



CITY OF  
**PALO  
ALTO**

## City Council Staff Report

**From: City Manager**

**Report Type: CONSENT CALENDAR**

**Lead Department: Planning and Development Services**

**Meeting Date: April 17, 2023**

Report #:2303-1129

### **TITLE**

Stanford University Medical Center (SUMC) Annual Report to Council for Fiscal Year 2021-2022

### **RECOMMENDATION**

Staff recommends that the City Council:

1. Review the Stanford University Medical Center (SUMC) Annual Report for Fiscal Year 2021-2022, and find that Stanford Hospitals & Clinics, Lucile Packard Children's Hospital, and Stanford University (SUMC Parties) have complied in good faith with the terms and conditions of the SUMC Development Agreement;
2. Find that the SUMC Parties are not in default with the terms and conditions of the Agreement in all sections, with the exception of alternative mode share targets, for which the SUMC Parties have claimed a permitted delay due to the effects of the COVID-19 Pandemic; and
3. Accept the City of Palo Alto's (City) Annual Report Supplements regarding the funds received from the SUMC Parties, as required under Section 12(d) of the Development Agreement (Attachment E).

### **EXECUTIVE SUMMARY**

The City Council is required to review the SUMC Development Agreement (the "Agreement") to confirm compliance with the Agreement's terms. The Agreement is between Stanford Hospital and Clinics, Lucile Packard Children's Hospital, Stanford University (SUMC Parties), and the City of Palo Alto. The City also uses this Annual Report to Council to provide information on the City's compliance obligations, such as providing the required summary and description of how the City expended funds provided by SUMC per the Agreement.

As documented in this Annual Report to Council, both SUMC and the City are in compliance with the terms of the Agreement for the reporting period Fiscal Year 2021-2022, with the exception of alternative mode share targets. In regard to the achievement of the alternative mode share

milestone target, SUMC was not able to meet the specific target outlined in the Agreement. This was due to the effect of the COVID-19 pandemic on SUMC employee use of alternative transportation modes, such as Caltrain and other public transit systems. As received by the City on June 14, 2022, the SUMC Parties asserted a permitted delay under the Force Majeure provision of the Agreement. The SUMC Parties and City staff are actively engaged in discussing an amendment to the Agreement to address this issue.

## **BACKGROUND**

On June 6, 2011, the Council approved Comprehensive Plan amendments, zoning changes, a conditional use permit, annexation, and design applications for the Stanford University Medical Center Facilities Renewal and Replacement Project (the “Projects”). The Projects include the construction of the new Stanford Hospital and clinics buildings, an expansion of the Lucile Packard Children’s Hospital (LPCH), construction of new School of Medicine (SOM) buildings, renovation of the existing Hoover Pavilion, construction of a new medical office building and parking garage at Hoover Pavilion, roadway improvements along Welch Road and Durand Way, and SUMC design guidelines. The Development Agreement vesting these approvals became effective on June 6, 2011, and continues for thirty (30) years from the effective date.

This report covers activities by the SUMC Parties for Fiscal Year 2021-2022, which is the eleventh year of the Agreement. The annual report prepared for Fiscal Year 2020-2021 found the SUMC parties to be in compliance with the Agreement.<sup>1</sup> Previous annual reports and compliance documentation can be found via the weblinks in Attachment B.

## **ANALYSIS**

Agreement Section 12, “Periodic Review of Compliance,” requires City Council to confirm SUMC Parties’ compliance with the terms of the Agreement. Discussion items in this report are intended to guide City Council through the many aspects that SUMC and City staff monitor and track throughout the year to ensure compliance.

The SUMC Annual Report for FY 2021-2022 (Attachment A) describes the activities related to Agreement implementation and ongoing annual progress toward meeting the following obligations in Section 5 of the Agreement, “SUMC Parties’ Promises:”

- Health Care Benefits;
- Fiscal Benefits;
- Traffic Mitigation and Reduced Vehicle Trips;
- Linkages (Pedestrian, Bicycle, and Transit);
- Infrastructure, Sustainable Neighborhoods & Communities, Affordable Housing; and

---

<sup>1</sup> City Council Report, 03/21/22 (SUMC Annual Report Fiscal Year 2020-2021):

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2022/20220321/20220321pccsm-amended-linked-revised.pdf>

- Climate Change.

Staff prepared a summary of the Section 5 obligations and the staff-confirmed compliance status (Attachment C).

Agreement Section 12 also includes the requirement for demonstration of good faith compliance with the Agreement. Toward this end, SUMC has timely submitted all the reports required of the SUMC Parties for Fiscal Year 2021-2022.

### **Construction Activities and Net New Square Footage**

SUMC discusses their construction activities for Fiscal Year 2021-2022 in their SUMC Annual Report (Attachment A). A summary of construction activities and tracking of square footage demolished and added can be found in Attachment D.

SUMC did not add any net new square footage in FY 2021-2022 but continued to remove occupancy for portions of the 1959 Stone Complex by 18,472 square feet. This suspension of use provides a temporary option to prevent exceedance of the total occupied square footage allowed in their entitlements. While not triggered in the FY 2021-2022 monitoring period, there are provisions in the SUMC entitlements to have a three-year period (or up to five years with Planning Director approval) whereby SUMC is allowed to exceed the total occupied existing and net new building square footage. This provision is important for ensuring that SUMC can maintain existing operations while also efficiently transferring new uses, equipment, and operations over to the new facilities.

City staff reviewed the information regarding SUMC net new square footage in the report and determined this information is complete and correct.

### **Traffic Mitigation and Reduced Vehicle Trips**

SUMC implemented all required transportation demand management (TDM) obligations in FY 2021-2022, such as purchasing of Caltrain Go Passes, funding for the AC Transit U-Line, and other activities. Summaries of these activities can be found in Attachments A and C.

### ***Alternative Mode Share Milestone Targets***

SUMC achieved their 2021 alternative mode share milestone target of 33% for employee trips early and every year between 2013 and 2019. The alternative mode share rate was 38.1% in FY 2018 and 33.8% in FY 2019. The SUMC Parties maintained all TDM requirements in FY 2020 until Santa Clara County issued COVID-19 pandemic shelter-in-place orders in March 2020. On March 27, 2020, the City conditionally approved a one-year delay in the submittal of two reports; the FY 2020 Alternative Mode Share Report and Mitigation Measure TR 2.3 Enhanced Stanford University TDM Program report. Conditional approval of this delay was consistent with the procedures in Section 6(p) of the Agreement and no additional environmental review was required.

In Fiscal Year 2020-2021, the SUMC parties found that the alternative mode share milestone target of 33% outlined in Agreement Section 5(c)(ix) was not met for 2021, nor was it above the previous 2018 milestone target of 30%. The alternative mode share rate for SUMC decreased to 28.8% between use of alternative modes versus driving alone, largely due to ongoing pandemic conditions. SUMC identified that the share of Caltrain riders dropped most significantly (-6.5%), followed by the carpools (-2.6%), and other forms of transit (-3%). SUMC observed modest increases in other alternative transportation modes, including in remote work and bicycling, but these increases were not sufficient to offset the decrease in transit usage and carpools.

In Fiscal Year 2021-2022, despite continuing to implement all TDM programs, as well as enhancing communications and promotions, the SUMC parties found that the alternative mode share milestone target of 33% was again not met. It had decreased to 19.9% from 28.8% in the previous year.

Under Agreement Section 5(c)(ix) Monitoring of TDM Programs, missing the alternative mode share milestone target for two consecutive years, FY 2020-2021 and FY 2021-2022, would require SUMC to provide a \$175,000 payment to the City for alternative transportation funding. The City would need to use the payment to support local projects and programs that encourage use of alternative transportation modes or otherwise reduce peak period traffic trips in the intersections impacted by the project.

After submitting the FY 2021-2022 Alternative Mode Share report, SUMC sent the City a Notice of Intent to claim a permitted delay as outlined in the Development Agreement Section 18(c) Force Majeure. SUMC subsequently filed a Development Agreement Amendment application that proposes adjusted dates for achieving alternative mode share milestone target dates to account for the effect of the COVID-19 pandemic on SUMC employee use of alternative transportation modes. The Amendment application is currently under review and will be agendaized for City Council consideration later this year. In the meantime, the City deferred any action to collect the \$175,000 payment.

### **Construction Sales and Use Tax Monitoring Report**

SUMC submitted the annual Construction Sales & Use Tax Monitoring Report on June 30, 2022 (fiscal year report). The City sent its required response. Based upon the City's review of the annual Construction Sales and Use Tax Monitoring Report, revenues for calendar years 2011 through 2021 have totaled \$5,405,338. This annual reporting assists in the process of ensuring that the City would receive no less than \$8.1M in construction sales and use tax revenue by December 31, 2025.

### **Supplement to the Annual Report**

Section 12 of the Agreement requires the City to prepare a Supplement to the Annual Report. The Supplement is to include an accounting of the funds received from the SUMC Parties to satisfy the obligations outlined in Section 5 of the Agreement, a description of the account

balances, and a summary and description of expenditures from the funds for each Fiscal Year (Attachment E). Section 12 mentions preparation of the Supplement within 45-days of the June and July receipt of the annual reports by SUMC, but there is no penalty for not doing so; after the close of the Fiscal Year, the City conducts an annual audit of the funds in Fall/Winter to demonstrate good faith in implementing the Agreement.

The SUMC Parties have already paid the City approximately \$44.3 million in public benefit fees since June 6, 2011 through the FY 2021-2022 reporting period. This sum includes the approximately \$11.7 million third and final payment by SUMC during the FY 2017-2018 reporting period.

Regarding fund usage during the Fiscal Year 2021-2022 reporting period, the City authorized transfers for the following:

- \$500,000 under “Expansion Cost Mitigation” for Rail Grade Separation (PL-17001);
- \$775,000 under “Infrastructure, Sustainable Neighborhoods and Communities, and Affordable Housing” for \$750,000 replacement of Fire Station Four (PE-18004) and \$25,000 University Avenue Streetscape Update (PE-21004); and
- \$1,250,000 under “Community Health and Safety” for \$1.2 million Charleston/Arastradero Corridor Project (PE-13011) and \$50,000 to the General Fund allocated to local non-profits through the Human Services Resource Allocation Process (HSRAP).

### **Use of Development Agreement Funds**

The funds received by the City through the Agreement represent funding for Operations and a significant portion of funding for implementation of the City’s Capital Infrastructure Plan.

For additional information about the recent past, current, and future use of Agreement funds, please refer to the following:

- Fiscal Year 2022 Adopted Operating Budget document, Special Revenue Funds section;
- Fiscal Year 2022 Adopted Capital Improvement Budget document;
- City Council Report 13609 February 28, 2022 Design Services for the University Avenue Streetscape Update Capital Improvement Project, including amendments to the FY 2022 Capital Improvement Plan;
- Fiscal Year 2023 Adopted Operating Budget Document, Special Revenue Funds section; and the
- Fiscal Year 2023 Capital Improvement Budget document.<sup>2</sup>

---

<sup>2</sup> Fiscal Year 2022 Adopted Operating Budget document, Special Revenue Funds section:  
[https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy-2022-city-budget/adopted-budgets/operating-budget\\_web.pdf](https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy-2022-city-budget/adopted-budgets/operating-budget_web.pdf).

The SUMC agreement Section 5(a)(iii) requires that a joint committee make annual recommendations to the City Council regarding proposed disbursements from the Community Health and Safety Program Fund, and the City Council may use reasonable discretion to accept, reject, or modify these recommendations. The joint committee includes SUMC representatives and City staff from the Office of Transportation, Administrative Services, and Public Works departments. Projects using Community Health and Safety funds for the Fiscal Year 2021-2022 reporting period have gained mutual support from members of the joint committee and approval from the City Council.

### **FISCAL/RESOURCE IMPACT**

There are no impacts to the City's budget resulting from this review of the SUMC Annual Reports for Fiscal Year 2021-2022. As stated above, the SUMC Parties have already paid approximately \$44.3 million in public benefit fees to the City since June 6, 2011 through the FY 2021-2022 reporting period. Future fund contributions are not anticipated.

As discussed earlier in this report, the City deferred collection of the \$175,000 payment for alternative transportation funding, pending City Council action on the SUMC Development Agreement Amendment application. No staff analysis has been completed at this time regarding the potential use of this payment.

### **STAKEHOLDER ENGAGEMENT**

Staff did not perform specific community outreach related to preparation of this annual report. Community members and policy makers were extensively involved in the crafting of the Agreement and all other associated project enabling entitlements. Also, subsequent related project entitlements continue to be processed through the City's standard review processes, as discussed in the Development Agreement and other entitlements.

### **ENVIRONMENTAL REVIEW**

Reviewing and making findings regarding SUMC and City compliance with the Agreement is not a project under the California Environmental Quality Act and no environmental assessment is

---

Fiscal Year 2022 Adopted Capital Improvement Budget document:

<https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy-2022-city-budget/adopted-budgets/capital-budget-book-web.pdf>.

City Council Report 13609 February 28, 2022 Design Services for the University Avenue Streetscape Update Capital Improvement Project, including amendments to the FY 2022 Capital Improvement Plan:

<https://www.cityofpaloalto.org/City-Hall/City-Council/Council-Agendas-Minutes>.

Fiscal Year 2023 Adopted Operating Budget Document, Special Revenue Funds section:

[https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy2023-city-budget/adopted-fy23/operating-budget\\_final-4.pdf](https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy2023-city-budget/adopted-fy23/operating-budget_final-4.pdf).

Fiscal Year 2023 Capital Improvement Budget document:

[https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy2023-city-budget/adopted-fy23/capital-budget\\_final-4-online-version.pdf](https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy2023-city-budget/adopted-fy23/capital-budget_final-4-online-version.pdf).

required for the annual compliance review. An environmental impact report for the entire SUMC project was prepared and certified by the City Council prior to approval of the Agreement.

**ATTACHMENTS**

Attachment A: Fiscal Year 2021-2022 SUMC Annual Report

Attachment B: Weblinks to Prior SUMC Annual Reports

Attachment C: SUMC Development Agreement Section 5 Compliance Table

Attachment D: SUMC Construction Activities and Square Footage Summary

Attachment E: Supplement to the Annual Report

**APPROVED BY:**

Jonathan Lait, Planning and Development Services Director