

CPMC Development Agreement Summary
Revised 3-29-12

Proposed Development Agreement Executive Summary:

After significant negotiation and completion of environmental review, the City is proposing to enter into a Development Agreement (DA) with California Pacific Medical Center (CPMC). Approval of the DA and the concurrent enabling ordinances will allow both parties to receive certain benefits that could not be guaranteed through the normal entitlement process. This unprecedented partnership will rebuild seismically vulnerable hospitals and move San Francisco's healthcare system into the future. The project will double the number of seismically safe hospital beds in San Francisco, inject \$2.5 billion into the City's economy, create 1,500 new construction jobs and guarantee \$1.1 billion in community benefits.

Under the proposed DA, the City will receive:

- Two new, seismically-safe hospitals, at the St. Luke's and Cathedral Hill campuses.
- A secure future for St. Luke's Hospital, including agreement to open this hospital before opening the new Cathedral Hill Hospital
- Significantly increased provision of healthcare for low-income and underserved San Franciscans by CPMC, including hospital care for 10,000 additional Medi-Cal beneficiaries, which represents one-third of the city's new Medi-Cal beneficiaries expected under federal healthcare reform.
- \$20 million endowment by CPMC of a new Community Care Innovation Fund, to support the services of community clinics and other social service organizations.
- \$62 million from CPMC for affordable housing, to replace displaced units, fund new affordable rental units, and help moderate income CPMC employees purchase a home in San Francisco.
- A limitation on premium increases from CPMC for City employee and retiree health insurance.
- Agreement by CPMC for local hire of at least 30% of all construction workers, and at least 200 permanent hires through the City's workforce system.
- \$20 million from CPMC for MTA transit facilities and service.
- \$13 million from CPMC for pedestrian safety and streetscape improvements.

Under the proposed DA, CPMC will receive:

- Vested entitlement to construct five new medical facilities: Cathedral Hill Hospital, Cathedral Hill Medical Office Building, Davies Neuroscience Institute, new St. Luke's Hospital and new St. Luke's Medical Office Building.
- Increases to permissible height and floor area ratio at the Cathedral Hill and St. Luke's campuses.

The DA is a binding legal contract, between Sutter West Bay (CPMC's parent legal entity) and the City and County of San Francisco. After certification of the Final Environmental Impact Report, the DA must be recommended by the Planning Commission and adopted through ordinance by the Board of Supervisors. Once adopted and signed, the DA can only be changed substantively by agreement of both parties, which would require an action by both the Planning Commission and Board of Supervisors. Like any contract, the DA spells out the obligations of both parties and identifies remedies to be used in case of non-performance by either party.

Proposed Development Agreement Detailed Summary:

I. GENERAL TERMS

A. *Term of the agreement; termination of the agreement; survival of obligations.*

- Effective Date of the DA is 30 days after the Mayor signs the enacting ordinance.
- Term of the agreement is 10 years from the Effective Date.
- Some obligations survive beyond the term of the DA (e.g. St. Luke's Hospital).

B. *Triggering of CPMC Obligations*

- The obligation to build and open the new St. Luke's Hospital is triggered once CPMC begins to construct the new Cathedral Hill Hospital.
- The project's approvals are "Finally Granted" after any lawsuits filed against the development are resolved in CPMC's favor.
- Some obligations are triggered immediately upon Effective Date.
- Most obligations are triggered either after the approvals are Finally Granted, upon a construction milestone, or upon the opening of the new Cathedral Hill Hospital.
- If a lawsuit is filed against CPMC, CPMC may suspend performance of certain obligations until the lawsuit is successfully resolved.

C. *Vesting of CPMC Development Rights*

- Approvals for five "Near-Term" projects (Cathedral Hill Hospital, Cathedral Hill Medical Office Building, Davies Neuroscience Institute, new St. Luke's Hospital and new St. Luke's Medical Office Building) are vested by the Development Agreement, including increases to permissible height and Floor Area Ratio at the Cathedral Hill and St. Luke's campuses.
- Impact and application fees for Near Term projects are vested and cannot change
- "Long-Term" Projects on CPMC's Davies, Pacific and California Campuses do not have vested approvals. However, the City may not down-zone those campuses and development on those campuses will not be subject to new types of impact fees during the term of the DA.
- Future development proposals on the Davies, Pacific or California campuses are subject to a community outreach process.

D. Vacation of a portion of San Jose Avenue

- Development Agreement (and an associated vacation ordinance and transfer agreement) vacates a portion of San Jose Avenue between 27th Street and Cesar Chavez Street and transfer to CPMC for purposes of building the new St. Luke's Hospital.
- CPMC will pay appraised market value for the street portion at time of transfer.

E. Enforcement mechanisms

- The DA includes standard enforcement mechanisms and remedies, consistent with other large development projects recently approved by the City.
- The City has the right to terminate the DA and the right to sue for specific performance as well as the right to monetary damages for payment failures and for indemnifications as set forth in the DA and for any default on an obligation for which specific performance is not available.
- For the ongoing healthcare commitments in Exhibit F, the City has negotiated specific liquidated damages.

II. COMMUNITY BENEFITS - HEALTHCARE:

A. Ensure a secure future for St. Luke's – require CPMC to rebuild and maintain for 20 years

- CPMC may not open the new Cathedral Hill Hospital until it opens the new St. Luke's Hospital
- CPMC must operate the new St. Luke's Hospital for 20 years, unless CPMC's system-wide operating margin falls below 1% for two years in a row. ("Operating margin" is the percentage by which CPMC's total revenues exceed its total expenditures.)
- The new St. Luke's Hospital must, throughout the 20-year term, be licensed as a general acute care hospital with comprehensive emergency medical services. The Hospital must include Centers of Excellence in Community and Senior Health
- When demand for it is demonstrated, CPMC must submit a request to the Sutter West Bay Board of Directors to build a new Medical Office Building on the site of the old St. Luke's Hospital. If, four years after the opening of the new St. Luke's Hospital, CPMC has for any reason not begun the process to build a new Medical Office Building, the City will have the right to lease the property for a nominal amount and work with a developer to build a Medical Office Building.

B. Provide a continued level of Baseline Charity Care for San Francisco's most vulnerable populations for a period of 10 years

- CPMC must spend at least \$86 million, beginning in the first year of the agreement, on Charity Care, Medi-Cal and other services to the poor and underserved, and continue to spend this amount, increased annually by the medical inflation rate for 10 years.

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- CPMC costs for this provision will be limited in each year to 40% of its “EBITDA” for that year. (“EBITDA” is CPMC’s net income after operating expenses, but before interest, taxes, depreciation and amortization.)
- CPMC will also provide a \$20 million “backstop fund,” which will be used to supplement available funds when these costs would exceed 40% of CPMC’s EBITDA.

C. Over and above the Baseline Commitment, provide hospital care for 10,000 new Medi-Cal Managed Care beneficiaries (a projected one-third of the City’s expected new Medi-Cal Managed Care beneficiaries) for a period of 10 years

- For a period of 10 years, CPMC must provide hospital care, primarily in the new Cathedral Hill Hospital, for an additional 10,000 Medi-Cal Managed Care beneficiaries.
- To meet this commitment, CPMC must partner with at least two primary care providers, one of which must be located in the Tenderloin neighborhood (if a qualified Tenderloin provider is available).
- CPMC will spend up to \$9.5 million per year, increasing each year by the medical inflation rate, to provide services to these beneficiaries.

D. Endow a new Community Care Innovation Fund to support community clinics and social service providers and facilitate shift towards Medi-Cal Managed Care

- CPMC will provide \$20 million to create a Community Care Innovation Fund.
- Fund will be used to support the City’s community clinics preparation for federal healthcare reform and to provide infrastructure support for community-based health and human services providers.
- Fund will be used to develop capacity of one or more Tenderloin clinics to participate in Medi-Cal managed care.
- Fund will be managed by the San Francisco Foundation and jointly controlled by representatives of the City, the Foundation and CPMC.

E. Support long-term Care in the City by maintaining 100 Skilled Nursing Facility (SNF) beds for 10 years

- CPMC will continue to provide and maintain 100 Skilled Nursing Facility beds for a period of 10 years.
- Beds must be available to all CPMC patients, including uninsured, Medi-Cal, and Medicare patients.

F. Protect the City’s Health Service System (HSS) from premium increases by capping rates for 10 years

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- CPMC will limit premium increases to insurers for HSS to no more than 5% annually for years 1 through 3 and no more than the medical rate of inflation plus 1.5 % annually for years 4 through 10

G. Provide other healthcare-related community benefits

- CPMC will work with DPH and other hospitals to develop specific proposals for providing sub-acute care services in San Francisco, to be presented to the Health Commission by June 30, 2013.
- CPMC will continue efforts at the clinical integration of medical staffs at the St. Luke's Campus, with the medical staff at its Pacific Campus, California Campus and Davies Campus (and, upon Completion of the Cathedral Hill Hospital, the Cathedral Hill Campus).
- CPMC will continue to actively participate in the "Community Benefits Partnership" of San Francisco private non-profit hospitals, SFDPH, Human Services, community clinics, health plans, non-profit providers and advocacy groups, to prepare a community benefit plan, for submittal to the State.
- CPMC will continue to provide pediatric, obstetric, and certain tertiary services to Chinese Hospital patients in a manner generally consistent with existing services agreements with Chinese Hospital.
- CPMC will deliver at all campuses culturally and linguistically appropriate services that are representative of San Francisco's diverse communities and are in accordance with the mandates, guidelines and recommendations of the National Standards on Culturally and Linguistically Appropriate Services.

III. COMMUNITY BENEFITS - HOUSING:

A. Uphold the policies of the Van Ness Special Use District, focusing on affordable housing

- CPMC will provide \$29 million to the City's affordable housing fund.
- CPMC will provide an additional \$29 million to a newly-created downpayment assistance loan program for CPMC employees earning up to 100% of area median income.
- Funds from downpayment assistance loans will be recaptured into the affordable housing fund, along with a portion of equity, when CPMC employees sell units bought with the loans. An estimated additional \$35 million is expected to flow into the affordable housing fund this way over time this way.

B. Replace rent-controlled and residential hotel units displaced by construction of CPMC's new Cathedral Hill campus

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- CPMC will provide \$2,684,800 in funding to replace 20 rent-controlled units demolished by the new Cathedral Hill campus.
- CPMC will provide \$1,453,820 in funding to replace 5 rent-controlled units demolished by the new Cathedral Hill campus.

IV. COMMUNITY BENEFITS – JOBS

A. Uphold the City's local hire policies for construction projects

- CPMC will make good faith efforts to achieve 30% local hire measured by construction trade hours for the project overall for each contractor, and by each trade.
- For new entry-level administrative and engineering positions and internships, CPMC will achieve 50% local hire.
- Half of all new apprentice positions will be filled with graduates from the CityBuild Academy; OEWD/CityBuild, contractors and unions will work together to maximize opportunities for local residents for remaining 50%.
- CPMC will create and administer a structured program to advance apprentices from CityBuild Academy to journey-level status in their trade by the end of the project.

B. Create career paths for San Franciscans and support job training programs

- CPMC will hire at least 40 permanent entry-level hires annually for 5 years; targeting residents of the Western Addition, Tenderloin, Mission/SOMA, Outer Mission/Excelsior, Chinatown and Southeastern neighborhoods.
- CPMC will provide \$2 million for community workforce services, which will provide grants to CBOs through OEWD for recruitment, training, job retention services.

V. COMMUNITY BENEFITS - TRANSIT

A. Provide funding for MTA transit facilities and service

- CPMC will provide \$5 million in funding for the Van Ness and Geary Bus Rapid Transit projects.
- CPMC will pay a \$10.5 million Transit Fee to MTA to help meet new demands on the transit system associated with the new medical facilities.
- For a period of 10 years, CPMC will impose a surcharge on parking at the new Cathedral Hill campus of \$0.50 off-peak and \$0.75 peak for each entry and exit. This will provide an estimated \$500,000 per year to MTA.
- CPMC will provide \$400,000 to MTA to fund studies for improvements to bicycle facilities around and between the proposed new CPMC facilities.

VI. COMMUNITY BENEFITS - PEDESTRIAN SAFETY:

A. Improve pedestrian safety in areas surrounding CPMC's campuses by funding and building streetscape, lighting and pedestrian safety projects in three neighborhoods

- CPMC will provide \$8 million for pedestrian safety improvements in the Tenderloin, including pedestrian-scale, lighting, sidewalk widening and changing one-way streets to two-way.
- CPMC will provide \$150,000 to help form a Lower Polk Community Benefits District (CBD) as well as a \$1 million seed grant to the CBD.
- CPMC will provide a \$200,000 grant for the Safe Passage pilot program in the Tenderloin.
- CPMC will construct a series of pedestrian safety improvements around the Davies Campus, valued at approximately \$475,000.
- CPMC will construct a series of pedestrian safety improvements around the St. Luke's Campus, valued at approximately \$3,300,000.