RECOMMENDATION
Staff recommends that the Finance Committee review the uses of the Stanford University Medical Fund and accept this report.

EXECUTIVE SUMMARY
This item provides an update on the uses, planned uses, and available funding remaining in the Stanford University Medical Center (SUMC) Fund, which was created and funded through a development agreement with Stanford to mitigate a variety of impacts from the medical center redevelopment projects. The City Council requested and referred a review of these funds to the Finance Committee at its January 30, 2021 retreat. This is an informational report and has been scheduled in order to proactively equip the Committee with the necessary information to have informed and productive FY 2022 Budget discussions where adjustments may be made in the context of the many competing priorities the City is faced with in its allocation of scarce resources. As a one-time source of funding, clear principles of spend should follow the important budgeting guiding principle that funds only be spent and invested in one-time costs. Staff recommends that the Finance Committee review this status report and defer any formal allocation of funds to the FY 2022 budget process with the Committee which is scheduled to being subsequent to this item and occur on May 11th, 12th, and 25th, 2021.

BACKGROUND
In 2011, the City of Palo Alto entered into a Development Agreement between the City of Palo Alto and the Stanford University Medical Center Parties (SUMC). Funds received in Fiscal Year 2012 as part of this agreement were used in Fiscal Years 2013, 2014, and beyond as outlined in the agreement and approved by the City Council. In Fiscal Year 2018,
the City received the final payment of $11.8 million, for a total principal amount of $44.3 million over the course of the development agreement. The funds received per the development agreement are allocated for specific purposes, which include funding for the 2014 City Council-approved Infrastructure Plan. As outlined in the agreement, expenses and revenues for each category must be accounted for separately. The full text of the agreement and significant background information can be found in the following documents:

- City Council adoption of the final SUMC Development Agreement (June 6, 2011, Staff Report 1339, Action Minutes)
- Ordinance of the Council of the City of Palo Alto Approving a Development Agreement Between the City of Palo Alto and Stanford Hospital and Clinics; Lucille Salter Packard Children's Hospital at Stanford; and the Board of Trustees of the Leland Stanford Junior University (Ordinance 5124)
- The Planning and Development Services Department, formerly the Planning and Community Environment Department, periodically issues a report of activities during the prior period for Council review to ensure compliance with the agreement. The annual report for the 2016-2017 period is included in CMR 8999, June 11, 2018.

Historically, the City Council and Committees have provided direction to staff on the authorization process for use of SUMC funds, including guiding principles for their expenditure. At a high level, use of these funds should be consistent with 1) City Council priorities, 2) used for impactful and long-lasting projects, and 3) primarily focused on infrastructure.

The development agreement contains provisions for certain expenditures that have been programmed in prior years, including Project Safety Net and emergency vehicle traffic signal preemption. The authorization to use SUMC funds:

- For new projects (excluding Health and Safety) is completed as part of the annual budget process.
- Funding for Health and Safety is to be reviewed and recommended by the Policy & Services Committee to the City Council for approval. In prior years a joint Stanford/City Committee was created to advise Community Health and Safety programs.

At the May 15, 2019 Budget Hearing, the Finance Committee requested additional information regarding the definitions, restrictions, and current status of the SUMC development agreement funds. Staff provided follow up to this request during the May 28, 2019 Budget Hearing via an At Places Memorandum. As result of this discussion, the Finance Committee requested that staff provide additional information related to the
uncommitted balances in the SUMC Fund, assuming that FY 2020 - 2024 Capital projects are expended as planned. This information was provided in Staff Report 10419.

As part of the FY 2020 budget process, staff and the Finance Committee agreed to return to the Finance Committee in the fall to strategize the use of uncommitted funds from the Stanford University Medical Center (SUMC) development agreement (Staff Report 10643). This report provides historical context as well as future plans as of this date.

**DISCUSSION**

At the close of FY 2020, a total of $20.5 million remains of the $44.3 million in direct payments (plus nearly $4.2 million in interest) with $15.3 million programmed for various capital investments and $6.1 million remaining in unspent and unallocated funds.

Below is a summary table of the different expenditure categories outlined in the development agreement and the current status of each of those categories. Following the table is a summary of the expenses to date as well as the planned expenses. In light of the continuing competing priorities, staff recommends that any recommended changes or current allocations and future allocations are discussed and executed as part of the FY 2022 annual budget process. As a one-time source of funding, clear principles of spend should follow the important budgeting principle that funds only be spent and invested in one-time costs. The Finance Committee may review the planned expenses and the uncommitted balances during the FY 2022 budget hearings, provide feedback on priorities and goals for future spend within the parameters of the development agreement, and recommend to the City Council any changes in allocation of these funds in the context of reviewing the FY 2022 budget in the days following this review.

**Stanford University Medical Center (SUMC) Current Fund Status Summary (millions):**

<table>
<thead>
<tr>
<th>Development Agreement Expenditure Category</th>
<th>PRINCIPAL FUNDING</th>
<th>FY 2021 Beginning Balance</th>
<th>FY 2021 Interest (EST)</th>
<th>Planned Commitments FY 2021</th>
<th>Planned Commitments FY 2022-26</th>
<th>NOT Committed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Health and Safety</td>
<td>4.0</td>
<td>2.9</td>
<td>0.04</td>
<td>0.5</td>
<td>-</td>
<td>2.44</td>
</tr>
<tr>
<td>Expansion Cost Mitigation</td>
<td>2.4</td>
<td>3.0</td>
<td>0.03</td>
<td>0.7</td>
<td>0.5</td>
<td>1.83</td>
</tr>
<tr>
<td>Intermodal Transit</td>
<td>2.3</td>
<td>1.3</td>
<td>0.02</td>
<td>-</td>
<td>1.5</td>
<td>(0.18)</td>
</tr>
<tr>
<td>Quarry Road Impv. &quot;Linkages&quot;</td>
<td>0.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure and Affordable Housing</td>
<td>23.2</td>
<td>10.4</td>
<td>0.14</td>
<td>0.8</td>
<td>8.9</td>
<td>0.84</td>
</tr>
<tr>
<td>Climate Change and Sustainable Communities</td>
<td>12.0</td>
<td>2.9</td>
<td>0.03</td>
<td>0.4</td>
<td>2.0</td>
<td>0.53</td>
</tr>
<tr>
<td></td>
<td>$44.3</td>
<td>$20.5</td>
<td>$0.26</td>
<td>$2.4</td>
<td>$12.9</td>
<td>$5.46</td>
</tr>
</tbody>
</table>
Details on usage of these funds can be found in the prior staff report as noted above. Below is a brief description of the planned projects included in FY 2021 through FY 2026 by category.

**Community Health and Safety:** Funds in this category are intended for use on community-based health and wellness programs that benefit residents of the City.
- A transfer from the Stanford University Center Medical Fund of $500,000 was completed as part of the City Council Community and Economic Recovery workplan to increase the Building Systems Improvements capital project (PF-01003) for COVID-19 mitigation measures at City Facilities.

**Expansion Cost Mitigation:** Funds in this category are intended for mitigating unexpected project impact costs and ensure cost neutrality of the development.
- A transfer from the Stanford University Center Medical Fund of $150,000 was completed as part of the City Council Community and Economic Recovery workplan to establish the University Avenue Streetscape Update capital project to cover the costs of work on University Avenue.
- Funding of $1.0 million is programmed for Railroad Grade Separation (PL-17001) work associated with the Caltrain crossing and planning in FY 2021 and FY 2022.

**Intermodal Transit:** Funds in this category are intended to enhance pedestrian and bicycle connection from the Transit Center to the El Camino/Quarry Road intersection.
- Funding of $1.5 million is programmed to be expended on the Quarry Road Improvement and Transit Center Access project (PL-16000) in FY 2024

**Quarry Road Improvements:** These funds are to be used for improvements to the right-of-way for pedestrian and bicycle connection in the Quarry Road area, such as improvements to the right-of-way to enhance pedestrian and bicycle connection from west side of El Camino to Welch Road along Quarry Road. As of FY 2019, all of the original $0.4 million allocation have been spent on design and construction of the temporary bicycle and pedestrian Transit Center Pathway that was completed in summer 2017 (PL-16000).

**Infrastructure and Affordable Housing:** Funds are to be used in connection with infrastructure, sustainable neighborhoods and communities, and affordable housing.
- Funding of $8.9 million is programmed to be expended on the Fire Station 4 Replacement (PE-18004) in FY 2022, FY 2024, and FY 2025. This funding was previously allocated to the Downtown Parking Garage (PE-15007), however, funding was realigned between City Council approved 2014 Capital Infrastructure Plan as part of the City Council approved FY 2021 Adopted CIP due to the significant financial constraints the COVID-19 pandemic induced.
- Funding of $800,000 is programmed to be expended on the New Public Safety Building (PE-15001) in FY 2021 of which preliminary construction work is underway.

**Climate Change and Sustainable Communities:** Funds are to be used for projects and programs
for a sustainable community, including programs identified in the City’s Climate Action Plan.

- Funding of $2.4 million is programmed to be used for the Bicycle and Pedestrian Transportation Plan Implementation (PL-04010) capital plan, approved as part of the City Council approved 2014 Infrastructure Plan in FY 2021 and FY 2022.

Unallocated Funding
The unallocated funding of approximately $5.5 million is primarily in the Community Health and Safety and the Expansion Cost Mitigation allocations. Likely areas for use, though not an exclusive or comprehensive list are noted below in general terms:

- Assessment and assistance to community groups and non-profits that support community health and wellness;
- Capital improvement projects supporting the mitigation of the expansion of the hospital
- Support for City Council unfunded priorities such as City Council’s Sustainability and Climate Action Plan

As mentioned earlier, as a one-time source of funding, clear principles of spend should follow the important budgeting principle that funds only be spent and invested in one-time costs. In addition, based on feedback and recommendations from the Committee as part of the budget process, staff will evaluate in the context of the terms in the development agreement to ensure compliance.

STAKEHOLDER ENGAGEMENT
Current allocations have been discussed as part of the public annual budget process both the community, City Council, and standing Finance Committee. Depending on changes to the allocation of funding staff or allocation of remaining funds, will review to ensure alignment with requirements under the development agreement for eligibility and required coordination with appropriate groups.

RESOURCE IMPACT
The action recommended does not have a resource impact, however, realignment of funding and recommended adjustments may have an impact that requires further evaluation.

ENVIRONMENTAL IMPACT
The action recommended is not a project for the purposes of the California Environmental Quality Act.