City of Palo Alto
City Council Staff Report

Report Type: Study Session
Meeting Date: 1/31/2011

Council Priority:

Title: SUMC Mitigation Measures & DA Update

Subject: Review of the Stanford University Medical Center Facilities Renewal and Replacement Project Mitigation Measure Cost Analysis, Community Benefit Proposal and Draft Development Agreement

From: City Manager

Lead Department: Planning and Community Environment

RECOMMENDATION
Staff recommends that the City Council review and comment on the Stanford University Medical Center (SUMC) cost analysis of certain project mitigation measures and review the current Community Benefit Proposal in connection with the requested SUMC Development Agreement.

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. The Project is intended 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. Previous legislation required retrofitting by January 1, 2013, but recent legislation has now extended the compliance deadline for Santa Clara County hospitals to 2018.

SUMC Project Summary
The renovation and expansion project, which would be constructed over a 15-year period, would result in a new increase of approximately 1.3 million squares 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 to the “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 Medical Office and Research (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.
- Architectural Review Board (ARB) review of the SHC, LPCH, FIM1, medical office building at Hoover Pavilion, and Design Guidelines.
- Approval of a Development Agreement
- Certification of an Environmental Impact Report

**SUMC Project Evolution and Analysis**
The project applicant has submitted nine substantive project amendments with the most recent amendment submitted on March 25, 2010. In addition, SUMC has also made changes based upon City staff analysis and ARB, Planning and Transportation Commission (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.

On May 20, 2010, the SUMC Facilities and Renewal and Replacement Project Draft Environmental Impact Report (DEIR) were released for public review and comment. The DEIR identified several environmental impacts that could not be mitigated, including transportation, air quality, climate change, noise, cultural resources, and biological resources (protected trees). Extensive public hearings were conducted on the DEIR, the comment period has closed and the City is finalizing its response to comments. The Final EIR is expected to be released in early February.

As part of the entitlement process for the project the City and SUMC agreed to complete a Fiscal Impact Analysis. SUMC contracted with CBRE Consulting/CB Richard Ellis, Inc. (CBRE) to conduct their fiscal impact analysis and agreed to fund a peer review using a City-selected fiscal impact consultant. The City completed a formal RFP process and Applied Development Economics (ADE) was selected to conduct the peer review. CBRE and ADE have both completed their independent fiscal reviews of the SUMC project.

On April 6, April 13, April 28, and May 24, 2010 City staff presented and received comments on
the SUMC Fiscal Impact Analysis (CMR 196:10; Attachment A) and the Development Agreement Proposals (CMR 197:10; Attachment B) from the Finance Committee, Policy and Services Committee, Planning and Transportation Commission and City Council, respectively. Since that time, City staff has continued to meet with SUMC representatives to determine the cost related to certain project mitigation measures where the City may incur a fiscal impact, and to negotiate a draft Community Benefits Package that is tied to the Development Agreement. On January 18, 2011, SUMC submitted to the City a revised proposal outlining key terms of its offer in the Development Agreement (Attachment D).

DISCUSSION
Mitigation Measure Cost Analysis
The Draft EIR identified a comprehensive list of potentially significant adverse environmental impacts and mitigation measures for each impact. Where applicable, SUMC and City staff have identified the cost related to a mitigation measure (An estimated cost of the mitigation measures is summarized in Attachment C and supplements the fiscal studies prepared earlier and discussed below). The DEIR examines both project specific and cumulative impacts, i.e. those impacts caused by the project and other reasonably foreseeable projects. SUMC is 100% responsible for mitigating all project impacts, but, in general, SUMC is only responsible for mitigating its portion of the cumulative impacts. The portion of the mitigation cost that SUMC is responsible for is referred to as their “fair share” and in those cases, the City, another agency, or future development is responsible for the unfunded portion. The City and SUMC collectively prepared a mitigation measure cost estimate and “fair share” allocation and that data are summarized in Attachment C to the Staff Report, which supplements the Fiscal impact Reports, lists those mitigation measures, their cost and any unfunded portion that the City is responsible for funding.

The City and SUMC have continued to discuss the issue of mitigation vs. community benefit and City staff does agree that some of the required mitigations will not only mitigate potential environmental impacts, but will also provide a long term community and in some cases regional benefit. The analysis indicates that SUMC is responsible for a total of $17.7 million in capital or one-time cost; $2.5 million in estimated annual cost which are projected to total approximately $129.6 million over the useful life of the project or 51 years for a combined total of approximately $147.3 million. The City share of unfunded mitigation cost is approximately $5.8 million, which includes the cost of the Everett Undercrossing, El Camino Real and Page Mill Road right turn lane and the cost of Opticom installation for traffic signals. It should be noted that both the Everett Undercrossing and the Opticom installations are included as part of the Citywide Transportation Impact fee.

Fiscal Report Summary
Long-term fiscal consequences are an essential part of the consideration when reviewing large projects. While new development can bring economic benefits to the City, it also potentially brings new residents, employees, and uses that will place incremental demands on local services, such as police, fire protection, community services, libraries, planning, public works and utilities; as well as impacting City administrative functions. Anticipating and evaluating the
associated fiscal impacts of new development ensures that the City does not extend services or infrastructure in a way that becomes too much of an economic burden on existing limited resources. In addition, this analysis helps formulate funding strategies for community facilities and infrastructure as well as any potential additional mitigation costs.

A fiscal impact analysis can also be used to compare the fiscal costs of alternative approaches to a development. If a project is not fiscally revenue neutral or sustainable but meets community goals, the analysis may suggest the need for additional revenues or a Development Agreement that provides supplemental funding to cover costs related to the development.

**Fiscal Impact Analysis**

As previously reported to the City Council, the fiscal analysis prepared by CBRE indicates that the potential tax and fee revenues that will be generated by the SUMC project should be sufficient to fund the anticipated costs of providing municipal services to the projects (Table 1). This includes taxes generated by increased Sales and Use Tax, Property Tax, Transient Occupancy Tax, Utility Users Tax and other taxes and fines, such as Motor Vehicle In-Lieu and Fines and Penalties. The analysis used a time horizon of thirty years or 2010 through 2040 to be consistent with some of the key aspects of the proposed Development Agreement. CBRE’s dynamic analysis finds that over the 30-year time horizon the SUMC project will net the City General Fund cumulative net surplus totaling $7.6 million. This reflects total cumulative revenues of $25.1 million and total cumulative expenses of $17.5 million. In contrast, the peer review completed by ADE indicates that cumulative revenues of $23.9 million and cumulative expenses are projected to be $25.0 million, leaving a total net deficit of $1.1 million.

![Table 1](image)

Comparative Fiscal Analysis of Stanford University Medical Center Project
Annualized Projection of Fiscal Impacts 2010-2040 (30 Years)

<table>
<thead>
<tr>
<th>Item</th>
<th>ADE Analysis</th>
<th>CBRE Analysis</th>
<th>ADE minus CBRE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Projected</td>
<td>Projected</td>
<td></td>
</tr>
<tr>
<td>General Fund Revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUMC Direct Purchasing</td>
<td>$1,042,942</td>
<td>$909,129</td>
<td>$133,813</td>
</tr>
<tr>
<td>SUMC Facilities On-site sales</td>
<td>3,332,654</td>
<td>3,433,703</td>
<td>(101,049)</td>
</tr>
<tr>
<td>SUMC Employee Spending</td>
<td>1,456,838</td>
<td>1,459,148</td>
<td>(2,310)</td>
</tr>
<tr>
<td>SUMC Overnight Visitor Spending</td>
<td>7,392</td>
<td>9,688</td>
<td>(2,296)</td>
</tr>
<tr>
<td>Construction Related Purchasing</td>
<td>8,148,416</td>
<td>8,148,416</td>
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</tr>
<tr>
<td>Construction Worker Spending</td>
<td>16,303</td>
<td>112,426</td>
<td>(96,123)</td>
</tr>
<tr>
<td>Property Tax</td>
<td>1,307,153</td>
<td>1,681,451</td>
<td>(374,298)</td>
</tr>
<tr>
<td>Transient Occupancy Tax</td>
<td>151,441</td>
<td>182,806</td>
<td>(31,365)</td>
</tr>
<tr>
<td>Utility Users Tax</td>
<td>7,358,175</td>
<td>7,978,522</td>
<td>(620,347)</td>
</tr>
</tbody>
</table>

January 31, 2011
(ID # 1283)
<table>
<thead>
<tr>
<th>Other</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor Vehicle In-Lieu Fees</td>
<td>318,822</td>
<td>410,502</td>
<td>(91,680)</td>
</tr>
<tr>
<td>Fines and Penalties</td>
<td>799,701</td>
<td>799,680</td>
<td></td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>$ 23,939,837</strong></td>
<td><strong>$ 25,125,471</strong></td>
<td><strong>$ (1,185,634)</strong></td>
</tr>
</tbody>
</table>

**General Fund Expenses**

| City Attorney            | 657,032 | 76,516 | 580,516 |
| City Auditor             | 182,506 | -      | 182,506 |
| City Clerk               | 255,506 | -      | 255,506 |
| City Council             | -       | -      | -      |
| City Manager             | 401,516 | 61,430 | 340,086 |
| Administrative Services  | 1,697,328 | 394,852 | 1,302,476 |
| Human Resources          | 547,525 | 310,518 | 237,007 |
| Community Services       | 1,524,268 | 2,382,512 | (858,244) |
| Fire                     | 4,621,942 | 4,150,700 | 471,242 |
| Library                  | 471,360 | 542,854 | (71,494) |
| Planning and Community Env| 1,438,004 | 856,165 | 581,839 |
| Police                   | 7,980,281 | 5,744,628 | 2,235,653 |
| Public Works             | 3,645,120 | 1,903,898 | 1,741,222 |
| Non-Departmental         | 1,611,635 | 1,074,530 | 537,105 |
| **Sub-Total**            | **$ 25,034,023** | **$ 17,498,603** | **$ 7,535,420** |

**Net Surplus/(Deficit)**

$ (1,094,186) $ 7,626,868 $ (8,721,054)

**Revenue Estimates**

The analysis indicates differences in total revenues of approximately $1.1 million over the thirty year time horizon. There are significant deviations in the areas of Property Tax and Utility Users Tax, however the total difference averages approximately $39,521 per year and this does not rise to a level of significance. After discussion with the consultants, City staff feels most of this can be attributed to the timing of Property Tax projections and potentially better project related information being provided to CBRE by SUMC in terms of utility consumption projections.

Of major concern to City staff is that the analysis includes significant projections of Sales Tax and Use Tax collected during project construction and over the proposed development agreement; a total of $14.1 million or approximately 56% of all projected revenues. The California State Board of Equalization (SBOE) administers local taxes under the Bradley-Burns Uniform Local Sales and Use Tax Law, and district taxes under the Transition and Use Tax Law, both of which are governed by California Revenue and Taxation Code section 72000 et. Seq.

A large portion of the revenue projections are attributable to Use Tax. To collect these revenues the following actions must occur:

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(ID # 1283)
• Stanford University would obtain a California Seller’s permit and report the Sales and Use Tax information to the SBOE
• At least 80% of all contracts and subcontracts will need to be greater than $5.0 million, thus qualifying for a seller’s sub-permit
• Under Stanford’s permits all qualifying contractors and sub-contractor will voluntarily obtain seller’s sub-permits for the SUMC construction site and report the required Sales and Use Tax information

If these actions do not occur the Use Tax would flow to the County of Santa Clara tax pool and the City would receive a significantly smaller share. In addition, to obtain revenues in future years, SHC and LPCH will both need to obtain direct pay permits and certificates to report and pay sales and use tax on qualifying direct purchases.

Admittedly these are complex and time consuming processes with serious implications if the revenue projections do not become reality. This short fall could potentially change CBRE’s projected revenues from a total of $25.1 million to $11.0 million, resulting in a projected deficit of $6.4 million and not a $7.6 million surplus.

Expense Estimates
The City costs in both the CBRE and ADE analysis are calculated on an average cost basis, meaning that the costs allocated to the proposed project are the same per employee as existing non-residential uses in the City. The analysis in Table 1 indicates that there is a significant difference in the determination of long term expenses. CBRE has calculated that project related City expenses for the thirty year time horizon is approximately $17.4 million, whereas ADE has calculated the expense to be approximately $25.0 million. City staff understands that this difference is due to CBRE’s assumption that certain portions of City services are fixed and not subject to increase as City service demands increases. Overall CBRE has estimated that approximately 49% of all City service cost is subject to this cost limitation, ranging from 100% of the costs for City Auditor and City Clerk to 20% of Fire Department costs. This limitation has resulted in a 2010-2040 cost projection that is approximately 48% of the ADE estimate. While administrative departments may grow at a slower rate compared to other departments, the assumption that there is no connection between demand for services and the need for additional administrative functions is not plausible. Using a best case vs. worst case scenario, and believing that actual expense may be somewhere in the middle of the two analyses, or approximately $23.1 million; the projected surplus in the CBRE analysis could be overstated by approximately $5.5 million.

2011 Fiscal Update
Given the several changes to Stanford’s original project application as well as the changed economic climate, the City requested CBRE to update its analysis. On January 18, 2011 the City received an updated Fiscal Analysis from SUMC’s fiscal consultant CBRE. Their updated fiscal analysis indicates that the potential tax and fee revenues generated by the SUMC project remain sufficient to fund the anticipated costs of providing municipal services to the projects (Attachment F). This includes taxes generated by increased Sales and Use Tax, Property Tax,
Transient Occupancy Tax, Utility Users Tax and other taxes and fines, such as Motor Vehicle In-Lieu and Fines and Penalties. The updated analysis used a time horizon of thirty years or 2011 through 2041 to be consistent with some of the key aspects of the proposed Development Agreement. CBRE’s analysis continues to show that over the 30-year time horizon the SUMC project will net the City General Fund a cumulative net surplus totaling approximately $7.6 million. This reflects total cumulative revenues of $24.1 million and total cumulative expenses of $16.4 million. Compared to the prior fiscal analysis, projected revenues have decreased by approximately $997,109 and projected expenses have decreased by $1,056,198. These changes are attributed to:

1. Entitlement at the beginning of 2011 and construction commencing immediately thereafter
2. The 60,000 square foot new medical office building developed on the Hoover Pavilion site has been shifted from Phase I to Phase II construction, and
3. The timing of phases has been shifted modestly, with Phase I now represented as 2011-2017 (previously 2009-2015) and Phase II now represented as 2018-2025 (previously 2016-2025).

According to the updated CBRE analysis, these changes mostly resulted in modifications to the years clustered about the ending of Phase I and the beginning of Phase II. In addition some development in Phase II was pushed out a few years, which impacted the timing of phased employment during Phase II (Attachment G shows the comparison between CBRE’s 2011 and 2009 reports).

City staff and SUMC have been meeting for over a year and have continued to discuss the revenue guarantee concept, however in the current offer letter from SUMC; they have proposed a one-time payment of $1.1 million rather than the revenue guarantee that has been discussed in negotiations. The onetime payment is the difference between ADE’s total projected revenue projections and total projected expenses in the Fiscal Analysis.

Based on the importance of achieving the projected revenues responsive to the underlying Council directed requirement of insuring that the project is revenue neutral, City staff believes that a revenue guarantee on certain portions of the Direct Sales Tax and Construction Use Tax revenues must be included in the proposed development agreement. City staff believes that a revenue guarantee is more responsive to economic cycles and protects the City’s long term interest. Also, since the project will largely be exempt from Property Taxes and does not generate significant sales tax, a revenue guarantee of the Use tax will help with local budgeting and provide a stable funding source over time. This is important as the revenues decrease in out years, while the expenses increase in response to completed construction. Finally, it would also be in the City’s interest to have an inflation adjustment on future revenue, which would further offset the increasing costs of providing community services like police and fire.
Development Agreement

Purpose of Development Agreements
The California Planning and Zoning Law authorizes cities to enter into “development agreements” which grant certain rights to developers, typically in exchange for other benefits which cities otherwise do not have the police power to require. The scope of a development agreement is prescribed by State law. (Government Code sections 65864-65869.5.) A development agreement has the effect of immediately vesting a developer’s right to proceed under existing zoning and other local laws, without having to worry about later changes in those zoning requirements imposing expensive new requirements or preventing the project from proceeding. Development agreements are also generally needed for bond financing. The Government Code imposes various requirements on development agreements, including a requirement that each development agreement specify its duration.

Under their general police power, all cities have broad authority to negotiate agreements with any person or entity, including project applicants such as the SUMC Project sponsors. However, any such agreement must include a genuine exchange of benefits (known in legal terms as “consideration”), with the parties agreeing to a negotiated exchange of one or more benefits or concessions to which they are not otherwise entitled. No one party is entitled to dictate the terms of the deal – an agreement can only be reached when each party is adequately enticed by what the other party has to offer to be induced to enter into an agreement.

Under its police power, a city also has broad, unilateral authority to impose a large variety of conditions to ensure that a proposed development would mitigate its adverse effects (both environmental and non-environmental) and would pay for the necessary infrastructure needed to serve the development. Therefore, a city does not generally need to rely on any negotiated agreement with the developer applicant to impose such conditions. However, both the United States Constitution and California statutes (particularly the Mitigation Fee Act, known sometimes as “AB 1600”) impose specific (although flexible) limitations on the types of conditions and exactions a city may impose on a particular development project. Under these limitations, courts have held that cities cannot use their land use approval authority to exact concessions from a developer applicant that have nothing to do with the impacts or needs of the proposed development itself; or, in other words, which have no “nexus” with the project. Thus, for example, a city cannot require a developer to build a new city hall in exchange for granting development entitlements. In addition to the requirement of “nexus,” any exactions are also subject to a requirement of “rough proportionality.” If a development project is only partially responsible for a particular public improvement, a city generally can only require the developer to pay its proportionate share of that improvement (subject to certain caveats and exceptions).

A development agreement provides one exception to these limitations: a city can negotiate with developers the concessions that exceed what the city could require under its police power (for example, concessions for which there is no nexus with the proposed development, or which exceed the “rough proportionality” requirement) in exchange for approving a
development agreement since development agreements provide a benefit to developers to which they are not otherwise entitled.

The Development Agreement sought by the SUMC Project sponsors would entitle them to proceed under, and rely upon, the zoning approvals granted by the City Council, if the City Council approves the SUMC Project. In approving the Development Agreement, the City Council would be effectively waiving its right (as well as the right of future City Councils) to later impose new or amended zoning or other legislative requirements or limitations on the SUMC Project. This waiver would exist for the duration specified in the Development Agreement. However, it should also be noted that, under general “vested rights” principles, once the SUMC Project is constructed, SUMC would have vested rights independent of the Development Agreement to continue to use its facilities for the purpose for which they were constructed. Thus, once the SUMC Project is constructed, even if the City were to later modify the applicable zoning, the SUMC hospital facilities could qualify as a “legal non-conforming pre-existing use” and could continue to operate notwithstanding any inconsistency with later-adopted zoning requirements (subject to certain caveats and exceptions).

Community Benefit Proposal
In exchange for a development agreement, City staff has been negotiating with Stanford on a mutually acceptable community benefit package. City staff recognizes that both Stanford Hospitals and Clinics and Lucile Salter Packard Children’s Hospital provide substantial and important public benefits through operation of world-class health care facilities and provision of a Level 1 trauma center located in the City of Palo Alto. The Stanford School of Medicine provides substantial and important public benefits through research that will be translated into life-saving and life-enhancing medical treatments and procedures. These endeavors coupled with the Stanford University represent a significant economic center, via employment and revenue generating functions that serve not only the City of Palo Alto, but the entire county and parts of the State.

In addition to this overall public benefit and in exchange for the vested rights to develop the proposed project SUMC has agreed to provide the additional benefits described in Attachment D and also summarized in Attachment E. These community benefits have been placed in categories:

Health Care Benefit
- In-patient and Out-patient benefits: Payment of $300,000 per year for a period of ten years for a total of $3.0 million. These payments are to be specifically used for Palo Alto residents.
- Community Health Programs: One-time payment of $4,000,000 to be used for community based health and wellness programs.

Reduced Vehicle Trips
- Stanford Hospitals will provide Go Passes to its hospital employees. The estimated cost of this mitigation is $90,907,500 over 51 years. The parties have mutually worked out a
TDM program that will provide for alternate TDM measures and/or penalties in the event an aggressive 35.1% alternative mode share is not achieved or Caltrain service is eliminated.

- To address the enhanced Go Pass program, SUMC will purchase and operate four new Marguerite shuttles to support service to and from the train station. The capital and operational cost over 51 years is $24,950,000.
- Stanford will provide a permanent TDM Coordinator at the Hospitals in an amount of $5,100,000 over 51 years.
- The Hospitals will contribute to AC Transit to address potential capacity issues caused by the project and will lease parking spaces at Ardenwood Park and Ride to encourage employees of the hospital to use AC Transit and other transit options. The total cost of these additional transit measures are $5,095,000.

**Linkages**

- Stanford will fund various City improvements to enhance the pedestrian and bicycle connections, including enhanced pedestrian and bicycle connection for the Intermodal Center to El Camino Real and Quarry; improvements to the ROW to enhance pedestrian and bicycle connection from west side of El Camino to Welch Road along Quarry Road, and improvements to enhance the pedestrian connection between the Medical Center and the Stanford Shopping Center in the area of the Barn. The total cost of these linkages is $3,350,000.

**Housing/Infrastructure**

- Stanford will provide $23,060,490, of which $2,050,000 represents the housing fee required for the clinics and the balance to be used by the City for other affordable housing programs and/or sustainable neighborhood and community development. This payment will be made in three equal installments.

**Climate Change/Sustainable Communities**

- Stanford will make a contribution of $12,000,000 paid in three equal installments for use in projects and programs for a sustainable community.

**Fiscal**

- Stanford will provide a payment of $1,100,000 to address the projected deficit of the project over 30 years as analyzed by ADE.
- In addition, Stanford will obtain a Use Tax Direct Payment Permit which will result in $750,000 over the life of the project.

Note that the City and Stanford differ in their valuation of the total benefit package in that the City characterizes some of the community benefits as required mitigations. However, City staff recognizes that the bulk of the mitigations also have an overall community benefit. Likewise many of the community benefits enhance the overall project. In total, City staff has valued the total benefit package to be approximately $50,918,035 (assuming a revenue guarantee) and Stanford has valued it to be $173,312,990 (See Attachment E). Note that Stanford has also
offered to make additional payments to Menlo Park above and beyond those required in the EIR (See Attachments C and D).

The SUMC project sponsors and City staff are still in the ongoing process of negotiating the terms of the Development Agreement itself. City staff has taken into account feedback and policy direction received from the City Council in negotiating those terms, and is attempting to negotiate terms consistent with the City Council’s policy direction. City staff will continue to seek feedback from the Council as necessary throughout the process of negotiating the Development Agreement, including focusing on: a revenue guarantee, how to address updates to the City Fee Schedule and the overall phasing of the project and timing of the community benefit payments. Once the final terms are negotiated and a draft Development Agreement is prepared, there will be public hearings before both the Commission and the City Council to consider those terms. The Council may continue to provide policy direction at such hearings, and further amendments could be proposed and/or made as a result of feedback provided. The EIR has been designed to analyze the environmental effects of all foreseeable terms the Development Agreement might include, whether in the analysis of the SUMC Project itself, or in the analysis of the various possible alternatives. However, it is not anticipated that the any of the Development Agreement terms would result in physical environmental impacts beyond those disclosed in the Draft EIR.

Staff notes that the City is under no obligation to approve a development agreement as part of the entitlements for the Stanford project approval. In fact, City Council satisfaction with the Community Benefits package, as it determines the adequacy of the proposal, is a prerequisite to its decision to approve the Development Agreement.

Development Agreement Terms Suggested But Not Recommended By Staff
As part of the Development Agreement discussions, members of the Council, Commission, and the public suggested several issues to be explored in Development Agreement negotiations. Several of these issues have no direct relationship to the SUMC Project and involve a series of separate complicated policy decisions and negotiations that could delay decision-making on the SUMC Project. Subject to the City Council’s approval, City staff is therefore recommending that these issues are better addressed outside of the SUMC Project process. In particular, comments were submitted that suggest the installation of an upstream retention basin, the use of Stanford Linear Accelerator Center (SLAC) as a backup power source, and fire services from the County of Santa Clara. The siting of an upstream retention basin on Stanford lands was not identified as a mitigation measure and can be addressed through the existing San Francisquito Joint Power Authority process. SUMC has indicated, however, that it is willing to include its commitment in the Development Agreement to participate in upstream solutions. Likewise, the use of the SLAC facility as a backup power source for the community has been a longstanding issue in the community and the City and Stanford are proceeding on a separate track to discuss a range of mutually beneficial solutions. As the SUMC Project plans contain backup generators and building permits are governed by OSHPD, this issue should not be tied exclusively to the SUMC Project. Lastly, the City and Stanford have a longstanding contract where the City provides fire services to Stanford-owned land in the County of Santa Clara.
Since the contract does not apply to the SUMC Project, City staff is recommending that any changes to the fire service agreement be negotiated as part of the existing contract renewal process.

**NEXT STEPS**

City Council direction and input will be used as part of on-going Development Agreement negotiations between the City and SUMC. A specific date for completion of the Development Agreement has not been identified. The Development Agreement and Fiscal Report will be presented for more detailed review and recommendation by the Finance Committee and Policy and Services Committee in March.

The Final Environmental Impact Report (FEIR) is expected to be released in early February 2011. The Final EIR will contain responses to all comments received during the public review process. The Final EIR will also contain updates to the environmental analysis where necessary to respond to comments. The updated analysis may affect the mitigations required for the project. Changes to the mitigations could affect the costs associated with the mitigations. However, since the FEIR will be completed in early February, any revised mitigations and their associated costs will be factored into the Development Agreement negotiations. Public hearings on the FEIR are not required. The FEIR will be reviewed as part of the entitlement package by the Planning and Transportation Commission and the City Council.

The Architectural Review Board is expected to make its formal design review recommendations to the City Council after the release of the FEIR.

It is anticipated that the Planning and Transportation Commission would review the SUMC project design concurrently with the ARB. The Commission would also review the requested entitlements, including the FEIR, in March. The City Council would then provide its review and make a decision in April.

A tentative public meeting schedule for review of the SUMC project is contained in Attachment H.

**ATTACHMENTS:**

- Attachment A: CMR 196-10 (PDF)
- Attachment B: CMR 197-10 (PDF)
- Attachment C: SUMC Mitigation Summary with Major Fiscal Impacts (PDF)
- Attachment D: SUMC Development Agreement Proposal, January 18, 2011 (PDF)
- Attachment E: SUMC Development Agmt Proposal Comparison, January 31, 2011 (PDF)
- Attachment F: CBRE Consulting- Phasing-based Update to the SUMC Project Dynamic Fiscal Impact Analysis (PDF)
- Attachment G: Comparative Fiscal Analysis of SUMC Project Annualized Projection of Fiscal Impacts 2011-2041 (30 years) updated January 18, 2011 (PDF)
• Attachment H: Tentative Review Schedule  

Prepared By:  
Steven Turner, Advance Planning Manager

Department Head:  
Curtis Williams, Director of Planning and Community Environment

City Manager Approval:  
James Keene, City Manager

January 31, 2011
(ID # 1283)
The City Council of the City of Palo Alto met on this date in the Council Chambers at 6:03 p.m.

Present: Burt, Espinosa, Holman, Klein, Price, Scharff, Schmid, Shepherd, Yeh

Absent:

ORAL COMMUNICATIONS

Art Kraemer spoke regarding adding a guiding principle for public safety. He asked to include riding bicycles on sidewalks in business districts.

Mark Petersen-Perez spoke regarding his First Amendment Rights and having been denied equal media access by the City Attorney’s Office.

SPECIAL ORDERS OF THE DAY

1. Proclamation Expressing Appreciation to Jay Thorwaldson for Outstanding Public Service.

Mayor Espinosa read the Proclamation into the record.

Jay Thorwaldson expressed his appreciation for the opportunity of working with so many great people and that his work had been a labor of love and joy. He said he was proud of the people he was leaving behind as they continued to make the Palo Alto Weekly what it is today. He thanked everyone and wished the Council the best.

Council Member Klein spoke regarding Jay’s editorial in 1970 which was instrumental in creating the Midpeninsula Regional Open Space District (MROSD). He said Jay was not only a journalist and a critic but was an
advocate in finding ways for a better society and in promoting a better place to live. He spoke of Jay’s role in the creation and engaging citizens into an emergency response program. He acknowledged and thanked Jay for being a fine journalist and an outstanding member of the community.

Council Member Price read a quote by Joseph Pulitzer in honor of Jay. “Put it before them briefly so they can read it, clearly so they will appreciate it, picturesquely so they will remember it and above all accurately so they will be guided by its light.”

Council Member Holman spoke regarding Jay’s remarkable memory of Palo Alto’s historical facts and expressed her appreciation for his knowledge and retention of the community’s history.

Jeff Blum said Jay took his historical knowledge of Palo Alto and applied it in insightful and intelligent ways. He thanked Jay for being his mentor and all he had done for the City.

Daryl Savage spoke regarding the impact Jay had made in the community.

Bert Rose spoke of his relationship with Jay dating back to the 1960’s and 70’s. He thanked Jay for his mentoring abilities and expressed his respect and appreciation for his honesty, as a fine journalist, and as an outstanding individual.

Betty Gerzrd spoke of Jay’s editing and evocative writing skills and spoke of his accomplishments. She said in 1991 Jay worked on the First Conference on Computers, Freedom, and Privacy and was well ahead of where we are today regarding broader implications on communication.

Mark Petersen-Perez spoke of Jay’s writings and asked for equal access to the media.

Carroll Harrington spoke of Jay’s many accomplishments and how he was leaving the community in a better place than when he found it.

Becky Beacom thanked the Council for recognizing Jay and thanked Jay for his accomplishments and the love he had for the community.

Larry Horton thanked Jay for his many contributions to the community. He spoke of Jay’s integrity, his hard work in finding the facts and calling the shots as he saw them. He spoke of his efforts in saving Stanford Theater, a jewel in the community.
Robert Moss spoke of Jay’s work as exemplary and through his writings made the world a better place. He was quick to identify problems and solutions such as in the Open Space District and getting High Speed Internet access in Palo Alto.

Lisa Van Dusen spoke regarding the years she worked with Jay. She spoke of his grasp on history and ways that needed to be paved for the future. She said he was a print journalist and spoke of her indebtedness for his commitment and willingness to plunge into an electronic future.

Mayor Espinosa thanked Jay for his leadership, honesty, and humor and in making Palo Alto a better place to live.

COUNCIL MEMBER QUESTIONS, COMMENTS AND ANNOUNCEMENTS

Council Member Klein reported on the Bay Area Water Supply and Conservation Agency (BAWSCA) Board of Directors meeting. He said the Hetch Hetchy Watershed had received 90 percent of its yearly average and had the most precipitation ever received by December 31st. There would be no water supply problems this year. Usage of water in the Bay Area had declined and had the same average usage level in 1993-1994. The water usage in 1986 was 185 million gallons per day. That comparable number in 2011 was 144 million gallons per day, a drop of 25-30 percent in a 25-year period. The drop had been precipitous in the last few years from 151 million gallons per day in 2010 down to 144 million gallons in 2011. It was good and bad news. Bad news translated as an increase in water rates due to lower water usage. San Francisco Water had advised they would be raising water rates by 30-40 percent this year and the final figures would be provided by spring. The increase did not translate as 30-40 percent increase to Palo Alto customers because the price of water was approximately a third, but the City should expect a significant increase in the rates. San Francisco had been charging their retail customers a 15 percent increase per year. The East Bay water system had a similar decline. Palo Alto was playing a major role with BAWSCA in San Francisco to determine the decline. Palo Alto was being used for its data because Palo Alto has all the utilities and could compare water usage to electric and gas. He said he was named Chairman of the BAWSCA Policy Committee equivalent to BAWSCA’s Steering Committee.

STUDY SESSION

2. Stanford University Medical Center (SUMC) Mitigations Measures and Development Agreement Update.
Council Member Klein advised he would not be participating in this agenda item due to his wife being on faculty at Stanford University. He left the meeting at 6:45 p.m.

Staff provided an overview of the SUMC Project (Project) timeline since 2006, an overview and status of the Environmental Impact Report (EIR), including analysis of a Tree Preservation Alternative, an overview of the street intersections that were studied and affected by the Project, and a summary of the proposed Transportation Demand Management (TDM) program. Staff then provided an update of the Development Agreement negotiating process, including a comparison of the SUMC’s original June 15, 2009 offer, the City’s March 29, 2010 counter offer, and SUMC’s January 18, 2011 revised offer. Staff highlighted those portions of the offer that could be categorized as environmental mitigations vs. community benefits. Staff described the differences between the fiscals studies performed by Stanford and the City’s consultants and outlined the schedule of payments included in SUMC’s latest offer. Staff presented a tentative 2011 review timeline that outlined the public process that would take place up through the City Council’s final decision, which is expected to occur in April 2011. Michael Peterson, V.P of Special Projects at SUMC and Bill Phillips, Senior Associate Vice President with the Stanford Land Management Company, provided an overview of the purpose and goals of the Project and the Development Agreement. Staff requested that Council comment on the adequacy of the January 18, 2011 offer, the issue of mitigations vs. community benefits, revenue guarantees, and flexibility with regard to how community benefit monies should be used. Members of the public were then invited to address the Council. The Council expressed general support for the Project and its purpose. Individual Council Members asked questions and commented upon elements of the Development Agreement offer, including the costs & benefits to the City, revenue guarantees, the review schedule, the need for flexibility in the use of funds, and transportation demand management programs.

The City Council took a break from 8:04 p.m. and returned at 8:23 p.m.

Council Member Price left the meeting at 9:13 p.m.

**ADJOURNMENT:** The meeting adjourned at 9:55 p.m.