



April 13, 2009

Mayor Peter Drekmeier
City Council Members
City Manager James Keene
250 Hamilton Avenue
Palo Alto, California 94301

RE: SUMC Renewal Project

Dear Mayor Drekmeier, Members of the City Council and City Manager Keene:

We have been working with the City of Palo Alto since 2006 to gain City approval of plans for the replacement and expansion of facilities of Stanford Hospital and Clinics ("SHC"), Lucile Packard Children's Hospital ("LPCH") and Stanford University School of Medicine. The hospitals' projects are critically needed to meet State of California seismic requirements, to modernize and replace outdated medical and laboratory facilities, and to provide the necessary capacity to provide health care for our community. The projects will also generate significant new jobs and stimulate economic growth in Palo Alto and the region.

Project applications were filed with the City in August 2007 and the original time line expected the release of a draft environmental impact report (DEIR) in June 2008. The current expected release date is now a year behind that schedule. For SHC to meet the State mandated deadline, which we hope will be extended from 2013 to 2015, we must complete the extensive and time consuming review process with the California Office of Statewide Health Planning and Development ("OSHPD") before we can begin construction.

The evaluation of the hospitals renewal and expansion project should be based on its most significant community benefit: the on-going provision of superior healthcare services to Palo Alto and nearby communities. The Emergency Department and Trauma Center are critical parts of the health and safety net for this community. Two-thirds of Palo Alto adults and children who required hospitalization in 2007 were served by SHC and LPCH. The combined total of the uncompensated costs of medical services and charity care in 2007 was \$220 million. Our ability to continue to provide these vital community benefits faces the challenge of meeting State mandated seismic requirements.

Potential significant environmental impacts of the projects will be identified as required by the California Environmental Quality Act. We have always acknowledged the hospitals' responsibility to include all feasible and reasonable mitigation measures in

our projects to address such impacts. But above and beyond mitigation measures, the City has been generating an ever-expanding list of items it desires be included as “community benefits” in a Development Agreement or as “requirements” to be put in a zoning change.

Recently, the City staff declared that almost half the items previously listed as potential community benefits should now be considered requirements or conditions of approval. The most significant of these, the “requirement” that the hospitals provide 594 affordable housing units on land the hospitals do not own, and that is mostly outside the City’s jurisdiction, is without precedent in City policy. The hospitals are exempt from the affordable housing impact ordinance, but if this were a commercial project, the City ordinance would call for either 63 units or payment of an in-lieu fee.

The hospitals have patiently insisted that good faith negotiations regarding the Development Agreement and community benefits should begin when the impacts and mitigation measures being analyzed in the DEIR are understood. We now have a fairly good understanding of what those impacts and mitigations may be; although until the DEIR is released, we will not have the complete picture. We are completing our internal consideration of what items may be possible to include as part of an overall package in a Development Agreement, and what items we cannot support or provide.

We are also evaluating what the hospitals can do given an economic environment, which is the most challenging since the 1930s. We are facing higher financing costs, greater difficulty in raising private donations, and the need to provide more care to those who cannot afford to pay for healthcare. This reduces the hospitals’ financial ability to afford these projects, which are very much needed by the community. If in addition, the City requires millions of dollars in costs for items that are not related to health care or the impacts of the projects themselves, these projects will be in great financial jeopardy.

We intend to bring to the City a comprehensive proposal and engage in good faith negotiations in the near future. The hospitals intend to focus on items that are tied closely to the effects of the proposed projects, and that can provide public benefits without undermining the essential healthcare objectives. Access to the highest quality health care is of critical importance to our community. We both – the City and the hospitals – owe it to the community to work together to reach a solution that will allow us to maintain these health care services.

Sincerely,

Christopher G. Dawes
President and CEO
Lucile Packard Children’s Hospital at Stanford

Martha H. Marsh
President and CEO
Stanford Hospital & Clinics