mitigation	\$3.7M payment for traffic mitigation, infrastructure, sustainable neighborhoods, affordable housing	First of three \$1.23M payments made on 8/19/11.	Yes
5(c)(iii)	East Palo Alto Voluntary Mitigation	\$200K for Roadway and single improvements on University Ave.	\$200K payment made on 8/19/12.	Yes

Table 1: Development Agreement, Section 5 - SUMC Parties' Promises **2012**

DA Section	Description	Summary	Activity	Complies?
5(c)(iv)	Contributions to AC Transit	U-line capital improvements, low load factor ratios, parking spaces at Ardenwood Park & Ride	No activity. Payments due at hospital occupancy	NA
5(c)(v)	Opticom Payments	\$11,200 payment for Opticom traffic control system at 7 intersections	No activity. Payments due at hospital occupancy	NA
5(c)(vi)	CalTrain Go Passes	SUMC purchase of passes for all hospital employees working >20hrs/week	Go Passes have been purchased per DA	Yes
5(c)(vii)	Marguerite Shuttle Service	Purchase of additional shuttles to meet demand	Two additional shuttles have been purchased to meet current demand	Yes
5(c)(viii)	SUMC Transportation Demand Management (TDM) Coordinator	SUMC hires coordinator to promote alternative transportation options	TDM Coordinator has been hired.	Yes
5(c)(ix)	Monitoring of TDM Programs	Yearly report regarding alternative transit mode use	Report submitted. 39% of SUMC employees using alt modes.	Yes
Linkages				
5(d)(i)	Intermodal Transit Fund	\$2.25M payment to improve pedestrian linkages to PA Intermodal Transit Center	Payment of \$2.25M on 8/25/11 to establish City fund	Yes
5(d)(ii)	Quarry Road Fund	\$400K payment to improve pedestrian linkages along Quarry Road	Payment of \$400K on 8/25/11 to establish City fund	Yes

Table 1: Development Agreement, Section 5 - SUMC Parties' Promises **2012**

DA Section	Description	Summary	Activity	Complies?
5(d)(iii)	Stanford Barn Connection	SUMC budgets up to \$700K for pedestrian connections in the vicinity of barn	No activity. Improvements must be made prior to first hospital occupancy	NA
Infrastructure, Sustainable Neighborhoods and Communities, and Affordable Housing				
5(e)	Infrastructure, Sustainable Neighborhoods and Communities, and Affordable Housing Fund	\$23.2M payment for these uses	First of three \$7.3M payments made on 8/19/11.	Yes
Climate Change				
5(f)	Climate Change Fund	\$12M payment for climate change-related projects and programs	First of three \$4M payments made on 8/19/11.	Yes



2011-12 Annual Report Supplement

Prepared by the City of Palo Alto

November 1, 2012

Background and Purpose

On June 6, 2011, the City Council approved Comprehensive Plan amendments, zoning changes, a conditional use permit, annexation and design applications for the Stanford University Medical Center Facilities Renewal and Replacement Project (the “Projects”). The Projects include the construction of a new Stanford Hospital and clinics buildings, an expansion of the Lucile Packard Children’s Hospital, construction of new School of Medicine buildings, renovation of the existing Hoover Pavilion, construction of a new medical office building and parking garage at Hoover Pavilion, roadway improvements along Welch Road and Durand Way, and SUMC design guidelines. A Development Agreement (the “Agreement”) vesting these approvals was entered into between the SUMC Parties and the City and was effective on June 6, 2011 and continues for thirty (30) years from the effective date. The Agreement requires an annual report, prepared by SUMC that outlines the activities of the preceding year and the efforts to fulfill the obligations of the Agreement.

Per the requirements of sections 12(a) and 12(c) of the Agreement, The City of Palo Alto is to prepare a supplement to the annual report that contains an accounting of the funds described in the Section 5 of the Agreement (“SUMC Parties’ Promises”) including the fund balances and expenditures and the purposes for which the expenditures were used.

This annual report supplement covers the period during the first year of the Agreement: June 6, 2011 through June 6, 2012. Accounting for the funds outlined in the attachment extends through the end of the City’s 2011 – 2012 fiscal year June 30, 2012.

Public Benefit Fund Accounting

Attachment A to this report contains a spreadsheet of the funds received and the use of those funds pursuant to the Agreement as of June 30, 2012. In summary, SUMC made a payment of \$20,800,333 on August 11, 2011 for the following funds:

- Fund for Community Health and Safety, Project Safety Net (Section 5(a)(iii));
- Fund for SUMC Project Operating Deficit (Section 5(b)(iii));

- Fund for Pedestrian and Bicycle Connections from Intermodal Transit Center to El Camino Real/Quarry Road Intersection (Section 5(d)(i));
- Fund for Public Right of Way Improvements to Enhance Pedestrian and Bicycle Connections on Quarry Road (Section 5(d)(ii));
- Fund for Infrastructure, Sustainable Neighborhoods and Communities and Affordable Housing (Section 5(e)), and
- Fund for Sustainable Programs Benefit (Section 5(f)(i))

The specific funding amounts as shown on the spreadsheet are consistent with Section 5 of the Agreement. These funds have been assigned a unique cost center number for accounting purposes. The spreadsheet also contains the investment earnings and the earnings allocation to the various cost centers.

Public Benefit Fund Expenditures

Expenditures through June 30, 2012, as shown on the spreadsheet, were made from the following two funds:

Fund for Pedestrian and Bicycle Connections from Intermodal Transit Center to El Camino Real/Quarry Road Intersection: \$247,368.70 was utilized from this fund for staff review and analysis the project known as 27 University Avenue. This project, proposed by John Arrillaga on behalf of Stanford University (the property owner), involves the construction of office buildings, a performing arts center, public transportation facilities, underground parking, and construction of various site improvements and amenities. This project is located in the area between the Palo Alto Intermodal Transit Center PAITC) and the El Camino Real/Quarry Road intersection, the area identified for improvements to enhance the connections between the PAITC, the Stanford Shopping Center and the SUMC facilities. The 27 University Avenue project would include the enhancement of the connections specific identified as the purpose of this fund. The use of the funds for the review and analysis of the 27 University project is directly related to the intent of the fund.

Fund for Community Health and Safety, Project Safety Net: \$27,517.77 was utilized for the Project Safety Net program, which is specifically identified in the Agreement as a community health program that would be appropriate program for the use of this fund. Funds spent during the reporting period were allocated to salaries/benefits for Project Safety Net staff and other expenses relating to the operation of the program.

No other expenditures were made during the reporting period from the other funds as part of the Agreement.

