SUBDIVISION REVIEW APPLICATION

Department of Planning and Economic Development
Zoning Section
1400 City Hall Annex
25 West Fourth Street
Saint Paul, MN 55102-1634
(651) 266-6589

RECEIVED
DEC 22 2010
Pat

Zoning office use only
File # 10-938-347
Fee: 700.00
Tentative Hearing Date: TO BE scheduled

PD = 17+7

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APPLICANT

Name Gillette Childrens' Speciality Healthcare
Address 640 Jackson St.
City Saint Paul St. MN Zip 55101 Daytime Phone 952-896-3290
Name of Owner (if different) Ramsey County
Contact Person (if different) Darwin Lookingbill Phone 651-266-2755

PROPERTY LOCATION

Address / Location 640 Jackson St.
Legal Description Lot 1, Block 2, Eastern Area Addition, Ramsey County, MN Current Zoning B5
(attach additional sheet if necessary)

TYPE OF SUBDIVISION:

- ☐ Lot Split
- ☐ Lot Split with Variance
- ☒ Reg. Land Survey
- ☐ Preliminary Plat
- ☐ Final Plat
- ☐ Combined Plat

STAFF USE ONLY

Planning District_____ Land Use Map_____ Tax Map_____ Zoning_____

Plans Distributed_____ Return by_____ Reviewed by_____

Comments:

c/c 213502
700 00

(attach additional sheets if necessary)

Applicant's Signature Julie Kleinschmidt Date 12/22/10 City Agent pdc 12/22/10

Julie Kleinschmidt, County Manager

Larkin Hoffman ATTORNEYS

Larkin Hoffman Daly & Lindgren Ltd.

1500 Wells Fargo Plaza
7900 Xerxes Avenue South
Minneapolis, Minnesota 55431-1194

GENERAL: 952-835-3800
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December 13, 2010

Allan Torstenson
Principal City Planner
City of St. Paul
25 West Fourth Street
Saint Paul, MN 55102

Re: Gillette Children's Specialty Healthcare Application for Administrative Subdivision for property located at 640 Jackson Street, City of St. Paul

Dear Mr. Torstenson:

We are writing on behalf of Ramsey County and our client, Gillette Children's Specialty Healthcare ("Gillette") in connection with the County's Registered Land Survey Subdivision application (the "Application") for 200 University Avenue East (the "Site") to the City of St. Paul, Minnesota (the "City").

We recognize that it may seem unusual for a private firm and a tenant (Gillette) to be providing this information on behalf of Ramsey County, so please let us briefly explain. As we set forth in greater detail, below, Gillette is formerly a state-owned institution and the state constructed its space in what is now, for the most part, Regions Hospital (all of which is now owned by the County) and the state has recently seen fit to provide capital improvement grants to remodel the County's facilities for use by Gillette. As you must imagine, all of this has occurred with the full support of the County, but we are handling a lot of the leg work since this is primarily for Gillette's use.

The Site is owned by Ramsey County (the "County") and is occupied by Gillette and Regions Hospital under an existing three-party lease (the "Lease"). Gillette and Regions Hospital will continue to occupy their respective portions of the Site as identified on the attached Certificate of Survey (the "Survey"). The County is applying for the RLS Subdivision as a first step in order to allow bond financing restrictions, provided in Minnesota law, to be placed on certain portions of the Site while not burdening the remainder of the Site. The County has executed a Consent to the subdivision which is attached to this Application.

Under the City's Zoning Code, an RLS Subdivision is allowed when there is a lot division that creates no more than four (4) lots. *Zoning Code § 69.302, § 69.200.* Gillette is proposing a division of the Site into two (2) lots and qualifies for administrative approval under the Zoning Code. Enclosed with this narrative are the following requirements for the Application:

1. A complete Subdivision Review Application;

2. Six (6) copies of a Certificate of Survey and one (1) copy reduced to 11 inches by 17 inches; and

3. Application fee of $140.

This letter provides background and narrative detailing compliance with the City's Zoning Code requirements for administrative approval. In addition, we have provided a copy of a letter to Peter Warner, Assistant St. Paul City Attorney, which provides extensive background on Gillette and the history of this project.

Background

Gillette is a Minnesota nonprofit corporation that is recognized as a tax exempt public charity under the Internal Revenue Code ("IRC") § 501(c)(3). Historically, Gillette was established as a state institution, and it operated as an integral part of state government from 1897 until 1989. In 1989, the state caused Gillette to become a private, charitable hospital, and the state's interest in the hospital building was conveyed to the County. By accepting the conveyance, the County agreed to make that space available for occupancy and use by Gillette for as long as Gillette needs the space.

Gillette plays a unique role in the provision of healthcare services in Minnesota and the Upper Midwest, taking care of children with childhood onset injuries or disabilities. As patient volumes have increased and technologies have changed, Gillette has undertaken to remodel and upgrade the portion of the Site that it occupies. These renovations have been taking place over the past ten (10) to twelve (12) years.

In 2010, the state legislature approved a $10,000,000 grant from the sale of the state's general obligation bonds to assist with the $64,000,000 renovation project that will continue through 2010. The project is summarized in the attached letter to Mr. Warner. The 2010 bond grant included specific language relating to the use of the funds. In order to protect the remainder of the Site from the legislative restrictions, this administrative subdivision is necessary.

The administrative subdivision will allow the renovated surgery center to become "Parcel B" while the remainder of the Site will be "Parcel A." We would recommend the following as a condition of approval as a part of this administrative subdivision:

> "Prior to any conveyance of Parcel B separate and apart from Parcel A, the leasehold owner of Parcel B will obtain the approval of Ramsey County and the consent of the City of St. Paul."

This condition will have the effect of providing a separate parcel of record that is susceptible to conveyance so that the deed restriction may be recorded, but does not allow such conveyance without significant oversight and approval by the property owner, the County, and the subdivision authority, the City.

City Code Requirements

Under City Code § 69.304, the RLS Subdivision is permitted without platting provided the following conditions are met:

1. The lot or lots have frontage on an existing improved street and access to municipal services.

   The resulting two lots following the RLS Subdivision will have access to University Avenue. The Site and related medical care and hospital units currently have access to municipal services. The RLS Subdivision will not impact either lot's existing street access or existing access to municipal services pursuant to the Leases. The RLS Subdivision satisfies the street frontage and municipal service condition.

2. The lot or lots to be divided are previously platted land.

   The Site is previously platted land. The legal description is Lot 1, Block 2, Eastern Area Addition, Ramsey County, Minnesota. The RLS Subdivision satisfies the platted land condition.

3. The lot or lots meet the minimum standards for lot width and area for the zoning district in which they are located.

   The Site is currently zoned B5 – Central Business-Service. The City Zoning Code does not provide minimum standards for lot width and area for the B5 Zoning District. The City Zoning Staff further confirmed that there are no minimum width and area standards for the B5 District. The Lot Split satisfies the lot standards for the B5 Zoning District.

4. The division of the lots shall not cause a remaining part of a lot to become a separately described tract which does not meet the minimum standards of the zoning district in which it is located or which does not have street frontage and access to municipal services.

   Based on the aforementioned compliance with the above conditions, the RLS Subdivision will not create a lot that does not meet the minimum standards of the B5 Zoning District. Both lots will maintain street frontage and will continue to have access to municipal services pursuant to the Leases.

5. The division does not result in a split zoning classification on a single lot.

   The Site is currently zoned B5 – Central Business-Service. The RLS Subdivision will result in two lots, both zoned B5. The RLS Subdivision will not result in a split zoning classification on a single lot.

6. The division does not result in the creation of a nonconforming structure or use.

The RLS Subdivision will comply with City Business District Dimensional Standards under City Code Table 66.431. There are no setback or height limitations and the resulting lots will both comply with the FAR maximum limits. The FAR for Tract B will be 4.57, and the FAR for Tract A will be 1.05. There will be no changes to access or loading areas pursuant to the Leases. The RLS Subdivision does not result in the creation of a nonconforming structure or use.

7. No lot shall be created where the building pad area for the principal structure has an existing slope steeper than eighteen (18) percent or where a driveway steeper than twenty (20) percent is required to reach the building site. However, the planning administrator may approve the creation of a steeper lot, as an exception to this regulation, where the steeper lot is specifically consistent with a city-approved neighborhood plan or redevelopment project.

   The RLS Subdivision will not result in any lots that exceed the allowed slope requirements.

In summary, the proposed RLS Subdivision meets the requirements for the Application. We are respectfully requesting that the City administratively approve the RLS Subdivision. Please contact us with any questions regarding this Application.

Sincerely,

William C. Griffith, for
Larkin Hoffman Daly & Lindgren Ltd.

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Assistant Ramsey County Attorney

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November 4, 2010

Peter W. Warner, Esq.
Assistant St. Paul City Attorney
Suite 550, 15 Kellogg Boulevard West
St. Paul, Minnesota 55102-1621

Re: Ramsey County Hospital Campus RLS Approval

Dear Mr. Warner:

We are writing to provide background information relative to Ramsey County's request for approval of a new RLS for the county's hospital property in St. Paul. This effort is tied to the use of a part of this property by Gillette Children's Specialty Healthcare ("Gillette") and the state's approval of a grant to the county to partially fund capital improvements for the facilities used by Gillette.

Gillette Background

Gillette is a Minnesota nonprofit corporation that is recognized as a tax exempt public charity under the Internal Revenue Code (IRC) § 501(c)(3). Historically, Gillette was established as a state institution and it operated as an integral part of state government from 1897 until 1989. From its early days until approximately 35 years ago, Gillette occupied a "campus" near Lake Phalen in the City of St. Paul, but in about 1975 the state, acting in cooperation with Ramsey County, constructed an addition to what was then the St. Paul-Ramsey Medical Center to house Gillette.

In 1989, the state caused Gillette to become a private, charitable hospital and the state's interest in that hospital building was conveyed to Ramsey County. This "transfer" occurred by the enactment of a special law providing for the transfer, subject to the acceptance by the county. The county did accept the legislative conditions and under the terms of that law, by its acceptance of this "conveyance," Ramsey County agreed to make that space available for occupancy and use by Gillette for as long as Gillette needs the space. Gillette has continued to occupy that space and other space in the county's hospital facilities ever since.

Gillette's relationship with Ramsey County and, more recently, with Regions Hospital relating to the use of the county's hospital facility, has always been governed by a written lease. When Gillette became a private hospital, two lease documents were developed, one relating to the space that had been "built out" with state funds (which, as a quaint historic perspective, was referred to as the "blue tile" lease because the floor covering in that space was blue), and a second for the use of other parts of the county's hospital building that, at least by 1989, had been taken over for use by Gillette (and, because of the floor covering in those areas, that was called the "brown tile" lease). At some point in this history, HealthPartners/Regions Hospital acquired

a leasehold interest in that which had been known as the St. Paul-Ramsey County Medical Center, and Regions Hospital, then, became a party to these lease documents. As I recall, each of these documents was amended, from time to time, and, then, perhaps eight or ten years ago, the two documents were folded into a new, integrated, three-party lease between Gillette, Ramsey County and Regions.

The precise legal relationships, the respective legal rights, and the process for and substance of changes in the lease relationships could be the subject of an entire separate discussion, but I think that is unnecessary for purposes of this letter. Suffice it to say that this three-party document assures to Gillette, without payment of rent, the perpetual use of that part of the county facility that was constructed by state funds. The other parts of the county property that are and will be used by Gillette (including the portion of the building that will be improved by the state funds) are addressed with proper consideration from Gillette to Regions to provide for the use of space and the sharing of operating costs. Among other things, there is a process described in the lease documents under which Gillette and Regions can work together for changes in space allocation between them. This has been a very positive, mutually beneficial relationship for the County and for the two hospital organizations.

In terms of its patient-care mission, Gillette plays a virtually unique role in the provision of healthcare services in Minnesota and the upper Midwest. It is different than all general acute care or adult programs, and it is even different than the pediatric departments in other hospitals and the "general" pediatric specialty hospitals, such as Children's Hospitals and Clinics of Minneapolis and St. Paul and the Amplatz Children's Hospital (University of Minnesota). The latter hospitals provide services to children with heart defects, cancer, infectious diseases, and certain chronic problems (such as diabetes or asthma). Gillette, on the other hand, has virtually no overlap with those services; it takes care of children with childhood onset injuries or disabilities, including cerebral palsy, muscular dystrophy, spinabifida, intractable epilepsy, cranial/facial abnormalities, and a wide variety of developmental and muscular-skeletal problems. Through surgical interventions, medical interventions, and physical rehabilitation, Gillette enables children with chronic, serious physical limitations to function within their families and in society, and to become productive citizens. Gillette takes care of patients from every county in the State of Minnesota, most states throughout the United States, and several foreign countries, and it has established and operates permanent clinic operations in seven locations throughout Minnesota.

While the rate of occurrence of most of these problems has remained more or less constant, Gillette's patient population and the need for its services is projected to increase as a result of three forces, an increase in population in the service area, Gillette's increasing "market share" for certain services, and the development with Regions Hospital of the entirely new program of pediatric trauma care. Regions and Gillette work together to serve as the only Level I Pediatric Trauma Center in the state.

As patient volumes have increased and the scope of services and technology involved in Gillette's services have changed, Gillette has undertaken to remodel and upgrade the portion of the county's hospital facilities that it occupies. Indeed, this has been a more or less ongoing process for the last 10 or 12 years.

Legislative Requests

In light of Gillette's origins as a state institution, the limited capital with which Gillette was "launched" by the state as a private hospital the pressing needs for capital improvements, and limitation of resources, in 2002 Gillette sought and secured a capital improvement grant from the state. As Gillette contemplated additional capital improvements, a part of its financing plan was to seek additional assistance from the State of Minnesota, and in 2008 the state awarded a $300,000 planning grant for the capital improvements that were being considered at that time. In 2009 Gillette's supporters in the Legislature advanced a bill for a $10,000,000 capital improvement grant for the improvements that were then going forward, which was presented as the first of two $10,000,000 grant requests. That legislation did not become a part of the final 2009 bonding bill, but these and other legislators renewed their efforts with a new bill in 2010 seeking a $20,000,000 grant from the proceeds of the state's capital improvement general obligation bonds.

That legislation, Laws of Minnesota 2010, Chapter 189 did include Gillette and provided for a $10,000,000 grant from the proceeds of the sale of the state's general obligation bonds. Specifically, the law states:

> Subd. 2. **Gillette Children's Specialty Healthcare** $10,000,000
>
> For a grant to Ramsey County to design, construct, furnish, equip capital improvements to the hospital facility operated by Gillette Children's Specialty Healthcare, subject to Minnesota Statutes, section 16A.695. A management contract or use agreement with respect to the facility must require that it be used to carry out a governmental program, including but not limited to providing health care.
>
> This appropriation is intended to cover approximately one-sixth of the $62,000,000 total project cost. It is not available until the commissioner has determined that an amount sufficient to complete the project has been committed from nonstate sources.
>
> If this state bond financed property is sold, and notwithstanding Minnesota Statutes, section 16A.695, subdivision 3, clause (2), the net proceeds must be applied as follows: first, to pay the state and amount of state bond proceeds used to acquire or better the property; and second, any remaining amount must be paid to Ramsey County, or its successor in interest in the property. When the sale is complete and the sale proceeds have been applied as provided in this subdivision, section 16A.695 no longer applies to the property and the property is no longer state bond financed property.

At all times leading up to this enactment, Gillette was actively involved with the legislature in explaining its capital improvement plans and projects and demonstrating the need for these

improvements and for state financial assistance. This effort began in 2007 (leading up to the 2008 planning grant) and continued through the 2010 session.

Gillette and its supporters in the legislature presented this project and Gillette's need for financial assistance with these points:

- Gillette is a former state hospital that still serves to fulfill an important public mission.
- It is a unique resource in the upper-midwest, serving children and adults from *every county in Minnesota* who experience chronic physical disabilities from childhood-onset illnesses and injuries.
- Gillette is also a state-wide resource in terms of its educational mission and function, and it has local clinic operations throughout the state.
- The building that was to be improved is owned by Ramsey County: it is a governmental facility.
- Gillette needs public support of these projects because of fiscal limitations caused by the limited capitalization provided when the state "spun off" the hospital as a private charitable hospital, and the below-cost payments for services covered by Minnesota's Medical Assistance program (which applies to about half of Gillette's patients, making it the highest or second-highest Medicaid provider in the state).
- The project was "shovel ready" and would generate a substantial number of construction jobs, and a number of new hospital jobs going forward.

Construction/Remodeling

Since the details of the actual construction projects depended, in part, on the availability of space in the Ramsey County facility and arrangements between Ramsey County, the owner of the facility, and Regions Hospital, the lessee of most of the hospital facilities, the specific order of the remodeling and construction projects and related plans changed from time to time over the three years that Gillette was working with the Legislature.

In hindsight the order of the development has become clear, but as the hospital worked with Regions to plan the use of the space and the sequencing of projects, the sequence of the construction work and the ordering of the "phases" of development (and the nomenclature relating to the various phases of the project) changed substantially from time to time. From the broadest perspective, the "phases" of the current capital improvement initiative spans the time

frame of 2008 through 2012, and will require expenditures of about $64 million. This is summarized, as follows:

- Relocate Physical Medicine and Rehabilitation Unit into temporary space and related changes.
  2008 $157,033

- Construct and equip a new, expanded Pediatric Intensive Care Unit ("P.I.C.U.")[1] to serve Gillette patients and the Regions-Gillette Level I Pediatric Trauma Center patients.
  2008-2009 $4,398,525

- Development of an electronic medical record system.
  2009-2012 $5,200,000

- Remodel acquired Region's space for a "reprocessing" center (sterilization of surgical and other tools).
  2009 $3,956,755

- Development of a relocated and expanded Patient Resource Center.
  2010 $694,633

- Remodel the previous P.I.C.U. inpatient unit to provide an expanded ten-bed, modernized inpatient setting.
  2011 $3,824,682

- Construct on private property and equip a new ambulatory care center (located across University Avenue from the hospital and connected with a skyway) to house a new Motion Analysis Laboratory, a Therapy Pool, a new Physical Medicine and Rehabilitation Unit, patient exam rooms, and physician and administrative offices and space for other administrative functions.
  2008-2010 $22,802,495

- Remodel the present Motion Analysis Laboratory area to develop a "family area," a gathering/respite space that will be programmed in cooperation with the "Ronald McDonald" charity.
  2011 $1,141,804

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[1] This unit had been "carved out" of a conventional inpatient unit. With the move of the P.I.C.U., that space will be remodeled again for improved "regular" inpatient use.

- Remodel 35,800 square feet contiguous to the new Imaging Center for expanded surgical services including a family waiting area, six large operating rooms for complex surgeries,[2] a smaller operating room for less complicated cases, a surgery simulation center for planning and teaching, a 14-bed post-anesthesia recovery room, and an additional M.R.I. sedation bay.
  2010-2011 $23,650,000

When this process came down to the 2010 introduction of the bill to provide a $20,000,000 grant, this request was characterized as providing partial funding for an "approximately $62,000,000 project."

Gillette and the legislators proposing this grant (the bill had 5 authors in the Senate and 39 authors in the House), chose this characterization for three reasons: (1) they were mindful of the requirement in Minn. Stat. § 16A.86, subd. 4(a) that limits a grant to a local unit of government to no more than half of "the total cost of the project" (which, with a $20,000,000 request, would suggest that the "match" would have to be at least $20,000,000 and "the project" would have to be at least $40,000,000), (2) they wanted to demonstrate worthiness by showing the huge commitment that the hospital is making to better meet the complex needs of the important population that it serves, and (3) they wanted to convey the full potential for job creation that this initiative would stimulate.

In the last analysis, the $62,000,000 of improvements referenced in the law include the construction of the new building at 205 University Avenue (on land acquired many years ago with Gillette's private funds) to house the motion analysis lab, the physical therapy facilities, and a number of exam rooms and physician and administrative offices relocated from the existing space, plus a number of other functions, and the remodeling of five areas in the "old" facility. The remodeled areas will serve as the expanded PICU, two areas for patient/family support services, a modernized inpatient unit, and an expanded and modernized surgery facility (operating rooms, post anesthesia recovery, etc.). The remodeling in these five areas will involve some 44,000 square feet (about 7% of total space in the "old" Ramsey County hospital property which we estimate to be 585,000 square feet). At this point in time, the construction phases through the construction of the Ambulatory Care Center are completed or nearing completion, and the **$10,000,000 state grant will be used for the phase shown above as the $23,650,000 for the new surgery facilities**.

Restrictive Covenant

As noted, the capital improvement grant from the state was appropriated from the proceeds of a general obligation bond issue. This type of state borrowing is addressed in the Minnesota Constitution which imposes certain restrictions on the purposes for borrowing and the way these funds can be disbursed. These constitutional requirements are reflected in state statutes that have

[2] The expanded use of technology in surgery and Gillette's approach of multi-team multi-intervention surgeries has left most of Gillette's current O.R.'s essentially obsolete.

been enacted to implement the borrowing process and the state's expenditures for capital improvements. Under our constitution and these implementing statutes, this type of grant may only be made to improve public, i.e., governmentally owned, property, and the use of the real estate that is improved with the bond proceeds grant must forever[3] be restricted to the "public purpose" for which the grant was made.

The involved state agencies (the Minnesota Management and Budget Department and the Department of Administration) implement/enforce this with (i) the interpretation that the covenants for the perpetual use for the designated public purpose relate to the *entire* parcel that is being improved by the grant proceeds, and (ii) the requirement that this restriction be memorialized with a formal Declaration of a restrictive covenant that is filed with the deed or other real estate records in the county where the property is located.

As this relates to our arrangements, the entire hospital "campus" (bounded on the west by Jackson Street, on the north by University Avenue, on the east by I-35E, and on the south by I-35E/I-94) is presently a single parcel owned entirely by the County of Ramsey. As Ramsey County and Gillette learned on the occasion of the 2002 state capital improvement grant, if the funds for the grant are derived from the sale of state general obligation bonds, this *entire campus* would have to be dedicated to the purpose of the grant in perpetuity.[4]

As noted above, the greater portion of the county's hospital building is leased to and programmed by Health Partners (a nonprofit, tax-exempt corporation) and its hospital, Regions Hospital. Furthermore, there are other parts of the campus that are devoted to entirely different uses, such as a facility that is used as a morgue, and so forth. Neither Gillette, nor Ramsey County, nor any of these other parties were comfortable with the broad application of the restrictive covenant that would be incidental to the capital improvement grant for a portion of the property program by Gillette.

Thus, the county and Gillette have embarked on an effort to describe parts of this property separately (including a relatively small parcel that will be the area within the hospital that is improved by the grant proceeds) so that the restrictive covenants can relate only to that part of the building that is actually being improved with the state grant funds. This is the driving force that has led to the development of the new RLS, which is being proposed by Ramsey County for approval by the City of St. Paul.

As noted above, the state grant is being used for the improvement of a part of the third floor which is being remodeled to expand and modernize the surgical area, including operating rooms,

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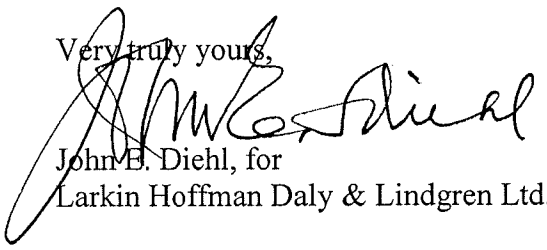
[3] There are procedures to relieve the grant recipient (the state or a political subdivision of the state) from these long-term obligations, but to qualify for the grant one must dedicate the improved property for the stated purpose in perpetuity.

[4] In 2002, this was resolved by further legislation that substituted a grant from the general fund (not bond proceeds). But, as the new grant effort was initiated, the County and Gillette realized that part of the Ramsey County property that would be subject to the mandatory restrictions would have to be narrowed.

post-anesthesia recovery, family waiting areas and other support areas. By describing a separate parcel in this area of the third floor of the building, the covenant required by the bond proceeds grant will restrict only that portion of that floor in that part of the county's hospital building; it will not encumber the rest of the building, the rest of the grounds, or any of the other buildings. In any event, the covenant will relate to the language in the bill, which states the "purpose" to be "to carry out a governmental program, including, but not limited to, providing health care."

We hope and trust that this provides the additional information that you need. If you have other questions, or if we can assist in any way, please call.

Very truly yours,



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