



City of Palo Alto

City Council Staff Report

(ID # 4581)

Report Type: Consent Calendar

Meeting Date: 4/21/2014

Summary Title: SUMC Annual Report

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 2012-2013 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 2012-2013 period that summarizes the current construction activities and the actions taken to fulfill the obligations of the Agreement. Of particular note, the SUMC has achieved a 40.9% alternative transportation mode split. As described in the supplement to the annual report, the SUMC Parties have paid approximately \$32.5 million in public benefit fees to the City. The City Council has established a process for the review of projects that would utilize SUMC public benefit funds.

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 2012-2013, the second 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 3, 2013 (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 have been completed and in December 2012, Hoover Pavilion re-opened providing modern medical office and clinics to the SUMC community. The renovation project is considered to be complete.
- Hoover Pavilion Parking Garage- Site work and construction for the new 1,084-stall parking garage was substantially complete as of June 2013. The garage opened for use in late summer 2013. Parking stalls in the garage are intended for use by patients and staff.
- Hoover Medical Office Building- Construction is underway for the construction of the medical office building, to be located adjacent to Quarry Road and the existing City of Palo Alto electrical sub-station.
- 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. The project was considered to be complete in 2013. Two-way automobile traffic currently operated on Welch Road.
- Lucile Packard Children's Hospital- Site preparation efforts at LPCH have been completed during the reporting period including mass excavation, installation of shoring walls, and utility line relocation. Construction of the hospital expansion is underway.
- New Stanford Hospital- Site preparation and excavation activities have commenced at the area surrounding the site of the New Stanford Hospital (NSH). Work included protected tree relocation, the completion of the Kaplan lawn driveway, and foundation work for the new

hospital and adjacent parking structure. Significant construction activities are currently underway at the site.

No new square footage has been constructed during this reporting period. Approximately 134,000 square feet of floor area has been demolished on the main and children's hospital sites, as well as the Hoover Pavilion 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 of the Annual Report 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 40.9% alternative transportation mode split during the reporting year for the hospital employees, meaning 40.9% 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 \$32,533,666 in public benefit funds as of June 30, 2013. Interest income during the reporting period was \$634,000. The SUMC Parties will pay an additional \$11.7M upon issuance of the first hospital occupancy permit, expected in 2016.

During the reporting period, the City has committed funds for the following:

- A loan of \$1,000,000 to Stevenson House for rehabilitation projects (Staff Report #3176, Ord. 5170);
- Appropriations to the Arts & Innovation District study of \$136,000 from the SUMC Intermodal Transit Fund and \$150,000 from the SUMC Infrastructure, Sustainable neighborhoods and Communities, and Affordable Housing fund (Staff Report #3064, Ord. 5165). Of the \$286,000 total, \$280,000 was spent in FY2013 on the contract services for which it was appropriated. The balance remains in the SUMC fund, and
- \$228,000 for Project Safety Net, as included in the FY 2013 Adopted Operating Budget.

General Fund sales and use tax revenues in calendar year 2012 resulting from construction-related activities were approximately \$57,200. Figures for 2013 will be received in late June 2014.

Future Use of Development Agreement Funds

On September 9, 2013, City Council approved a recommendation from the Policy and Services Committee to establish a process for allocating the SUMC funds to future projects. Once the City Council is in receipt of the Infrastructure Committee report, the Council will develop a ranked master list of projects to guide the allocation of the use of the SUMC funds (excluding the Health and Safety Category), and each year thereafter as part of the budget process. The Finance Committee and Council will review the status of SUMC funds and projects on the master list for possible revisions, until such time that the funds are exhausted.

In a parallel process, the Policy and Services Committee will review the allocation of restricted funds under the category of Community Health and Safety of the SUMC funds and make recommendations to the Council until such time that the funds are exhausted.

The Policy and Services Committee expressed interest in spending the majority of SUMC funds within the next 10 years. This would ensure that the funds would be used in a near-term impactful way rather than reserved for the future. The Committee also considered the relative value of spending money in the near term versus the declining value of money in the future. The Committee agreed that by spending the SUMC funds on projects in the near term the City would get more projects completed.

Resource Impact

As summarized above, the City has received approximately \$33.6M in public benefit payments and interest to the Stanford University Medical Center Fund, and approximately \$67,830 in construction sales taxes to the General Fund since the start of the project.

Policy Implications

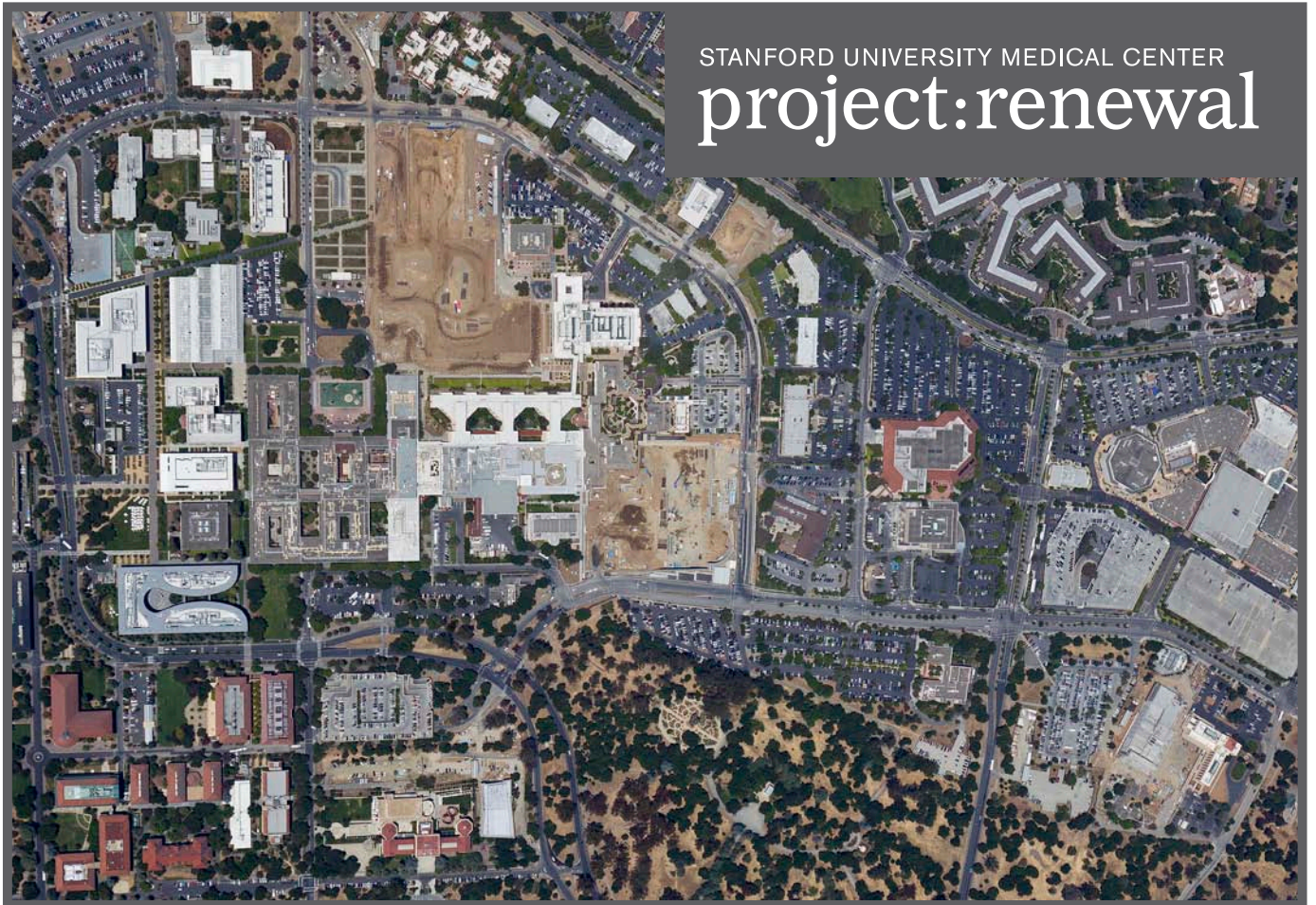
This report does not represent any changes to existing City policies.

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: 2012-2013 SUMC Annual Report (PDF)
- Attachment B: Table 1- Development Agreement, Section 5 (DOCX)
- Attachment C: SUMC Annual Report Supplement FY2013 (PDF)



2012-13 ANNUAL REPORT

PREPARED FOR THE CITY OF PALO ALTO | JULY 3, 2013

CONTENTS

EXECUTIVE SUMMARY	1
BACKGROUND AND PURPOSE	2
2012-2013 SUMMARY OF PROGRESS	3
HOOVER PAVILION SITE	3
WELCH ROAD UTILITIES	4
LUCILE PACKARD CHILDREN'S HOSPITAL	5
NEW STANFORD HOSPITAL	6
SCHOOL OF MEDICINE	7
NET NEW SQUARE FOOTAGE	8
COMPLIANCE WITH DEVELOPMENT AGREEMENT OBLIGATIONS	9
HEALTH CARE BENEFITS	9
SECTION 5(a)(ii). FUND FOR HEALTHCARE SERVICES	9
SECTION 5(a)(iii). FUND FOR COMMUNITY HEALTH AND SAFETY PROGRAMS	9
PALO ALTO FISCAL BENEFITS	10
SECTIONS 5(b)(i) AND 5(b)(ii). PAYMENT OF SALES AND USE TAXES	10
SECTION 5(b)(iii). FUNDING OF OPERATING DEFICIT	11
SECTION 5(b)(iv). PAYMENT OF UTILITY USER TAX	11
SECTION 5(b)(v). SCHOOL FEES	11
TRAFFIC MITIGATION AND REDUCED VEHICLE TRIPS	12
SECTION 5(c)(ii). MENLO PARK TRAFFIC MITIGATION	12
SECTION 5(c)(iii). EAST PALO ALTO VOLUNTARY MITIGATION	12
SECTION 5(c)(iv). CONTRIBUTIONS TO AC TRANSIT	12
SECTION 5(c)(v). OPTICOM PAYMENTS	12
SECTION 5(c)(vi). CALTRAIN GO PASSES	13
SECTION 5(c)(vii). MARGUERITE SHUTTLE SERVICE	13
SECTION 5(c)(viii). TRANSPORTATION DEMAND MANAGEMENT COORDINATOR	13
SECTION 5(c)(ix). MONITORING OF TDM PROGRAMS	13
LINKAGES	14
SECTION 5(d)(i). INTERMODAL TRANSIT FUND	14
SECTION 5(d)(ii). QUARRY ROAD FUND	14
SECTION 5(d)(iii). STANFORD BARN CONNECTION	14
INFRASTRUCTURE, SUSTAINABLE NEIGHBORHOODS AND COMMUNITIES, AND AFFORDABLE HOUSING	15
SECTION 5(e).	15
CLIMATE CHANGE	15
SECTION 5(f). CLIMATE CHANGE FUND	15
SATISFACTION OF CONDITIONS OF APPROVAL	15
CONCLUSION	16

EXECUTIVE SUMMARY

On June 6, 2011, the Stanford University Medical Center—comprised of Stanford Hospital and 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 SUMC Renewal and Replacement 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—holds the potential to transform the way that healthcare is delivered and research is conducted.

Today, two years after the execution of the Development Agreement, SUMC Renewal Project activities are steadily moving forward, and gaining momentum. Several key milestones have been reached in the past year, including the reopening of the restored Hoover Pavilion, and the issuance of foundation permits for both the Lucile Packard Children’s Hospital expansion and the New Stanford Hospital. Meanwhile, the utilities upgrades and surface improvements on Welch and Quarry Roads are nearing completion, and Welch Road is expected to reopen to two-way traffic in Summer 2013.

Against this backdrop, SUMC submits its second 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—allows 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.

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.



2012-2013 SUMMARY OF PROGRESS

The Renewal Project continues to steadily progress, with construction activities for both Hospitals now underway. 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 to date, as well as a preview of near-term upcoming activities.

HOOVER PAVILION SITE

One of the first phases of the Renewal Project was the renovation of Hoover Pavilion to accommodate modern medical offices and clinics. Renovation of the 1931 building began in Summer 2011, and included structural improvements, the installation of modern mechanical and plumbing systems, and the restoration of many of the building's original historic architectural details, including the reconstruction of the decorative finial that sits atop the Pavilion tower. In December 2012, the Hoover Pavilion reopened its doors and now houses community physicians, Stanford Hospital clinics, and the Stanford Health Library.

Meanwhile, other construction activities continue apace on the Hoover Pavilion site. Construction of the Hoover Garage has progressed swiftly, with the new structure scheduled for completion in late Summer 2013. The transformation of the Hoover landscape is also well underway; the site will soon include varied landscaped spaces, including a lawn parterre, Redwood grove, and Oak grove. The groves will feature fifteen mature trees which have been transplanted from other locations on the Hoover site, many of which had been boxed and stored offsite during construction.

Plans are also under development for the construction of a new medical office and clinic building on the Hoover site, on Quarry Road immediately west of the Hoover Pavilion, and northwest of the parking garage currently under construction. Permit drawings for the new structure are expected to be submitted to the City of Palo Alto in late 2013.



2012-2013 SUMMARY OF PROGRESS

WELCH ROAD UTILITIES

The Welch Road Utilities Project (WRUP) has laid 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 has involved the replacement of existing 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 has also included 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 work at Welch and Quarry Roads began in Fall 2011, and is now nearly complete. Underground utilities have been replaced and rerouted, and roadway surface improvements are nearly complete, with final inspections with the City scheduled shortly. New plantings of trees, grasses, and groundcovers in sidewalk planting strips and in medians offer the beginnings of a vibrant corridor that will grow and mature with time.

Also included in the WRUP project scope was the re-working of the Blake-Wilbur parking lot—this included 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 itself was also reconfigured, and included the planting of eight redwoods and oaks taken from other areas of the SUMC sites, six of which are protected-status trees. This work was completed in Fall 2012, and the parking area reopened to patients and visitors.

One of the final elements of the WRUP project is the replacement of the water line beneath Arboretum Road, between Sand Hill and Quarry Roads. This work commenced in Spring 2013, with work proceeding at night so as to minimize disruption to traffic, and is expected to complete in Summer 2013.

To enable completion of WRUP work under existing roadways, significant traffic changes were implemented. For nearly two years, Welch Road has operated as a one-lane, one-way road going west from Quarry Road to Pasteur Drive. The road will be returned to two-way traffic in Summer 2013. Meanwhile, North Pasteur Drive remains closed to traffic, and South Pasteur Drive continues to function as a two-way road to accommodate traffic in and out of Stanford Hospital.



2012-2013 SUMMARY OF PROGRESS

LUCILE PACKARD CHILDREN'S HOSPITAL

In response to growing community needs for specialized pediatric and obstetric care, Lucile Packard Children's Hospital is opening an expanded facility. The new hospital, to be located adjacent to the current Packard Children's Hospital, will provide patients and doctors with the most modern clinical advancements and technology, while also creating 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 completed its major site clearing activities in 2011 and 2012, and has continued to reach key milestones in the past year, including the issuance of the foundation permit by the Office of Statewide Health Planning and Development (OSHPD) in November 2012. Mass excavation, shoring, and tieback work is currently underway on the expansion site, as well as preparation work for the delivery of a tower crane to the site.



2012-2013 SUMMARY OF PROGRESS

NEW STANFORD HOSPITAL

Stanford Hospital and 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. And foremost, 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.

Preparation work for the New Stanford Hospital has been underway since late 2011, and many significant project-enabling activities are now complete. Site clearing activities began in November 2012 and continued into February 2013, first with the demolition of PS-3, the existing Hospital's patient and visitor parking structure, followed by the demolition of the medical office buildings at 1101 Welch. Patient and visitor parking has been relocated to the PS-4 underground structure during this time, and a temporary valet parking lot has been constructed near the Hospital entrance.

Four protected-status trees have been relocated from the future Hospital site, and are being stored for use in the final Hospital landscape; dozens of additional trees from the project site were boxed and salvaged by Stanford University for future use. And Kaplan Lawn has now been transformed to include a new roadway—this road, framed by the lawn's existing heritage oaks, will eventually serve as the main entrance to the new hospital.

The foundation permit for the New Stanford Hospital was issued by OSHPD in January 2013. For the new Hospital Garage, City of Palo Alto grading and excavation permits were issued in March 2013, followed by building permit issuance in May 2013. Excavation and shoring activities are now underway on both the Hospital and the Garage sites.



2012-2013 SUMMARY OF PROGRESS

SCHOOL OF MEDICINE

The Stanford University School of Medicine will replace its outmoded research buildings with new state-of-the-art facilities designed to support contemporary translational research. The new facilities will accommodate 21st century medical advancements and enable the development of new medical innovations. The new 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 School of Medicine development is not yet underway. In the interim, part of the site that will ultimately be developed is currently in use as a temporary valet parking area for Hospital patients and visitors.



2012-2013 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	
1101 Welch demolished	(40,100)
Total	(40,100)
LUCILE PACKARD CHILDREN'S HOSPITAL EXPANSION	
701 Welch demolished	(56,300)
703 Welch demolished	(23,500)
Total	(79,800)
SCHOOL OF MEDICINE	
None	0
HOOVER PAVILION	
Misc. shops and storage demolished	(13,831)
Total	(13,831)

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. A joint committee is to be established to evaluate proposals regarding the other specific programs to receive funding, composed of two representatives selected by the SUMC Parties and two representatives selected by the City; this committee shall make annual recommendations to the City Council regarding proposed disbursements from the Community Health and Safety Program Fund, and the City Council shall use its reasonable discretion to decide whether to accept, reject, or modify the joint committee recommendations.

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 SUMC 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 its annual Construction Sales and Use Tax monitoring report to the City on June 28, 2013. 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 2012 construction use tax monitoring report already submitted.

- 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 2012 monitoring report in Section 2, 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.
- 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.
- 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.
- 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.
- 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 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 second payment of \$1,233,000 was made on December 5, 2012, following the November 2012 issuance of the first Hospital foundation permit. The final payment will be made 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. Further details regarding the GO Pass purchase can be found in the SUMC Alternative Mode Share report, which was submitted to the City on May 31, 2013.

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 increased in 2012, and the Hospitals 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 TDM Coordinator has been 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; and providing alternative transportation information at new employee orientations when requested.

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 2013 Alternative Mode Share Report to the City on May 31, 2013. The 2013 report shows an alternative mode split of 40.9% 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 payment of \$7,733,333 was made on December 5, 2012, following the November 2012 issuance of the first Hospital foundation permit; 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 payment of \$4 million was made on December 5, 2012, following the November 2012 issuance of the first Hospital foundation permit; 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 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 completes its second year, SUMC looks forward to continued engagement with the City of Palo Alto as the project continues to forge ahead.



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

2012-13

ATTACHMENT B

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	General Fund sales and use tax revenues in calendar year 2012 resulting from construction-related activities were approximately \$57,200.	
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. Second payment of \$1.23M made on 12/5/12.	Yes

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

2012-13

ATTACHMENT B

DA Section	Description	Summary	Activity	Complies?
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
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. 40.9% of SUMC employees using alt modes.	Yes
Linkages				
5(d)(i)	Intermodal Transit Fund	\$2.25M payment to improve pedestrian linkages to PA	Payment of \$2.25M on 8/25/11 to establish City fund	Yes

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

2012-13

ATTACHMENT B

DA Section	Description	Summary	Activity	Complies?
		Intermodal Transit Center		
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
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. Second payment of \$7.3M made on 12/5/12	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. Second payment of \$4M made on 12/5/12	Yes



2012-13 Annual Report Supplement

Prepared by the City of Palo Alto

April 7, 2014

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 second year of the Agreement: June 6, 2012 through June 6, 2013. Accounting for the funds outlined in the attachment extends through the end of the City's Fiscal Year 2013, June 30, 2013.

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, 2013. In summary, SUMC made a payment of \$11,733,333 on December 5, 2012, to the following funds:

- 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 during FY 13 through June 30, 2013, as shown on the spreadsheet, were made from the following three funds:

Fund for Pedestrian and Bicycle Connections from Intermodal Transit Center to El Camino Real/Quarry Road Intersection: \$280,255.19 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. This project has been put on hold so that the City can complete a Downtown Development Cap analysis, which is expected in late 2014.

Fund for Community Health and Safety, Project Safety Net: \$161,544.67 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.

Fund for Infrastructure, Sustainable Neighborhoods and Communities, and Affordable Housing: A loan of \$1,000,000 to Stevenson House for rehabilitation-related projects.

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

City of Palo Alto
Stanford Medical Center Development Agreement (Fund 260)
FY 2013

4/15/2014

	Expansion Cost Mitigation	Intermodal Transit	Quarry Road Improvements	Infrastructure & Afford Housing	Climate Change & Sustainability	Community Health & Safety	Total FY 2013 Actuals	FY 2013 Committed
cost centers	26000000	60260010	60260020	60260030	60260040	80260010		
Beginning Balance 07/01/12	2,574,813.70	2,133,389.54	426,117.29	8,238,267.18	4,261,172.86	4,231,858.37	21,865,618.93	
Revenues:								
Revenues From Stanford (1)	-	-	-	7,733,333.00	4,000,000.00	-	11,733,333.00	
Investment Earnings	(86,015.81)						(86,015.81)	-
Allocate to categories	86,015.81						86,015.81	
Allocated Investment Earnings	(7,045.05)	(5,480.85)	(1,165.92)	(38,583.33)	(22,603.72)	(11,136.94)	(86,015.81)	-
Total Revenues	(7,045.05)	(5,480.85)	(1,165.92)	7,694,749.67	3,977,396.28	(11,136.94)	11,647,317.19	-
Expenditures:								
Temp Salaries/Benefits						94,319.21	94,319.21	118,000.00
Contract Services for 27 University		130,255.19		150,000.00			280,255.19	374,504.30
Contract Services						61,683.57	61,683.57	95,000.00
Other expenses						5,541.89	5,541.89	15,000.00
Transfer to HIL-Residential				1,720,220.00			1,720,220.00	3,600,000.00
Transfer to HIL-Commercial				-			-	720,220.00
Total Expenditures	-	130,255.19	-	1,870,220.00	-	161,544.67	2,162,019.86	4,922,724.30
FY 2013 Revenues less Exp	(7,045.05)	(135,736.04)	(1,165.92)	5,824,529.67	3,977,396.28	(172,681.61)	9,485,297.33	(4,922,724.30)
Net total 06/30/13	2,567,768.65	1,997,653.49	424,951.37	14,062,796.84	8,238,569.15	4,059,176.75	31,350,916.26	
Less: Unrealized Gain/Loss	13,522.26	11,204.01	2,237.86	43,265.25	22,378.58	22,224.63	114,832.59	
Net total available 06/30/13	2,554,246.40	1,986,449.48	422,713.51	14,019,531.59	8,216,190.56	4,036,952.13	31,236,083.67	
Future Revenues from Stanford:								
Estimated January 2018-1st hospital occupancy permit				7,733,333.00	4,000,000.00			

(1) A total of \$17,127,228 was received on 12/05/12. An additional \$5,393,895 in development impact fees is not included here.