TO:    HONORABLE CITY COUNCIL

ATTN:    FINANCE COMMITTEE

FROM:    CITY MANAGER    DEPARTMENT: CITY MANAGER

DATE:    APRIL 6, 2010    CMR: 197:10

SUBJECT:    Review of the Stanford University Medical Center Facilities Renewal and Replacement Project Development Agreement Proposal and City’s Preliminary Counter Offer

RECOMMENDATION
Staff recommends that the City Council review and comment on the Stanford University Medical Center (SUMC) proposed Development Agreement Proposal and the City’s preliminary counter offer.

BACKGROUND
The Stanford University Medical Center (SUMC) comprises the general area between Sand Hill Road, Vineyard Lane, Quarry Road, Pasteur Drive, and including Welch Road and Blake Wilbur Drive. The Project applicant is proposing the demolition of the existing Stanford Hospital and Clinics (SHC) at 300 Pasteur Drive, construction of a new hospital building, renovation and expansion of the Lucile Packard Children’s Hospital (LPCH), reconstruction of the School of Medicine (SoM) facilities, and construction of a new medical office building near Hoover Pavilion to meet State mandated seismic safety standards (SB 1953) and to address capacity issues, changing patient needs and modernization requirements. SB 1953 requires hospitals to retrofit or replace noncompliant facilities by January 1, 2013, but Stanford has requested a two year extension pursuant to SB 1661 from the Office of Statewide Planning and Health (OSHPOD), the California State agency that has jurisdiction over hospitals.

The renovation and expansion project, which would be constructed over a 15-year horizon, would result in a new increase of approximately 1.3 million square feet of hospital, clinic, and office space. The following entitlements are anticipated:

- Certification of an Environmental Impact Report
- Comprehensive Plan amendments to:
  - Change 701 and 703 Welch Road and a small portion of Santa Clara County land on Welch Road proposed to be annexed “Major Institutional/Special Facilities” land use designation.
  - Amend Program L-3 to revise the citywide 50-foot height limit to allow exceptions for taller buildings within the proposed “Hospital District.”
  - Amend Policy L-8 to clarify that the hospital and treatment uses are exempt from the development cap.
- Zoning Code and Map amendments to:
  - Create a new “Hospital Zone.”
Permit limited heritage tree removals
- Pre-zone the site to be annexed to the City to the new “Hospital Zone.”
- Annex the small parcel described above.
- ARB review of the Stanford Hospital Clinics (SHC), LPCH, Foundations in Medicine (FIM1), medical office building at Hoover Pavilion, and Design Guidelines.
- Conditional Use Permit
- Development Agreement

The Project applicant has submitted eight substantive project amendments with the most recent amendment submitted on March 8, 2010. Since the Project was first submitted to the City, SUMC has made changes based upon Staff analysis and ARB, Planning and Transportation Commission and City Council input. These changes include modifications to site planning and building massing; revisions to the location of parking garages and site access for automobiles; refinements to the pedestrian and bicycle network to promote stronger linkages and connections; and changes to building placement and design to protect significant oak tree specimens. As part of the entitlement process for the project the City and SUMC have agreed to complete a Fiscal Impact Analysis. A companion staff report (CMR: 196:10) details the fiscal findings.

A Draft Environmental Impact Report is expected to be released in early May for public comments. A summary of the major impacts and mitigations is contained in CMR 453:09. (Attachment C.)

DISCUSSION
Development Agreement Negotiations
Stanford is seeking a Development Agreement which will lock in the proposed zoning regulations for a specified period of time. Development Agreements are negotiated contracts between the applicant and City. Developers typically apply for a Development Agreement to ensure that local regulations will not change over time and to help secure financing for large-scale projects. In exchange, local governments negotiate an acceptable “community benefit package.” Since they are the product of voluntary negotiations rather than a unilateral imposition by the local government, community benefits under a Development Agreement are typically broader than EIR mitigation measures and project conditions of approval. As such, community benefits are not legally required to have the same rigorous nexus as mitigation measures or development conditions. A Development Agreement is a legislative action and may be subject to referendum. See Attachment D for more detail on these different entitlements.

On June 15, 2009, the City received a Development Agreement proposal from Stanford (Attachment A). Stanford proposed a 30-year Development Agreement with some terms extending to 51 years. The proposed agreement focuses on the following major categories of community benefits: (1) health care, (2) fiscal benefits, (3) reduced vehicle trips, (4) bicycle linkages, and (5) housing. The proposal noted that the most important community benefit would be the applicants’ investment in seismically safe, state of the art facilities that would enable the hospitals to continue to provide high quality patient care. In addition, Stanford also offered some additional community benefits, including the following significant proposals:
1. Establishment of two new programs for the exclusive benefit of residents: a $3 million fund to assist qualified low-income residents and a $4 million fund to subsidize community health programs within Palo Alto.

2. Construction spending and associated use taxes of $8.3 million and provisions to obtain a use tax direct payment permit that will generate approximately $26,000 annually.

3. Purchase of Caltrain Go Passes for all SUMC employees at an estimated annual cost of $1.3 million. (Currently only Stanford University employees are entitled to this benefit.)

4. Expansion of the Marguerite service by purchasing additional shuttles in the amount of $2 million and by funding additional annual operating costs of $450,000.

5. Funding a range of improvements to encourage use of transit and enhance pedestrian and bicycle connections between the hospitals and downtown: $2.25 million for pedestrian and bicycle connections around the Intermodal Transit Center; $400,000 for right of way improvements along Quarry Road; and $700,000 for a pedestrian connection between the Medical Center and Shopping Center (Stanford Barn area).

6. Payment of housing in-lieu fees in the amount of $23.1 million which is equivalent to what a commercial project would pay.

Staff believes Stanford’s proposal is substantive and responsive to many project impacts. The proposal focuses on the key areas of concern raised by the Planning and Transportation Commission, the City Council, and the community. However, it is also important to note that with a project of this magnitude many of their proposed community benefits would typically be imposed as conditions of approval or EIR mitigation measures.

Staff has had ongoing negotiation sessions with Stanford representatives and as part of the preliminary negotiations staff has developed the following guiding principles for discussions:

1. Minimize fiscal impacts to the City. Ensure that the project does not have a negative fiscal impact on the City through focusing, among other things, on revenue guarantees and robust analysis of long term project expenses.

2. Require project mitigation. Ensure that zoning ordinance and Conditions of Approval adequately address all project mitigations. Ensure that the General Fund is not unfairly burdened with long term impacts of project.

3. Preserve community health care. Ensure that local benefits of hospital and clinics will be retained, despite transition towards world class hospital status.

4. Enhance City infrastructure. Recognize mutual interest in preserving high standard of economic and community vitality. Partner with Stanford to fund the long-term infrastructure needs of the community (capital programs, housing, transportation, broadband).

Based on these guiding principles, staff recommends that Stanford’s June 15, 2009 Development Agreement offer be supplemented with the Development Agreement Terms listed below. Note that these items are staff recommendations and any final Term Sheet is subject to Council approval. The purpose of developing preliminary deal terms at this stage of the process is to assure adequate coverage, where applicable, by the DEIR and Final EIR. Development
Agreement terms will be developed and negotiated following release of the DEIR review process and Council and the public will be provided additional opportunities to comment in detail on both the high level community benefit priorities as well as the specific deal terms.

**Supplemental Development Agreement Terms**

**A. Health Care**
- Extend financial assistance subsidy to qualifying residents ($3 Million) from 10 years to life of Development Agreement
- Extend community health programs payment ($4 Million) from 10 years to life of Development Agreement
- Continue appropriate hospital privileges for community practitioners
- Continue SUMC’s current community health/wellness/disease prevention programs
- Capital funds co-located Emergency Operations Center (EOC) facility in new buildings within Palo Alto
- Explore innovative health care initiative/partnership in area of broadband/fiber to the premises

**B. Fiscal**
- Ensure project is at least cost neutral by guaranteeing revenue projections to offset expenditures, funding extra public safety FTE’s and fully funding mitigations
- Payment in lieu of property tax

**C. Transportation**
- Explore re-defining TDM program (GO Pass) and re-directing funds toward expanded shuttle program and other citywide infrastructure improvements. See G below.

**D. Pedestrian and Bicycle Linkages Benefit**
- Note: These items will be covered as project mitigations.

**E. Housing Benefit**
- Note: Hospital zone will include additional measures to address jobs/housing impact identified in the EIR

**F. School Fees Benefit (PAUSD)**
- Work with School District and City to minimize impacts to schools

**G. Economic and Community Vitality**
- Contribute $30 Million to help fund needed Citywide Infrastructure such as Public Safety Building, EOC, roadways and expanded shuttle programs

A complete copy of the Preliminary Counter Proposal Term Sheet is attached as Attachment B.
The City’s Counter Proposal seeks to distinguish between those elements in the proposal which can be imposed as mitigation measures and those which are more properly characterized as community benefits. Also, the City’s preliminary counter proposal increases and spreads the health care benefits through the entire time horizon of the Development Agreement. In addition, the City’s preliminary counter proposal focuses on a one time contribution to improving citywide infrastructure. As the hospital project is largely exempt from property taxes and has a nominal retail component, a sizable contribution to the General Fund earmarked for infrastructure will enhance the economic vitality of the project. An investment in citywide infrastructure not only benefits both parties to the Development Agreement, but also benefits the school district, the University and the Research Park. It should be noted that staff is amenable to shifting some of the funds Stanford has already proposed in their community benefit package (such as the Go Pass) towards other infrastructure programs that have more citywide benefit. However, Stanford will still be expected to mitigate project identified impacts albeit in a more cost effective manner.

NEXT STEPS
Given the significance of this project, staff will present this report to the Policy and Services on April 13, 2010 for further feedback and will submit it to the full Council for additional discussion and possible action on May 10, 2010.

SCHEDULE
A project schedule flow chart is contained in Attachment E.

ENVIRONMENTAL REVIEW
The City is preparing an Environmental Impact Report for this project.

PREPARED BY:  
STEVE Emslie  
Deputy City Manager

CITY MANAGER APPROVAL:  
James Keene  
City Manager

ATTACHMENTS
Attachment A: Draft Development Agreement Proposal from Stanford University
Attachment B: Preliminary City Development Agreement Counter Proposal
Attachment C: CMR 453:09
Attachment D: Comparison of Land Use Entitlements
Attachment E: Project Schedule Flow Chart
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
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 I Trauma Center between San Francisco and San Jose. The Trauma Center and the Emergency Department ensure critical 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, and 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 Marguerite service 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.

City Services: Additional Offered Community Benefits. To further support the provision of City services, the hospitals propose to provide $70,000 in funding for a jurisdiction-wide Standard of Service Fire Study. This funding will be provided to the Palo Alto Fire Department prior to issuance of the first grading permit for the Project.

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.

Michael J. Peterson
Vice President, Special Projects
Stanford Hospital & Clinics
Stanford University Medical Center
Development Agreement Negotiations
Preliminary Counter Proposal Term Sheet
Updated March 29, 2010

Introduction: Staff recommends that Stanford's June 15, 2009 Development Agreement offer be supplemented with the Development Agreement Terms listed below. Note that the below items are staff recommendations and any final Term Sheet is subject to Council approval. Approval of a Development Agreement is a legislative action subject to CEQA review. The purpose of now developing deal terms is to assure adequate coverage, where applicable, by the DEIR and Final EIR.

Guiding Principles: Staff has developed the following guiding principles in approaching the preliminary negotiations:

1. Minimize fiscal impacts to City. Ensure that the project does not have a negative fiscal impact on the City through focusing, among other things, on revenue guarantees and robust analysis of long term project expenses.

2. Require project mitigation. Ensure that zoning ordinance and Conditions of Approval adequately address all project mitigations. Ensure that General Fund is not unfairly burdened with long term impacts of project.

3. Preserve community health care. Ensure that local benefits of hospital and clinics will be retained, despite transition towards world class hospital status.

4. Enhance City infrastructure. Recognize mutual interest in preserving high standard of economic and community vitality. Partner with Stanford to fund long term infrastructure needs of community (capital programs, housing, transportation, broadband).

Supplemental Development Agreement Terms

A. Health Care
   • Extend financial assistance subsidy to qualifying residents ($3 Million) from 10 years to life of DA
   • Extend community health programs payment ($4 Million) from 10 years to life of DA
   • Continue appropriate hospital privileges for community practitioners
   • Continue SUMC's current community health/wellness/disease prevention programs
   • Fund co-located EOC facility in new buildings within Palo Alto
B. Fiscal

- Explore innovative health care initiative/partnership in area of broadband/fiber to the premises
- Ensure project is at least cost neutral by guaranteeing revenue projections to offset expenditures, funding extra public safety FTE's and fully funding mitigations
- Payment in lieu of property tax

C. Transportation Mitigation

- Explore re-defining TDM program (GO Pass) and re-directing funds toward expanded shuttle program and other citywide infrastructure improvements. See G below.

D. Pedestrian and Bicycle Linkages Benefit

- Note: These items will be covered as project mitigations.

E. Housing Benefit

- Note: Hospital zone will include additional measures to address jobs/housing impact identified in the EIR

F. School Fees Benefit (PAUSD)

- Work with School District and City to minimize impacts to schools

G. Economic and Community Vitality

- Contribute $30 Million to fund needed Citywide Infrastructure such as Public Safety Building, EOC, and expanded shuttle programs
TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT
DATE: DECEMBER 7, 2009
REPORT TYPE: STUDY SESSION
SUBJECT: Review of the Stanford University Medical Center Facilities Renewal and Replacement Project

EXECUTIVE SUMMARY
Staff will provide an update to the City Council of progress regarding the Stanford University Medical Center (SUMC) project, particularly the Environmental Impact Report (EIR) preparation and the Development Agreement discussions. The City contracted with the environmental consulting firm PBS&J to prepare a joint EIR for the SUMC Facilities Renewal and Replacement Project (Project) and Simon Properties - Stanford Shopping Center Expansion Project. In April of 2009, Simon Properties formally withdrew their request for the Stanford Shopping Center Expansion Project.

Over the past several months, staff has been working with the environmental consultant to extract the Shopping Center Project from the environmental analysis. This involved updating most sections of the EIR and updating the City’s traffic model.

In June 2009 Stanford provided the City with a Development Agreement proposal. Representatives from Stanford and the City have initiated discussions about the draft business terms of the Development Agreement.

RECOMMENDATION
The purpose of this Study Session is to provide the City Council with an overview of the EIR and the status of the Development Agreement negotiations and allow for Council comment. The current City Council has provided substantial input and direction to Staff and the applicants throughout the review period of the project. This session is an opportunity for this City Council to provide their additional Project comments before the new City Council is seated in January.

BACKGROUND
The Stanford University Medical Center comprises the general area between Sand Hill Road, Vineyard Lane, Quarry Road, Pasteur Drive, and including Welch Road and Blake Wilbur Drive. The Project applicant is proposing the demolition of the existing Stanford Hospital and Clinics (SHC) at 300 Pasteur Drive, construction of a new hospital building, renovation and expansion
of the Lucile Packard Children’s Hospital (LPCH), reconstruction of the School of Medicine (SoM) facilities, and construction of a new medical office building near Hoover Pavilion to meet State mandated seismic safety standards (SB 1953) and to address capacity issues, changing patient needs and modernization requirements. SB 1953 requires hospitals to retrofit or replace noncompliant facilities by January 1, 2013. There have been some legislative attempts to extend this deadline and Stanford has received a partial concession from OSHPD to receive early plan review.

The renovation and expansion project, which would be constructed over a 15-year horizon, would result in a new increase of approximately 1.3 million square feet of hospital, clinic, and office space. The Project includes a request for the following entitlements:

- **Comprehensive Plan amendments to:**
  - Change 701, 703 Welch Road and a small portion of Santa Clara County land on Welch Road proposed to be annexed “Major Institutional/Special Facilities” land use designation.
  - Amend Program L-3 to revise the Citywide 50-foot height limit to allow exceptions for taller buildings within the proposed “Hospital District.”
  - Amend Policy L-8 to clarify that the hospital and treatment uses are exempt from the development cap.

- **Zoning Code and Map amendments to:**
  - Create a new “Hospital Zone.”
  - Rezone 701 and 703 Welch Road from MOR to the new “Hospital Zone.”
  - Prezone the site to be annexed to the City to the new “Hospital Zone.”

- Annex the small parcel described above.
- ARB review of the SHC, LPCH, FIM1, medical office building at Hoover Pavilion, and Design Guidelines.
- Development Agreement
- Certification of an Environmental Impact Report

The Project applicant has submitted seven substantive project amendments with the most recent amendment submitted on June 2, 2009. Since the Project was first submitted to the City, SUMC has made changes based upon Staff analysis and ARB, Planning and Transportation Commission and City Council input. These changes include significant modifications to site planning and building massing, revisions to the location of parking garages and site access for automobiles, refinements to the pedestrian and bicycle network to promote stronger linkages and connections, and changes to building placement and design to protect significant oak tree specimens.

**DISCUSSION**

**Environmental Impact Report**

The EIR will address the potential environmental effects of the construction and operation of the Stanford University Medical Center Facilities Renewal and Replacement Project. The Project would demolish and replace on-site structures, adding approximately 1.3 million square feet of net new floor area.
The following is a summary of the key EIR sections and possible mitigation measures.

**Land Use**
EIR analyses of land use and planning generally consider the compatibility of a project with neighboring areas, change to or displacement of existing uses, and consistency of a project with relevant local land use policies that have been adopted with the intent to mitigate or avoid an environmental effect. With respect to land use conflicts or compatibility issues, the magnitude of these impacts depends on how a project affects the existing development pattern, development intensity, traffic circulation, noise, and visual setting in the immediately surrounding area.

Comprehensive Plan Policy (L-8) addresses growth in non-residential square footage for nine planning areas evaluated in the 1989 Citywide Land Use and Transportation Study. The City has initiated a Comprehensive Plan amendment to provide clarification of this policy. City staff will recommend that the policy should not limit growth of hospital and treatment center uses. If adopted by the City Council, the amendment will modify the text of the Policy to clarify that such uses are exempt under this policy. Text modifications to the Comprehensive Plan are also proposed to clarify proposed building height exceptions within the proposed hospital zone district (discussed below). Following adoption of the proposed amendments, the Project would not conflict with any Comprehensive Plan policies.

To address zoning issues, the Project sponsors propose creation of a new zoning district that could be applied by the City to land used specifically for hospitals and clinics, associated medical research, medical office, and support uses. The new “Hospital Zone” would include development standards that accommodate the Project.

**Visual Quality**
This section of the EIR will discuss how development of the Project would affect the existing visual quality in the Project Area and its vicinity. Visual quality pertains to how people see and experience the environment, particularly its visual character. Visual character consists of spatial and scale relationships, and the line, form, color, and texture of an area’s natural features and man-made elements. Natural features include landforms, street trees, rock outcrops, vegetation, and water bodies. Man-made elements include buildings, structures, parking areas, roads, roadway interchanges and overpasses, above ground utilities, signs, and lighting fixtures. Full buildout conditions will be depicted through visual simulations prepared by William Kanemoto and Associates.

The Project may degrade the existing visual character and quality of the SUMC Sites during construction. Possible mitigation measures could be to aesthetically improve portions of the project site that would remain unimproved for an extended period and screen the construction zone from view by passersby along the public streets and sidewalks, conceal staging areas with fencing and remove construction debris and refuse would reduce visual impacts during construction to less than significant.

The analysis also considers if the Project would substantially degrade the existing visual character or quality of the SUMC Site and its surroundings, and alter public viewsheds, view corridors or scenic resources. Given the size and scope of the Project it is likely that there would
be visual character or quality impacts. Architectural Review of the Project would consider among other factors, whether the Project has a coherent composition, and whether its bulk and mass are harmonious with surrounding development. Architectural Review approval cannot be granted unless the Project meets stringent criteria, including a finding of consistency with the sixteen Architectural Review Board (ARB) findings. Compliance with the ARB findings and Comprehensive Plan visual quality policies would typically reduce impacts to a less than significant level.

**Transportation**

This section of the EIR will evaluate the potential transportation impacts resulting from construction and operation of the Project. Potential impacts include the addition of project related pedestrian, bicycle, transit, and auto trips to the surrounding transportation system, resulting in an increase in traffic which is substantial in relation to the existing traffic load and capacity of the street system; exceed either individually or cumulatively a level of service standard established by the county congestion management agency for designated roads or highways; result in a change in air traffic patterns; substantially increase hazards due to a design feature or incompatible uses; result in inadequate emergency access; result in inadequate parking capacity; or conflict with adopted policies, plans, or programs supporting alternative transportation.

The basis for the traffic analysis will be the revised citywide transportation model that was originally developed in 1996 and last updated in 2008. The purpose of the model is to accurately forecast demand for travel by vehicles, and conforms to upgraded modeling methodologies adopted regionally. The citywide transportation model has been updated to account for changes in Palo Alto demography, street network, transit services, and land use patterns.

The Santa Clara Valley Transportation Authority (VTA) travel demand model formed the basis for the City's model, using 2005 Association of Bay Area Government (ABAG) projections for growth. The traffic conditions of the C/CAG (City/County Association of Governments of San Mateo County) were investigated for the study area and reviewed by the City and the project team. The Santa Clara Valley Transportation Authority (VTA) travel demand model growth estimates were modified to an average 1.6% annual traffic growth through 2025. The City model was initially developed without constrained volumes in the Palo Alto area. The City model was then constrained at four identified locations (Sand Hill/I-280, El Camino Real/San Antonio, El Camino Real/Sand Hill, Middlefield/San Antonio) based on those roadway capacities and VTA travel demand growth rates. The traffic volumes at the freeways were constrained to their capacities. The model results were reviewed and refined several times by the City to calibrate intersection turning movement counts for both A.M. and P.M. peak hour, link and intersection turning movement volumes of years 2006, 2015, and 2025 for both A.M. and P.M. peak hour, and 66 study intersections with turning movement volumes.

Recent updates to the Palo Alto model have resulted in a more accurate tool to analyze traffic within Palo Alto as compared with other adjacent and nearby cities. The limitations of the Palo Alto model are evident as when the analysis reflects traffic volumes entering Palo Alto from other jurisdictions. The result is that more traffic would enter Palo Alto through the roadway gateways than what would be expected due to intersection capacity constraints. Concerns have
been raised with the traffic model’s regional growth assumptions. To address this, the model has been modified to constrain additional gateways in addition to the four gateways mentioned above (for a total of 11 constrained intersections), to limit traffic entering the City during peak hours. Post-processing the model will also look at the trips and spread some trips beyond the peak hour and/or be transferred to other roadways. The process of constraining gateways is commonly practiced to more precisely address these variables. The VTA has previously accepted these adjustments to address model limitations.

Some possible mitigation measures include: Participation in region-wide commute incentive programs, construction/improvement of bicycle lanes and pedestrian crossings, expansion of the City shuttle program, adjustment of traffic lanes, and signal timing adjustments. The EIR is also evaluating the potential for CalTrain Go Pass use and remote parking as a potential mitigation. The City Council has historically not approved physical widening of traffic lanes or physical increases to intersections to accommodate increased traffic. These types of mitigations are not expected to be recommended in the EIR.

A revised Traffic Impact Analysis is tentatively scheduled to be reviewed by the Planning and Transportation Commission (Commission) and City Council prior to the release of the Draft EIR.

Air Quality
This section of the EIR will evaluate the potential impacts on air quality resulting from construction and operation of the proposed Project. Possible air quality impacts could result from construction activities, emergency generator testing and operation, increased vehicular traffic to the hospital, and other stationary source emissions.

Possible mitigations include the development and approval of a construction management plan to limit the operation or machinery and control on-site dust, limits on the testing on generators, and similar practices.

Climate Change
It is recognized that anthropogenic (human caused) emissions of greenhouse gases and aerosols are contributing to changes in the global climate, and that such changes are having and will have adverse effects on the environment, the economy, and public health. These are cumulative effects of past, present, and future actions worldwide.

Pursuant to SB 97, the State Secretary for Natural Resources is in the process of promulgating thresholds of significance for assessing greenhouse gases. The Governor’s office of Planning and Research (OPR) has recommended guidelines for assessing the significance of the project’s impact on greenhouse gases; and it is expected that the Secretary will formally adopt such guidelines by January 2010. While OPR’s suggested guidelines have not been formally adopted, in anticipation of their adoption the EIR applies the guidelines for assessing the greenhouse gas impacts of the project. The OPR recommended guidelines provide that a lead agency should make a good-faith effort, based on available information, to describe, calculate or estimate the amount of greenhouse gas emissions resulting from a project. In making this assessment the agency may consider “[t]he extent to which the project complies with regulations or requirements adopted to implement a statewide, regional, or local plan for the reduction or
mitigation of greenhouse gas emissions.” In accordance with these draft guidelines, the EIR will assess how the Project complies with the City adopted Climate Protection Plan.

During buildout and operation of the Project, greenhouse gases would be emitted as the result of construction activities and deliveries; new direct operational sources, such as operation of emergency generators, natural gas usage, medical nitrous oxide usage, and operation of fleet vehicles and helicopters; and indirect operational sources, such as production of electricity, steam and chilled water, transport of water, and decomposition of project-related wastes. The EIR will discuss how the development proposed under the Project would contribute to emissions of greenhouse gases.

For the EIR, emissions from sources such as construction, vehicles, energy consumption, and solid waste generation will be inventoried and discussed quantitatively and qualitatively. Emissions associated with the water supply and wastewater treatment will also be discussed. The Project could result in a cumulatively considerable contribution to significant climate change effects if they would fail to further the goals and policies established in the City’s Climate Protection Plan.

The City’s Climate Protection Plan provides a roadmap that the City of Palo Alto will follow in complying with (or exceeding) the State of California’s greenhouse gas emissions goals. While the City has not mandated specific measures for individual private projects, its goals and policies are a useful tool for evaluating whether an individual project would do its part to minimize its contribution to emissions of greenhouse gases. The City recognizes that meeting the State’s goals will require both substantial reductions in emissions from existing sources, and reductions in emissions from new sources compared to a “business as usual” standard. A project that furthers the City’s Climate Protection Plan policies would be a project that minimizes its emissions of greenhouse gases by including design features and commitments that implement the relevant policies of the Climate Protection Plan and which mitigate wherever possible, increased emissions.

Project design features may be considered to mitigate greenhouse gases. Mitigation may also include participation or compliance with a plan or mitigation program that would reduce greenhouse gas emissions. A series of conservation measures are being explored, including: energy efficient building designs, preferential purchasing of recycled content material and extensive recycling programs, consideration of the GO Pass for all eligible hospital employees, expansion of the Marguerite Shuttle service, green building practices to optimize shading, daylighting and natural ventilation and the use of sustainable building materials.

Noise
This section of the EIR will evaluate the potential for noise and ground-borne vibration impacts resulting from implementation of the Project. Projected increases in noise levels in the Project Area can be expected from additional traffic, increased medical helicopter flights associated with the Project, new mechanical systems installed at the new facilities, and construction activities. These noise sources are evaluated to determine whether they would cause a substantial temporary and/or permanent increase in ambient noise levels in the vicinity of the Project Area; exposure of people to excessive noise levels or ground-borne vibration; and/or exceedances of
standards established in the City of Palo Alto Comprehensive Plan, or any other applicable standards.

Implementation of Best Management practices to reduce construction noise would help reduce construction related noise impacts. Special demolition and construction requirements would help reduce vibration impacts on Hoover Pavilion.

Cultural Resources
This section of the EIR will assess the Project’s potential impacts on cultural and paleontological resources. Cultural resources are commonly classified in three categories: (1) prehistoric resources, (2) historical resources, and (3) Native American resources. Historical resources can include buildings, structures, objects, or sites.

The Project could have a significant impact on two identified historical resources -- the Hoover Pavilion and the Main Medical Center Complex designed by Edward Durell Stone with landscaping designed by Thomas Church. Implementation of mitigation measures such as establishing a protective zone around the Hoover Pavilion during construction and demolition would reduce potential vibration and construction-related impacts to the Hoover Pavilion.

The Stone Building (Main Hospital), the location of the first North American heart transplant, is proposed to be demolished. Mitigation measures that could reduce this impact include preparation of documentation using the National Park Services’ Historic American Building Surveys Level III Guidelines for each of the buildings in the Stone Building complex prior to demolition of each building that comprises this historic resource (East, West, Core, Boswell, Edwards, Lane, Always, and Grant). In addition, site-specific history and appropriate contextual information regarding the Stone Building complex to focus on the reasons for the buildings’ significance: the groundbreaking heart transplantation program and the role of E.D. Stone in the design of the complex. This would include: architectural descriptions of the major exterior features and public rooms within the Stone Building complex as well as descriptions of typical patient, office, laboratory and operating rooms; photographic documentation of the interior and exterior of the Stone Building complex and Thomas Church designed landscape features; and distribution of written and photographic documentation to agencies and the preparation of permanent interpretive displays/signage/plaques. Because none of these mitigation measures would completely mitigate this impact an Historic Preservation alternative is also analyzed (see Alternatives section below).

Biological Resources
This section addresses potential effects on existing biological resources, which are special-status plant and animal species within the Project Area. Biological characteristics, such as habitat types and plant and animal species present, will be described in the EIR based on federal, State and local regulations using site-specific information developed for the Project from published technical information, consultant analyses and on-site surveys.

The Project could have a significant impact on protected oak and redwood tree species within the Project area. Potential mitigation measures would require avoidance of tree removal, design modifications to allow adequate soil and solar access during construction, and site-specific
preservation measures. If avoidance measures cannot be achieved, and protected trees are removed, not retained, or relocated, then the Project could result in a significant and unavoidable impact. Because it is unlikely that avoidance measures can be fully implemented to the extent that all protected trees to be removed would be replaced or relocated, impacts would be conservatively assumed to be significant and unavoidable. In response, Stanford has prepared an Alternative to be studied in the EIR that shifts the SHC and one of the SoM building (FIM1) footprints around to avoid significant oak trees. (See Alternative section below.)

**Geology, Soils, and Seismicity**

Geology, soils, and seismicity conditions are important aspects of all development projects in the San Francisco Bay Area. Although most projects have little or no effect on geology, any project involving construction would have some effect on soils and topography, and all projects may be affected by certain geologic events, such as earthquakes or landslides. Protection from the effects of geologic events is provided through existing building codes and construction standards, land use policies, and State and local regulations.

Because one of the major effects of loss of topsoil is sedimentation in receiving waters, erosion control standards are set by the State Water Quality Control Board through administration of the NPDES permit process for storm drainage discharge. Erosion and sedimentation issues are addressed in Hydrology because they are primarily related to turbidity and other depositional effects in local and regional water bodies.

**Hydrology**

This section describes the hydrology and water quality conditions present at the Project Area including surface and groundwater resources. This section evaluates whether the Project could affect storm drainage and streams, as well as local groundwater resources in the area. Potential impacts expanded upon in this EIR section are ground and surface water quality degradation during construction and operation, flooding and drainage, and loss of groundwater recharge.

The Project could have a significant impact on groundwater quality during construction. Mitigation measures would be required to prevent construction site run-on and direct infiltration to reduce this impact to less than significant.

**Hazardous Materials**

This section provides an analysis of the potential for the Project to expose persons or the environment to hazardous materials. Potential environmental impacts can be associated with the potential disturbance of contaminated soils or groundwater, if present in the Project Area, as well as risk of spills from increased future use disposal, and transport of hazardous materials and hazardous wastes associated with project construction or operation. Specific topics presented in this section include the types of hazardous materials that would be handled and hazardous wastes that would be generated, known on-site contamination from historic uses, the regulatory setting applicable to such activities, and applicable health and safety policies and procedures.

**Population and Housing**

This section documents the existing population, housing, and employment conditions in the City of Palo Alto and estimates changes in current conditions that could result from implementation
of the Project. Demographic changes in population and employment that would result from development of the Project are not intrinsically physical environmental impacts. However, environmental effects associated with increased population or daytime employment, such as increased traffic, traffic-generated air quality and noise concerns, increased demands on public services and utilities, and growth inducement could result from population growth. The impacts associated with population growth are addressed separately in various sections of this EIR. The City's significance criteria treat substantial population growth and increases in the jobs to housing ratio as significant environmental effects in order to ensure the effects of such growth are analyzed.

The Project, as proposed, would not directly result in substantial population growth. It would, however, increase local employment, which in turn could create demand for additional housing and result in associated population.

In addition, the Project could have a significant adverse impact on the City's jobs to employed residents ratio and the related jobs to housing ratio because it would generate a large number of new jobs without adding housing to increase the number of employed residents in the City. Possible mitigation measures include dedicating housing and/or providing a site near the Project to house Medical Center employees, payment of housing fees, and an inclusionary housing requirement in the Hospital Zone.

Public Services
This section addresses the potential environmental effects of the Project on public services, including police and fire protection, schools, and parks and recreational services. Increases in public service demand alone do not constitute a significant environmental effect. Instead, an increase in demand for public services, such as additional staff or lengthier response times, could lead to potentially significant environmental impacts only if constructing or expanding a new facility were required and the construction or operation of the facility might adversely affect the air, water, noise, or other aspects of the physical environment. The current EIR analysis concludes that while the Project will likely increase demand for public services, such demand will not result in an environmental impact.

For impacts to school, under proposition 1A, payment of school impact fees by new development is the exclusive method of considering and mitigating impacts on school facilities that may occur as a result of approval of development of real property.

Utilities
The Project would result in increased on-site employment, visitors, and developed floor area. These increases have the potential to create greater demand for utilities, including water supply, wastewater collection and treatment, storm drainage, solid waste disposal, and energy (which includes electricity and natural gas). This section assesses whether the potential increase in demand would overtax, to a significant degree, the capacity of the infrastructure systems serving the Project Area.

A Water Supply Assessment (WSA) was conducted for this project. In April 2009 the City Council reviewed the SUMC WSA and directed staff to return to Council with a revised plan for
the Project that quantifies significant reductions in water use due to conservation measures. The WSA has been amended and is tentatively scheduled for Council consideration in early 2010 prior to release of the Draft EIR. The EIR will include analysis and conclusions from the WSA.

**Alternatives**

CEQA and the CEQA Guidelines require that the EIR “describe a range of reasonable alternatives to the project, or to the location of the project, which would feasibly attain most of the basic objectives of the project, but would avoid or substantially lessen any of the significant effects of the project, and evaluate the comparative merits of the alternatives”.

Based on the objective of substantially reducing significant impacts, two No Project Alternatives, two Reduced Intensity Alternatives, a Preservation Alternative, a Tree Preservation Alternative and a Village Concept Alternative have been developed for the SUMC Project for evaluation in the EIR.

**No Project Alternatives**

The two No Project Alternatives include: (A) Retrofitting only those hospital facilities that could be retrofitted and no new buildings would be constructed; (B) Replace only SB 1953 noncompliant structures with new structures.

**Reduced Intensity Alternatives**

The two Reduced Intensity Alternatives include: (A) Right-sizing SHC and LPCH so construction of new hospital facilities would be limited to the minimum additional square footage required to right-size the existing LPCH and SHC facilities without adding space for additional growth; (B) Right-size SHC and LPCH plus add 60-percent of the floor area of the SUMC Project medical offices and 60 percent of the floor area of the SUMC Project hospital space above the amounts needed for right-sizing.

**Preservation Alternative**

The Preservation Alternative would retain the 1959 Hospital Building complex, which includes SoM buildings (Grant, Alway, Lane, and Edwards), along with the following SHC hospital/clinic buildings: West Pavilion (“West”), East Pavilion (“East”), Boswell, and Coré. However, these buildings have a low seismic rating and do not comply with structural and non-structural criteria that must be met by the deadlines imposed by Senate Bill (SB) 1953 for retrofit or replacement of hospital facilities. Accordingly, under the Preservation Alternative, these buildings would not be used as hospital buildings, as defined by the Office of Statewide Health Planning and Development (OSHPD).

**Tree Preservation Alternative**

In response to a number of significant trees planned for removal, an Alternative is being prepared that would preserve protected oak trees located in the portion of the SUMC known as Kaplan Lawn and near Welch Road. Under the proposed SUMC Project a hospital module is proposed to be located on the Kaplan Lawn, resulting in removal of nine protected trees. Under this Alternative, the square footage and programmatic functions planned for this module would be incorporated into the other hospital modules and the proposed ambulance route would be reconfigured. In addition, the previously proposed underground SHC parking structure at the
Welch/Pasteur intersection would instead be constructed as a structure with three levels underground and four levels above ground along Welch Road. The Emergency Department entrance/parking would be moved from its proposed location along Welch Road to the Pasteur Drive side of the new SHC. The SHC patient and visitor drop-off loop would continue to be from Pasteur Drive; however, the drop-off loop would be located farther down Pasteur Drive. The Kaplan Lawn would not be developed, and no protected trees would be removed at that location.

This Alternative would also include a redesign of one of the SoM buildings (FIM1) to save as many protected trees as possible. Due to the requirements of the program, and the location of the protected trees on the site, not all of the protected trees could be preserved in place with this alternative and would need to be relocated.

**Village Concept Alternative**

The Village Concept Alternative provides opportunities to enhance the SUMC Project to create a more walkable, bikeable, mixed-use, transit-oriented, and well-connected urban environment. A key goal of this Alternative is to ensure that the Project contributes to, and does not preclude, future opportunities to create an urban, transit-oriented village that can capture the potential travel behavior, air quality protection and greenhouse gas reduction benefits associated with the performance of well-designed urban villages. To achieve this end, the Village Concept Alternative proposes features that potentially can attain the basic objectives of the Project, lessen environmental effects of the Project, and provide benefits of an urban village environment consistent with the values and character of the City of Palo Alto.

This Alternative includes the SUMC Project, recommendations for housing at the Pasteur Drive/Sand Hill Road site and the Quarry Road housing sites, pedestrian linkages between the Project, the Stanford Barn area, Stanford Shopping Center, Stanford University, the Intermodal Transit Center and downtown, urban design recommendations and potential Development Agreement components that the City seeks to negotiate with the SUMC Project sponsor. These enhancements can be implemented through one or more of the following mechanisms: zoning amendments associated with the Projects, conditions of approval, or Development Agreement conditions.

City staff and the Stanford project team have collaborated on both the Tree Preservation and Village Concept Alternatives and through a series of meetings, technical report exchanges and innovative thinking, have advanced two alternatives that will continue to accommodate advanced medical space planning while promoting broader land use principles and mitigating impacts in a way that cannot be addressed through standard mitigations.

**Sustainability Program**

The Project's unique operation needs require a tailored sustainability program for each project component. The Hospitals have 24-hour, seven days per week operations that differ from those of the medical office buildings and the School of Medicine (SoM) buildings.

For conservation and energy efficiency, the Hospitals and Clinic buildings would be designed to achieve EnergyStar scores of 90 - 95, which means they will perform better than 90 – 95 percent of similar hospitals and use 35 percent less energy than typical hospitals. The SoM buildings
would meet Stanford University’s 2008 Building Performance Guidelines, which set a target energy efficiency in new buildings of 30 percent below California Title 24/ASHRAE 90.1 (2004). These buildings would include exterior sunshades, highly insulated building shells and fenestration, high efficiency building lighting systems and HVAC equipment, use of passive cooling and smart building technology to coordinate building systems operations with occupancy and use patterns.

Green building components include the use of sustainable building materials, where feasible, such as recycling crushed concrete from demolition, renewable/recyclable materials in flooring, paint, construction adhesives, cabinet substrates, insulation, ceiling acoustical panels and furniture. Permeable asphalt, permeable concrete, and grass pavers will be used. The Hospitals would include measures such as: occupancy controls for patient rooms, and occupancy sensors for lighting strategic areas, reduced lighting power densities, use EPA EnergyStar labeled equipment where available, link to the Stanford University cogeneration/thermal storage system for generation of chilled water and steam, and implement various water saving features. The Hospitals and SoM would continue to focus on environmentally preferable purchasing and extensive recycling programs.

Transportation programs proposed would include consideration of the GO Pass for all eligible hospital employees, expansion of the Marguerite Shuttle service between the Palo Alto Transit Center and the SUMC, and inclusion of hospital employees in the Stanford Commute Club that gives subsidies for vanpools and for not driving, guaranteed ride home, Eco Pass for free use of VTA buses and light rails, Dumbarton Express, Highway 17 Express and U Line Stanford Express that connects BART and ACE Train to Stanford.

**Development Agreement Negotiations**

Stanford is seeking a Development Agreement, which will lock in the zoning regulations for a negotiated period of time. Development Agreements are negotiated contracts between the applicant and City. Developers typically apply for a Development Agreement to ensure that the regulations will not change over time and to help secure financing for large-scale projects. In exchange, the parties negotiate an acceptable community benefit package. Since they are the product of voluntary negotiations rather than a unilateral imposition by the government, community benefits under a Development Agreement are typically broader than EIR mitigation measures and project conditions of approval. As such, community benefits are not legally required to have the same rigorous nexus applicable to other development conditions. A Development Agreement is a legislative action and is subject to referendum.

On June 15, 2009, the City received a Development Agreement proposal from Stanford (Attachment A). Stanford proposed a 30-year Development Agreement with some terms extending to 51 years. The proposal focused on the following major categories of community benefits: (1) health care, (2) fiscal benefits, (3) reduced vehicle trips, (4) linkages, and (5) housing. The proposal noted that the most important community benefit would be the applicants’ investment in seismically safe, state of the art facilities that would enable the hospitals to continue to provide high quality patient care. In addition, Stanford offered some additional community benefits, including the following significant proposals:
• Establishment of two new programs for the exclusive benefit of residents: a $3 million fund to assist qualified low-income residents and a $4 million fund to subsidize community health programs within Palo Alto.

• Provide construction spending and associated use taxes of $8.3 million and obtain a use tax direct payment permit that will generate approximately $26,000 annually.

• Purchase of “Caltrain Go Passes” for all SUMC employees at an estimated annual cost of $1.3 million. (Currently only Stanford University employees are entitled to this benefit.)

• Expansion of the Marguerite service by purchasing additional shuttles in the amount of $2 million and by funding additional annual operating costs of $450,000.

• Funding a range of improvements to encourage use of transit and enhance pedestrian and bicycle connections between the hospitals and downtown: $2.25 million for pedestrian and bicycle connections around the Intermodal Transit Center, $400,000 for right of way improvements along Quarry Road and $700,000 for pedestrian connection between the Medical Center and Shopping Center (Stanford Barn area).

• Payment of housing in lieu fees in the amount of $23.1 million which is equivalent to what a commercial project would pay.

Staff believes Stanford’s proposal is substantive and responsive to many project impacts. The proposal focuses on the key areas of concern raised by the Planning and Transportation Commission, the City Council and the community. However, it is also important to note that with a project of this magnitude many of the proposed community benefits would typically be imposed as conditions of approval or EIR mitigation measures. Staff has had several meetings with Stanford to discuss areas where the community benefit package can be enhanced. These discussions to date have focused on health care, fiscal impacts and housing. Staff plans to continue these discussions and will provide a further progress report in January or February. At that time, staff will seek input from the Council on whether the offered package is acceptable and if not which areas to prioritize.

NEXT STEPS
Substantial progress has been achieved in the preparation of the Project for formal entitlement reviews, though significant work remains to see the project to completion. Initial staff work focused on the preparation of the update to the Stanford University Medical Center Land Use Area Plan (Area Plan), which was presented to City Council in July 2007 for review and comment. Staff and the applicant have since focused on four generally concurrent tracks: 1) Preparation of the Draft EIR, 2) Preliminary ARB reviews of project components, 3) Development Agreement preparation and discussions with the applicants, and 4) Community outreach and updates with the Planning & Transportation Commission and City Council. Due to the complexity of the Project and the potential for substantial environmental impacts upon the community, the timeline for preparation of the Draft EIR has been extended from initial expectations. In addition, the withdrawal of the SSC Project has resulted in additional delays in the completion and issuance of the DEIR.

Staff, in cooperation with the SUMC applicants and Stanford University representatives, is committed to completion of the Draft EIR, the Development Agreement discussions,
Architectural Review and the other public review processes in a timely manner. The current schedule anticipates the following milestones during 2010:

- Council review of Water Supply Assessment
- Transportation impact review
- Development Agreement terms review
- Fiscal impacts review
- Release of Draft EIR and fiscal report
- Architectural reviews
- Draft EIR hearings
- Preparation of response to Draft EIR comments
- Planning & Transportation Commission review of entitlements
- City Council review of entitlements

The intent is to complete the City Council entitlement review before the August 2010 recess or immediately thereafter.

PREPARED BY:

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ATTACHMENTS

Attachment A: Draft Development Agreement Proposal from Stanford University
## Comparison of Land Use Entitlements
### Stanford University Medical Center

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Limitations</th>
<th>Required Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Comprehensive Plan</strong></td>
<td>Primary tool for guiding future development of the City. Establishes long term goals as well as policies to guide day to day decisions.</td>
<td>Difficult to amend. Does not address project level specifics.</td>
</tr>
<tr>
<td><strong>Rezoning</strong></td>
<td>Establishes allowable uses and development standards for each area. Framework for reviewing project applications.</td>
<td>Does not impose conditions of approval or mitigation measures.</td>
</tr>
<tr>
<td><strong>Environmental Impact Report (EIR)</strong></td>
<td>Required by State law. Analyzes environmental impacts and proposes mitigation measures for those impacts. Examines project alternatives.</td>
<td>Topics are limited to environmental issues associated with project and the Development Agreement. Very detailed review of these issues.</td>
</tr>
<tr>
<td><strong>Conditions of Approval</strong></td>
<td>Vehicle for incorporating feasible mitigations identified in EIR and other project related conditions; typically tied to a discretionary permit, such as a Conditional Use Permit (CUP).</td>
<td>Conditions involving dedications of land or payment of an ad hoc fee must have a legal nexus to the development's impact.</td>
</tr>
<tr>
<td><strong>Development Agreement</strong></td>
<td>Negotiated agreement between the applicant and the City to provide development certainty to applicant in exchange for public benefits beyond the conditions of project approval and mitigation measures.</td>
<td>Terms are negotiated and are not limited to conditions or measures necessary to mitigate the projects' impacts. Public benefits provided by the applicant in exchange for a development agreement may extend to areas outside of the boundaries of the project.</td>
</tr>
</tbody>
</table>

Rev. March 29, 2010
ENTITLEMENT REVIEW OF SUMC PROJECT

CITY COUNCIL

PLANNING & TRANSPORTATION COMMISSION

ARCHITECTURAL REVIEW BOARD

APRIL 2010

MAY 2010

JULY 2010

FINAL EIR RELEASED

CITY OF RUIDO ALTO
Mar 2010

ATTACHMENT