June 15, 2009

City Manager James Keene
City of Palo Alto
250 Hamilton Avenue
Palo Alto, CA 94301

Dear City Manager Keene:

Stanford Hospital and Clinics, Lucile Packard Children’s Hospital and Stanford University submit the following proposal for a Development Agreement to vest entitlements for the Stanford University Medical Center Renewal and Replacement Project.

In arriving at this proposal, we considered not only our discussions with City staff over the past two years, but also the substantial input received from members of the public, the Planning and Transportation Commission and the City Council during sessions dedicated to discussions of community benefits. We considered carefully the expected impacts, including positive impacts, of the Project on local residents, City services, and City revenues, and we considered the economic constraints facing the hospitals’ funding of Project construction. Finally, and most importantly, we considered the role that the medical center plays in the community and the ways in which we feel we are particularly suited and situated to provide benefits that are within our expertise.

Based on all of these considerations, our proposal below focuses on many of the benefits suggested and described previously by the City, including the inherent direct and indirect community benefits provided by the hospitals today and into the future. In addition, the proposal emphasizes benefits that we are best suited to provide to the community and are tied to the impacts that the Project could have on the community. We cannot agree to and are not proposing items unrelated to medical center services and impacts.

In addition to the principles that guided our selection of community benefits, the items and associated dollar amounts identified in this proposal are based upon our best estimates of the cost of Project construction and Project mitigation. These are difficult economic times and the hospitals have a limited amount of money they can commit to providing benefits to the City, over and above what is a reasonable mitigation of impacts. We do not yet know precisely what will be required by the City as a “mitigation” nor whether the City will change its existing regulations to increase the cost of the hospitals’ project.

This proposal is based on the Development Agreement Conditions and Understandings set out below in the last part of this letter, as well as upon the following essential assumptions:
The Project is approved by the City substantially as described in the current version of the Project application and as presented to the Architectural Review Board, including the applicants’ proposed Comprehensive Plan amendments, zoning, jurisdictional boundary change, and architectural review approvals.

The City does not enact new regulations or modify existing regulations that would apply to the Project prior to approval of the Development Agreement.

The City does not impose, through the zoning ordinance, conditions of approval or other means, requirements other than those currently required by the City’s Municipal Code or those that constitute feasible mitigation measures that will reduce the Project’s significant environmental impacts.

The term of the Development Agreement will be for 30 years. Obligations in the Development Agreement that are for “the life of the Project” are for 51 years.

The following deal points are presented for consideration by City staff as the conceptual basis for a negotiated Development Agreement. Of course, these deals points can be changed at any time up and until the Development Agreement is final and signed by the parties.

**Health Care**

Health Care: Ongoing Direct and Indirect Hospitals Community Benefit. The Agreement will recognize that the most important community benefit will be the applicants’ investment in seismically safe, state-of-the-art facilities that will enable the hospitals to continue to provide high-quality patient care and the School of Medicine to perform research leading to ground breaking technologies and treatments.

Advancements in medicine that have taken place at the Stanford University Medical Center include pioneering achievements in transplantation medicine, advancements in cancer care through the introduction of the linear accelerator and the cyberknife, leadership in prenatal diagnosis and treatment, discovery of the protein that appears to be the root cure of type I diabetes, and discovery of the link between exercise and increased “good” cholesterol levels.

In addition to world-renowned medical breakthroughs, in 2007 the benefits provided by the hospitals equated to the following:

- 37,138 inpatients admitted
- 44,073 emergency department visits
- 5,432 babies delivered
• $252 million in uncompensated medical services, charity care, and community programs.

It is important to emphasize that the hospitals served more than two-thirds of the Palo Alto residents who required hospitalization in 2007. The addition of more beds for adults and children will alleviate overcrowding and allow the two hospitals to serve patients who currently must be turned away. In 2008, 924 patients could not be admitted to the hospitals because of a shortage of available beds.

The hospitals also provide the only Level 1 Trauma Center between San Francisco and San Jose. The Trauma Center and the Emergency Department ensure critical community emergency preparedness and response resources for the community in the event of an earthquake, pandemic, or other major disaster. The expansion of the Emergency Department and the associated facilities needed to support the ED services will solve the critical problem of a woefully undersized facility for the volume of people seeking care. In the last year, the Emergency Department had to be closed numerous times due to lack of facilities.

Health Care: Additional Offered Community Benefits. The hospitals propose to fund the following new programs specifically to benefit residents of Palo Alto. Each of these funding obligations will commence at issuance of the first grading permit for the Project.

• $3 million for in-patient and out-patient services at Stanford Hospital and Clinics and Lucile Packard Children’s Hospital for residents of Palo Alto who have a self-payment responsibility beyond their financial means. This program is additional to the hospitals’ charity policies. The hospitals will maintain and distribute this fund, with reporting to the City of Palo Alto when the fund is depleted. The reporting will be in a form that complies with all applicable privacy laws and policies.

• $4 million for community health programs within the City of Palo Alto, paid in equal annual amounts over 10 years to selected programs. The hospitals will work with a community advisory board to select the specific community health programs to receive funding. Examples of potentially eligible health programs and groups include the Mayview Health Clinic, health programs in the public schools, seniors health services provided by Avenidas and Lytton Gardens, psychiatric services at the Opportunity Center, programs for child and adolescent suicide prevention, Breast Cancer Connections, and health programs provided by Taube Koret Campus for Jewish Life, Abilities United, Palo Alto YMCA, and Children’s Health Council.
Palo Alto Fiscal Benefits

Palo Alto Fiscal Benefits: Direct and Indirect Hospitals Community Benefits. The hospitals provide a positive economic benefit to Palo Alto and the surrounding area. Project construction will provide additional jobs, increase spending, and bring immediate added revenues to the City of Palo Alto. The Fiscal Impact Report prepared by CBRE Consulting estimates that construction spending and associated use taxes will bring $8.3 million to the City's general fund as the Project is built out.

In addition, the hospitals will pay Community Facilities and Citywide Transportation Impact Fees as follows:

- $5.8 million in Community Facilities Fees for parks, community centers and libraries.
- $2.0 million in Citywide Transportation Impact Fees for public facilities and services that relieve citywide traffic congestion caused by new development projects, including advanced transportation management and information systems, expanded shuttle transit services, and bicycle and pedestrian improvements. The applicants will not seek credit against this fee for funding the improvements to transit, pedestrian and bicycle linkages described below.

Palo Alto Fiscal Benefits: Additional Offered Community Benefits. The hospitals propose to obtain a use tax direct payment permit from the State of California in order to increase, on an ongoing basis, the local tax allocation for the hospitals’ purchases. The hospitals will maintain the use tax direct payment permit for the life of the Project, assuming the State continues to administer the use tax direct payment permit program or a substantially equivalent program.

Reduced Vehicle Trips

Reduced Vehicle Trips: Direct and Indirect Hospitals Community Benefit. The hospitals provide a robust program to minimize commuting by way of drive-alone vehicles, which includes the following components:

- Incentives to refrain from driving or to participate in carpools, including payments to employees who agree not to drive to work of $282 in “Clean Air Cash” or other credit for participating in a carpool program, complimentary parking for carpools, reserved parking spaces for carpools and vanpools, online ride matching, pretax payroll deduction for transit passes, emergency rides home, free car rental vouchers, Zipcar car sharing credits, and other gifts and rewards.
Stanford University runs a free comprehensive Marguerite Shuttle system, supported by payments from the hospitals, that connects the hospitals to local transit, Caltrain, shopping and dining.

The hospitals provide an Eco Pass to their employees, which allows free use of VTA buses and light rail, the Dumbarton Express, the Highway 17 Express, and the Monterey-San Jose Express.

The hospitals provide free use of the U-Line Stanford Express that connects BART and the ACE train, and the Ardenwood Park & Ride to Stanford.

Stanford also provides an extensive transportation website, transit pass sales, alternative transportation information at new employee orientation, regular e-mail updates to Commute Club members and parking permit holders, one-on-one commute planning assistance, and a commute cost and carbon emissions calculator.

The hospitals also provide services to bicyclists, including maps, clothes lockers and showers, bike lockers, safety education, and commute planning.

As described above, in connection with this Project, the hospitals also will be paying $2 million in Citywide Transportation Impact Fees for public facilities and services that relieve citywide traffic congestion caused by new development projects, including advanced transportation management and information systems, expanded shuttle transit services, and bicycle and pedestrian improvements.

Reduced Vehicle Trips: Additional Offered Community Benefits. To further minimize commute trips in drive-alone vehicles, the hospitals propose to provide the following benefits for the life of the Project:

- The hospitals will purchase annual Caltrain Go Passes (free train passes) for all existing and new hospital employees who work more than 20 hours per week at a cost of up to $1.3 million per year, assuming Caltrain continues to offer the Go Pass program at its current cost (plus cost of living adjustments) or Caltrain offers a substantially equivalent program at approximately the same cost. While the hospitals cannot guarantee a specific level of Caltrain ridership, if Caltrain ridership by hospital employees reaches the same level as is being achieved currently by University employees, this program would result in offsetting all peak hour trips from the Project's new employment.
• The hospitals will fund expansion of increased Marguerite service to and from the train station to support GO Pass users by purchasing additional shuttles at a total capital cost of up to $2.0 million, and by funding annual operating costs of providing increased shuttle service in an amount of up to $450,000 per year in order to accommodate the increase in demand for shuttle services resulting from increased Caltrain ridership by hospital employees.

• The hospitals will provide an onsite Transportation Demand Management Coordinator

• The total value of these benefits over the life of the Project is $90.4 million.

**Linkages**

**Linkages: Additional Offered Community Benefits.** To further encourage use of Caltrain, bus and other transit services, and to enhance pedestrian and bicycle connections between the hospitals and downtown Palo Alto, the hospitals propose to fund the following improvements:

• $2.25 million for improvements to enhance the pedestrian and bicycle connection from the Palo Alto Intermodal Transit Center to the existing intersection at El Camino Real and Quarry Road, with up to $2.0 million of that amount going to the development of an attractive, landscaped passive park/green space with a clearly marked and lighted pedestrian pathway, benches, and flower borders. This amount will be paid to the City of Palo Alto upon issuance of the first grading permit for the Project, and the City will be responsible for constructing these improvements.

• $400,000 for improvements to the public right-of-way to enhance the pedestrian and bicycle connection from 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. This amount will be paid to the City of Palo Alto upon issuance of the first grading permit for the Project, and the City will be responsible for constructing these improvements.

• Up to $700,000 for improvements to enhance the pedestrian connection between the Medical Center and the Stanford Shopping Center going from Welch Road to Vineyard Lane, in the area
adjacent to the Stanford Barn. The hospitals will be responsible for constructing these improvements prior to Project completion.

**Housing**

**Housing: Additional Offered Community Benefits.** The Hospitals are exempt from the City’s housing impact requirements under Section 16.47 of the Palo Alto Municipal Code. Like other exempt entities (churches, schools and City facilities), hospitals provide needed services to the community, and therefore are not expected to also provide community services in the form of affordable housing. Nevertheless, in recognition of the relatively large number of jobs created by the Project, the need for City subsidies to entice affordable housing development, and the City’s stated desire to increase its affordable housing supply in Palo Alto, the hospitals propose to provide payment to the city’s housing fund in the amount of $23.1 million.

This amount is the same amount that a for-profit developer would pay under Municipal Code section 16.47, based on the City’s current in-lieu housing fee. The Agreement will provide that the portion of the fee that corresponds to each new structure will be due and payable prior to the issuance of the building permit by the City or OSHPD for that structure, and the amount of the fee will be calculated at the fee rate in effect on June 1, 2009.

**City Services**

**City Services: Direct and Indirect Hospitals Community Benefits.** The Fiscal Impact Report prepared by CBRE Consulting concludes that revenues generated by the Project will more than offset the City’s on-going cost of providing services.

**School Fees**

**School Fees: Direct and Indirect Hospitals Community Benefits.** The hospitals will pay School Fees to the Palo Alto Unified School District in the amount of $616,413, based upon the currently applicable School Fee. The applicable fee for each new or expanded building will be due and payable prior to receiving a building permit from the City of Palo Alto. The hospitals propose that, for buildings subject to OSHPD jurisdiction, school fees will be due within five days of issuance of a building permit from OSHPD.
Development Agreement
Conditions and Understandings

The proposal is based on our understanding that the Development Agreement will apply only to development of the Project, and not to any other property owned by Stanford or any other project proposed by the hospitals or Stanford. In addition, we have base our proposal on the following anticipated benefits of entering into a Development Agreement:

Project Approvals, City Regulations

The Agreement will vest the applicants' right to construct, use and occupy the Project in accordance with (a) approvals for the Project granted by the City, specified in the Agreement and acceptable to the hospitals and Stanford, including amendments to the Comprehensive Plan and zoning ordinance, a jurisdictional boundary change, and architectural review approval (collectively "Project Approvals"); (b) the ordinances, rules, regulations, and official policies of the City in force and effect on June 1, 2009 as modified by the Project Approvals ("City Regulations") and such other ministerial and discretionary approvals that are necessary or desirable for the economic and efficient construction, use and occupancy of the Project that may be granted subsequent to the execution of this Agreement ("Subsequent Approvals"). Through incorporation of the Project Approvals, the Agreement will specify the permitted uses of the property, the density or intensity of use, the maximum height and size of proposed buildings, and provisions (if any) for reservation or dedication of land for public purposes.

The City will agree to grant all Subsequent Approvals, whether ministerial or discretionary, subject only to its reasonable determination that the application for the requested Subsequent Approval is complete and consistent with the Project Approvals, City Regulations, and any new City rules, regulations, and policies which do not conflict with the Project Approvals and City Regulations. The City will agree not to impose any requirement or condition on Subsequent Approvals or development or operation of the Project other than those required by the Project Approvals, City Regulations, and any new City rules, regulations, and policies which do not conflict with the Project Approvals and City Regulations. The Agreement will provide that the parties will cooperate and diligently work to implement all Project Approvals and to expeditiously review and act upon all requests for Subsequent Approvals. From and after approval, each Subsequent Approval shall be vested under this Agreement to the same extent as the Project Approvals.
**Project Design**

The Agreement will include the Design Guidelines for the Project as an attachment. For those portions of the Project that have not yet received architectural review approval by the time the City approves the Development Agreement, the Design Guidelines will be the exclusive design criteria applicable to the Project components, and the exercise of the City’s architectural review discretion will be limited to determining whether a proposal is substantially consistent with the Design Guidelines. If architectural review approval or any other type of site or design approval is needed for Subsequent Approvals, the decisions shall be made by the Director of Planning and Community Environment, after recommendation by the Architectural Review Board, subject only to appeal to the City Council (pursuant to Section 18.77.070 of the Municipal Code).

**Public Improvements, Fees and Exactions**

The Agreement will describe the public improvements (if any), fees, dedications and exactions required by the Project Approvals or otherwise required under the Development Agreement, and the Agreement will provide that no other public improvements, fees, dedications or exactions will be required.

**Inspections**

The Agreement will describe protocols and procedures for Subsequent Approvals and inspections, including agreed upon turn around times.

**Phasing Schedule**

*Phasing Schedule*: The Agreement will confirm that the applicants are not required to initiate or complete development of the Project, or any portion thereof, or to initiate or complete the Project components within any period of time or in any particular order. The Agreement will acknowledge that the applicants may develop the Project components in such order and at such rate and times as they deem appropriate within the exercise of their sole and subjective business judgment. The applicants also may choose, in their discretion, to phase the Project.
Project Modification

The Agreement will provide a process and standard of review for future City consideration of applicant-proposed modifications to the Project, including to Project phasing if the applicants so choose, with the objective of expedited review of project modifications and City approval of such modifications if no new or substantially more severe environmental impacts would result.

No Moratorium

The Agreement will provide that neither the right to develop nor the timing of development will be affected or limited by a phasing schedule, growth control ordinance, moratorium or suspension of rights, whether adopted by the City Council or a vote of the citizens through the initiative process except as required by supervening federal or state law, order, rule or regulation. If a moratorium negatively affects timing of the Project, the applicants may elect to extend the term of the Development Agreement for the duration of the moratorium plus ten years.

Term of Agreement

The term of the Agreement will commence as of the Effective Date and continue 30 years from the Effective Date, or until earlier terminated by mutual consent of the parties, except as to those obligations that expressly extend for the life of the Project, which is defined to be 51 years.

Other

The Agreement will include provisions addressing annual review, amendment, dispute resolution, remedies and notices.

Thank you for considering our proposal. We look forward to discussing these terms with you during the next few weeks.

Sincerely,

Michael J. Peterson
Vice President, Special Projects
Stanford Hospital & Clinics