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June 14<sup>th</sup>, 2013

The Honorable Board of Supervisors  
City and County of San Francisco  
Room 244, City Hall

Angela Calvillo  
Clerk of the Board of Supervisors  
Room 244, City Hall

*File 120357-120366  
130508-130510*

**Re: Office of Economic Analysis Impact Report for File Number 120336**

Dear Madam Clerk and Members of the Board:

The Office of Economic Analysis is pleased to present you with its economic impact report on file number 120336, "Development Agreement for the CPMC Long-Range Development Plan: Economic Impact Report." If you have any questions about this report, please contact me at (415) 554-5268.

Best Regards,

Ted Egan  
Chief Economist

# Development Agreement for the CPMC Long-Range Development Plan: Economic Impact Report

Office of Economic Analysis  
June 14<sup>th</sup>, 2013

Item #120336



## Introduction

- The proposed development agreement and accompanying legislation would permit Sutter Health to realize elements of its Long-Range Development Plan, while providing certain community benefits.
- Specifically, the agreement permits the demolition and reconstruction of St. Luke's Hospital in the Mission, the construction of a new hospital and medical office building on Cathedral Hill, and the construction of a Neuroscience Institute building on the Davies campus in Duboce Triangle.
- With the construction of the Cathedral Hill hospital, CPMC intends to consolidate operations and sell its California campus.
- This report provides only an assessment of the economic impact of the activities permitted by the development agreement – not the entire CPMC Long-Range Development Plan.
- In particular, it does not include an assessment of any potential re-use of the CPMC California campus.



## Economic Impact Factors

- The development agreement can be expected to affect the San Francisco economy in the following ways:
  - Construction spending
  - Expanded ongoing operations of CPMC and other health providers in new buildings
  - Community benefits included in the development agreement
- This report does not address potential economic impact of the future re-use of the California campus.
- In addition, the report does not consider how the development will be financed and that potential impact on the city's economy, because the OEA has no way to determine how Sutter might allocate development costs across its base of payers.

## Construction Impacts

- The development agreement includes three major construction projects:
  1. The construction of a new Cathedral Hill Hospital and medical office building.
  2. The demolition of the current St. Luke's Hospital Tower and the construction of a new St. Luke's Hospital and medical office building.
  3. The construction of a new Neuroscience Institute building over an existing parking lot on the Davies campus.
- The new Cathedral Hill Campus will include a hospital, and a new medical office building. In addition, an existing medical office building will be renovated.
- The development agreement would allow CPMC to replace St. Luke's Hospital with a new hospital with 120 beds and an emergency department.
- The Davies campus will see the construction of a new Neuroscience Institute Building.
- According to information in "California Pacific Medical Center: Economic and Fiscal Impact in San Francisco and the Bay Area", by EPS Inc., the construction program in the development agreement will cost a total of \$2.4 billion, and will be completed by 2019.



## Post-Construction Impacts

- In the EPS report, CPMC estimates that ongoing employment on its five San Francisco campuses will increase from the current 5,943 to 6,421 upon completion of the near-term development plan. The development agreement will thus enable CPMC to add 478 ongoing jobs in San Francisco, or 385 full-time equivalent jobs.
- In addition, the construction will create new office space for up to 2,000 medical professionals.
- While many of these people already occupy medical office space in the city and hence will not represent new employment, the expansion of medical office space in the city can be expected to reduce rents and attract some additional health service employment into the city.
- However, this report conservatively estimates that none of the future occupants of the new medical office building represent new employment to the city as a whole.



## Community Benefits

- The development agreement requires CPMC to make \$77 million in community benefit contributions, including:
  - over \$40 million in affordable housing and housing replacement costs.
  - over \$12 million in public infrastructure improvements in campus neighborhoods.
  - over \$12 million in transportation-related payments to offset the transit impact, contribute to Bus Rapid Transit improvement, and conduct further studies.
  - \$8.6 million contribution to an Innovation Fund for community clinics.
  - \$4 million contribution for workforce development.
- In addition, CPMC is required to levy a parking fee on each of its spaces, which is expected to generate \$1.4 million per year over 10 years.



## Economic Impact Assessment: REMI Model Simulation

- The OEA's REMI model was used to simulate the effects on San Francisco's economy of the following changes, over the 20-year period from 2013 to 2032.
  - \$2.4 billion in construction spending spread over the 2013-19 period.
  - 385 additional ongoing health services jobs from 2019-2032.
  - \$77 million in community benefits (an increase in local government spending) spread over the 2013-19 period.
  - \$1.4 million additional annual local government spending from the parking fee, coupled with a \$1.4 million annual reduction in consumer spending because of the fee, over the 2020-29 period.
- The development agreement is projected to lead to a net increase in employment in San Francisco of 1,500, including 550 construction workers, during the 2013-19 construction period.
- 650 permanent jobs will be created after construction has concluded.
- These employment estimates are annual averages during the periods in question, and represent full-time equivalent employment.





## Conclusions

- The proposed development agreement will lead to both near-term and longer-term employment growth within San Francisco.
- During the construction period from 2013-19, the project is projected to expand employment by 1,500 FTE jobs.
- After the near-term development plan has concluded, permanent employment is expected to increase by 650 FTE jobs.

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