

VCU Health System Capital Process and Governance Structure

Study resolution

- Evaluate VCU Health System (VCUHS) capital project planning, construction, and oversight
- Evaluate VCUHS Board of Directors (BOD) membership, duties, and authorities
- Evaluate advantages and disadvantages of integrated relationship between VCUHS and VCU executive staff and boards
- Compare VCUHS governance structure to other health systems

*Study resolution approved by JLARC on November 13, 2023.

Research activities

- Interviews with VCUHS and VCU senior leadership
- Interviews with former and current members of VCUHS BOD and VCU Board of Visitors (BOV)
- Survey of current VCUHS BOD members (100% response rate)
- Review of data and documents for selected VCUHS capital projects
- Review of relevant VCUHS/VCU governance documents (e.g., statute, BOD meeting packets, BOD bylaws, policies, org charts, etc.)
- Review of literature on health system governance and capital process best practices
- Review of selected other health systems*

*More information about other health system research at the end of briefing in appendix slides.

In brief

VCUHS improved its capital process following the Clay Street project but needs to develop a long-term strategic capital plan, strengthen several policies, and increase staffing to effectively handle capital projects that are needed to sustain and expand operations.

VCUHS leadership structure should be changed to (i) reduce the potential for the VCU president position to have too much influence on VCUHS operations and decisions and (ii) ensure that the VCUHS CEO's principal focus is on the health system's strategic planning and operations.

VCUHS's board would benefit from longer member terms, expertise in additional topics relevant to health system governance, and a greater number of impartial board members.

In brief (cont'd)

VCUHS should retain its “authority” structure and remain separate from VCU.

Both entities mutually benefit from their strong collaborative relationship and, concurrent with actions to improve VCUHS’s leadership and governance, steps should be taken to protect that collaboration.

In this presentation

Background

VCUHS system structure

Clay Street project & recent improvements

Capital project process

VCUHS executive leadership

VCUHS board

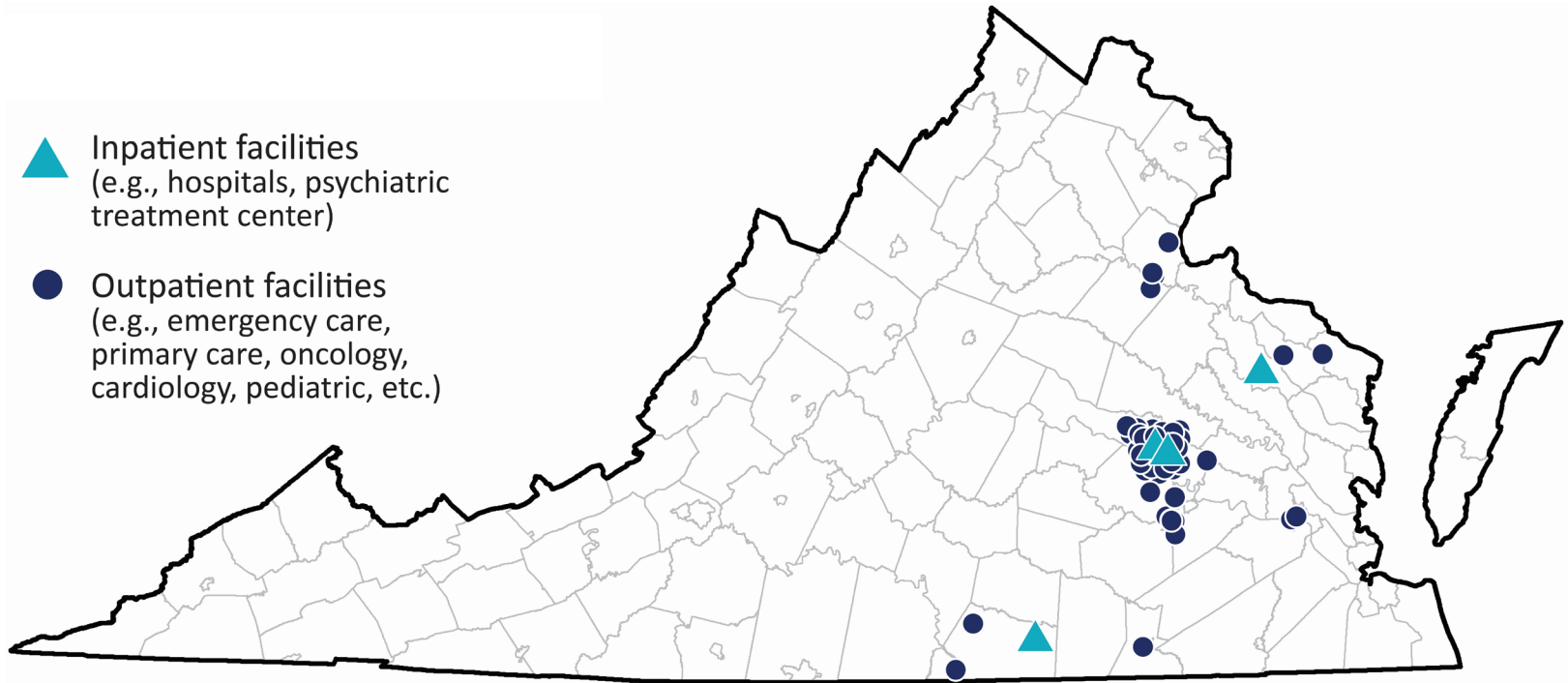
* Appendixes and VCU response letter located at back of briefing slides.

VCUHS provides health care and supports VCU through medical research and training

- VCUHS is statutorily responsible for:
 - Providing health care, including indigent care
 - Operating and managing hospitals and other health-care facilities
 - Serving as a teaching hospital, facilitating and supporting activities of VCU's health sciences schools
 - Providing sites for VCU faculty to conduct medical and biomedical research

Source: Code of Virginia, § 23.1-2401.

VCUHS operates multiple inpatient and outpatient facilities across state, but most are in Central Virginia

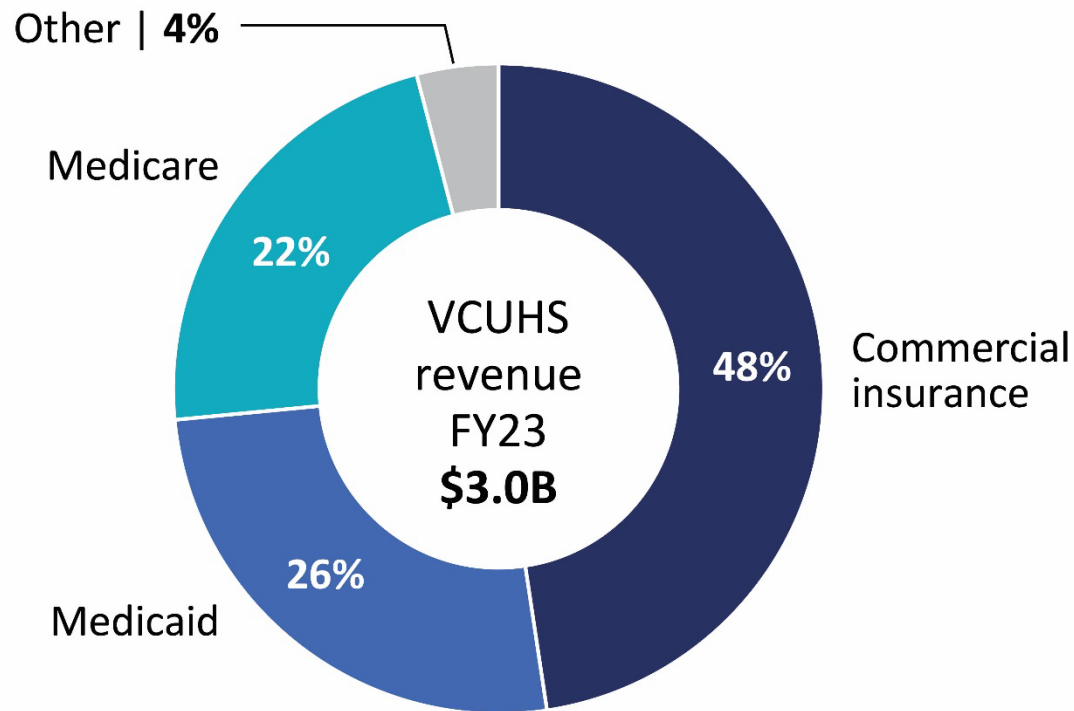


Source: JLARC staff analysis of information from VCUHS.

VCUHS serves large volume of patients, including indigent population

- VCUHS had across its health system facilities (FY23)
 - 974 total licensed beds
 - 45,788 inpatient discharges
 - 1.2M outpatient visits
 - 14,000+ staff
- Leader in multiple high-acuity services – transplant, trauma, orthopedics, oncology, and general medicine and surgery
- Serves a relatively high proportion of low-income patients, which affects ability to generate revenue

VCUHS generated ~\$3B in operating revenue in FY23

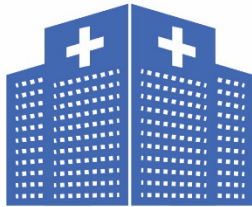


Source: VCUHS net patient service revenue data for FY23.

VCUHS receives state funding through Medicaid reimbursements

- VCUHS's primary source of state funding is Medicaid
 - VCUHS receives enhanced Medicaid payments to pay for delivering high rate of indigent care and medical education
- Lower portion of commercial payers than other area health systems, according to VCUHS staff
 - Reduces profit margin because Medicaid and Medicare payments do not cover full costs of services
- Despite commercial revenue constraints, VCUHS has strong bond ratings with stable outlook (Moody's, S&P as of March 2024)

Statute establishes VCUHS as an “authority” that is separate from VCU



VCU HEALTH SYSTEM

- Medical center (Richmond)
- Children’s hospital (Richmond)
- Community hospitals (South Hill, Tappanhannock)
- Outpatient medical services (across state)
- MCV Physicians Group
- Virginia Treatment Center for Children

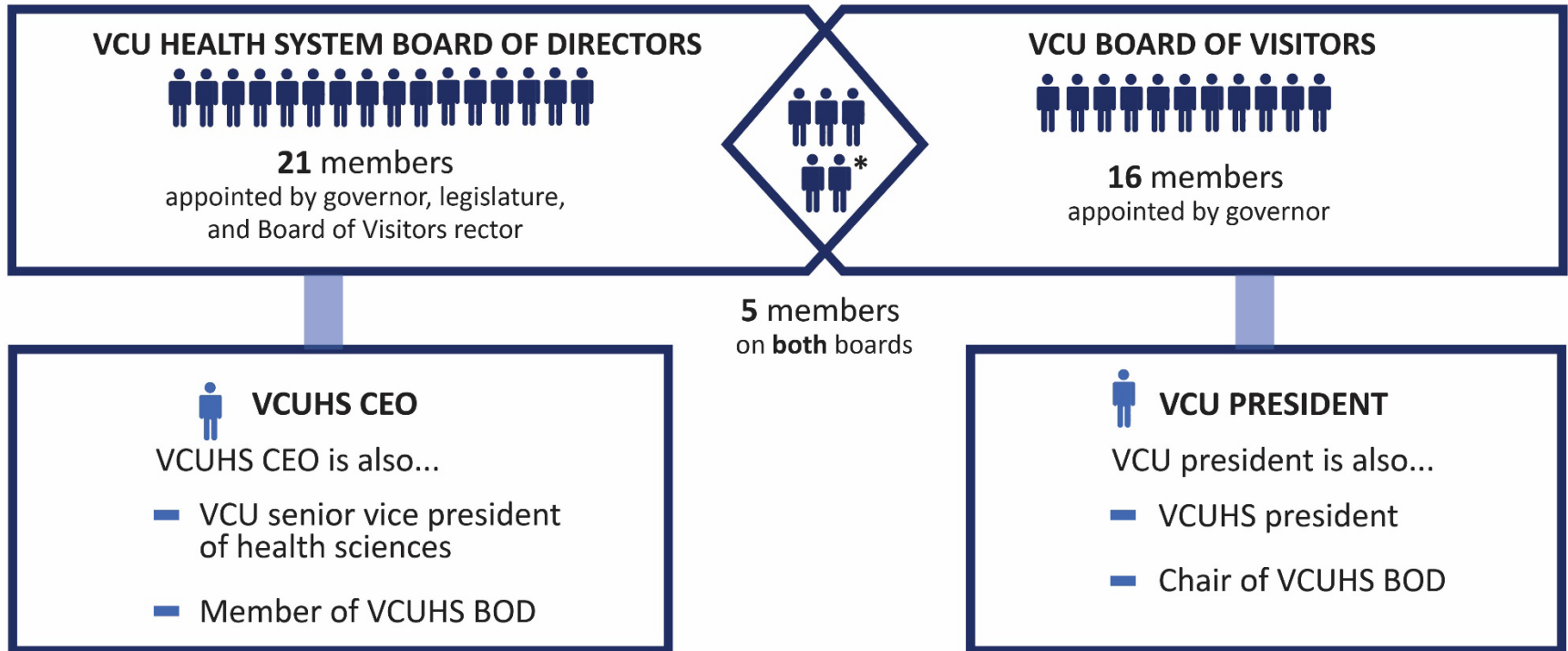


VCU

- Academic enterprises, including health sciences schools*
- Medical research facilities

*VCU has six health sciences schools (Medicine, Nursing, Dentistry, Pharmacy, Population Health, and Health Professions). VCUHS works closely with VCU’s health sciences schools, but the schools are governed by VCU’s Board of Visitors because of their academic mission.

Some VCUHS leaders and board members also have official VCU roles/responsibilities



*VCU BOV rector is typically one of the 5 members who serve on both boards.

In this presentation

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* Appendixes and VCU response letter located at back of briefing slides.

Finding

There is insufficient evidence for JLARC to recommend changing VCUHS's “authority” structure.

Consultant recommendation for VCUHS to become a subsidiary of VCU does not appear warranted

- Consultant review of VCUHS governance concluded that further integrating VCUHS with VCU would be advantageous*
- Greatest advantages appear to be for VCU
 - Advantages for VCUHS are less clear
- Consultant's identified improvements at VCUHS could be addressed without changing VCUHS's separate "authority" status
- Review of other academic health systems did not produce a clear "best" structure

*Chartis consultant review of VCUHS governance structure (completed November 2023).

Overlap between VCU and VCUHS leadership and governance has benefits but creates challenges

- Some overlap between VCU and VCUHS leadership and governance is beneficial because of shared missions
- Making decisions in the best interest of VCUHS can be challenging because VCU's interests are also considered
 - VCU's health sciences programs affected by VCUHS decisions
 - VCU benefits financially from VCUHS in some areas (e.g., staff compensation, discounted leases, payments for some services)
- VCUHS is a separate entity from VCU, but VCU leadership can influence VCUHS decisions and operations
 - Top VCUHS executives are top VCU executives by design (e.g., VCU president is VCUHS board chair and VCUHS president)
 - Creates potential for VCU leadership's priorities to supersede VCUHS's priorities

JLARC recommendations would clarify VCU and VCUHS roles and responsibilities

- JLARC recommendations proposed in later slides would:
 - Clarify relationship between VCUHS/VCU while preserving opportunities for VCUHS/VCU collaboration
 - Help ensure VCU has appropriate input into VCUHS operations and strategic decisions
 - Improve VCUHS staffing structure and board structure
 - Help ensure VCUHS and VCU are aware of strategic and operational decisions that affect both entities

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VCUHS pursued \$325M “Clay Street” capital project

- Signed lease with developer in July 2021 for planned building with office space for VCUHS, parking, and retail space
 - Original plan for 570,000 square feet of space with 1,660 parking spaces
 - Committed to \$617M in rent over 25 years
- Project site was old Public Safety Building site owned by City of Richmond
 - Longstanding VCU/VCUHS desire to acquire property because of proximity to campus
- Building would have generated some revenue for VCUHS through parking and retail space, but revenue would not have covered full cost of project
 - VCUHS would have to use other revenue streams

“Clay Street” project was halted in 2022 before construction began

- After lease was signed, developer told VCUHS project couldn't be constructed for agreed upon budget
 - Unsuitable site conditions
 - Construction cost increases after COVID-19
- Parties involved could not agree on acceptable revision to the project; VCUHS signed defeasance agreement in February 2023 to stop project before construction began
- Continuing with Clay Street project would have constrained future revenues and ability to invest in other projects, according to VCUHS staff

Clay Street project cost VCUHS ~\$80M upfront, additional costs expected

- VCUHS paid ~\$80M to stop the project
 - \$73M to developer and investors to cancel project, used VCUHS reserve funds
 - \$5M for demolition of old building on project site owned by City of Richmond
- VCUHS also agreed to pay ~\$2.5M annually to the City of Richmond

Clay Street project highlighted shortcomings in VCUHS's capital process and governance

- Did not hire outside expert to ensure adequate site conditions
- Agreed to triple net lease where VCUHS assumed all financial obligation and project risk; “hell-or-high-water” clause required rent to be paid even if project did not advance
- Former CEO shared outside counsel's risk analysis, which showed significant risks, with BOD chair and BOD finance committee chair shortly before lease was signed (but after board approval)
 - Other VCUHS BOD members had been provided with limited information about project before approval (e.g., details of lease and risks)
 - Despite risks known to at least two BOD members, BOD did not reconsider approval of the project

Clay Street project raised questions about VCU influence over VCUHS decisions

- Former VCUHS CEO raised concerns about project risks before signing the lease
- VCU president (who is also the VCUHS BOD chair and VCUHS president) directed VCU CFO to analyze project risks and provide VCUHS CEO advice on next steps for the project
 - VCUHS and VCU staff knew obtaining parcel was a priority for president; president had emphasized importance of obtaining the parcel
- VCUHS CEO had authority to decline signing Clay Street lease because VCUHS is under CEO's "supervision and direction,"* but CEO sought direction from the VCU president, and members of VCU president's cabinet strongly advised the CEO to sign the lease despite his concerns

*Code of Virginia, § 23.1-2403.

VCUHS recently improved its capital process and governance structure, but more changes are needed

- Consultants hired to review VCUHS's (1) handling of Clay Street project and (2) governance structure
- VCUHS made several changes following reviews:
 - Revised capital project process (needs assessment, individuals involved, etc.)
 - Implemented policy requiring more thorough and transparent risk assessment to ensure due diligence for “significant” capital projects, including leases
 - Strengthened VCUHS BOD conflict-of-interest policy/procedures
 - Expanded VCUHS BOD member training

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VCUHS has spent ~\$1B on capital projects in last five years

- JLARC review focused on major facility capital projects, including new construction and renovations
- Since 2020, VCUHS has completed several major facility projects, including
 - Children's Tower, 2023 (\$423M)
 - Adult Outpatient Pavilion, 2021 (\$384M)
 - Short Pump Ambulatory Surgery Center, 2021 (\$22M)
 - Main 3 renovation*, 2020 (\$50M)
 - I Lot Parking Deck, 2020 (\$30M)
- One major project is ongoing, Main 7 renovation* (\$35M)

*Main 3 and Main 7 are clinical care floors in the VCU Medical Center Main Hospital.

Targeted review of data and BOD materials indicated past capital projects completed on time, on budget

- Review of project data and materials found that
 - Major facility projects (Adult Outpatient Pavilion, Children's Tower) were completed within established schedules
 - Some cost escalations occurred during major projects, but projects typically completed within approved budgets
 - Several large, complex IT projects were successfully completed concurrently with major facility projects
- JLARC reviewed budget and timeline information for selected capital projects over \$5M initiated or completed since FY20
 - Relied on VCUHS-reported summary data, which JLARC staff validated using BOD materials

Finding

VCUHS's new capital project process incorporates many capital project best practices recommended for health-care systems.

Major capital projects should be evaluated using a rigorous and standardized process

- Experts recommend
 - Requiring in-depth business plans for all capital project requests above certain cost threshold
 - Evaluating capital project requests against uniform criteria for strategic fit, need, and viability
 - Integrating prioritized capital projects into system's overall financial plans

* See appendix slides for list of sources reviewed by JLARC staff related to capital project best practices

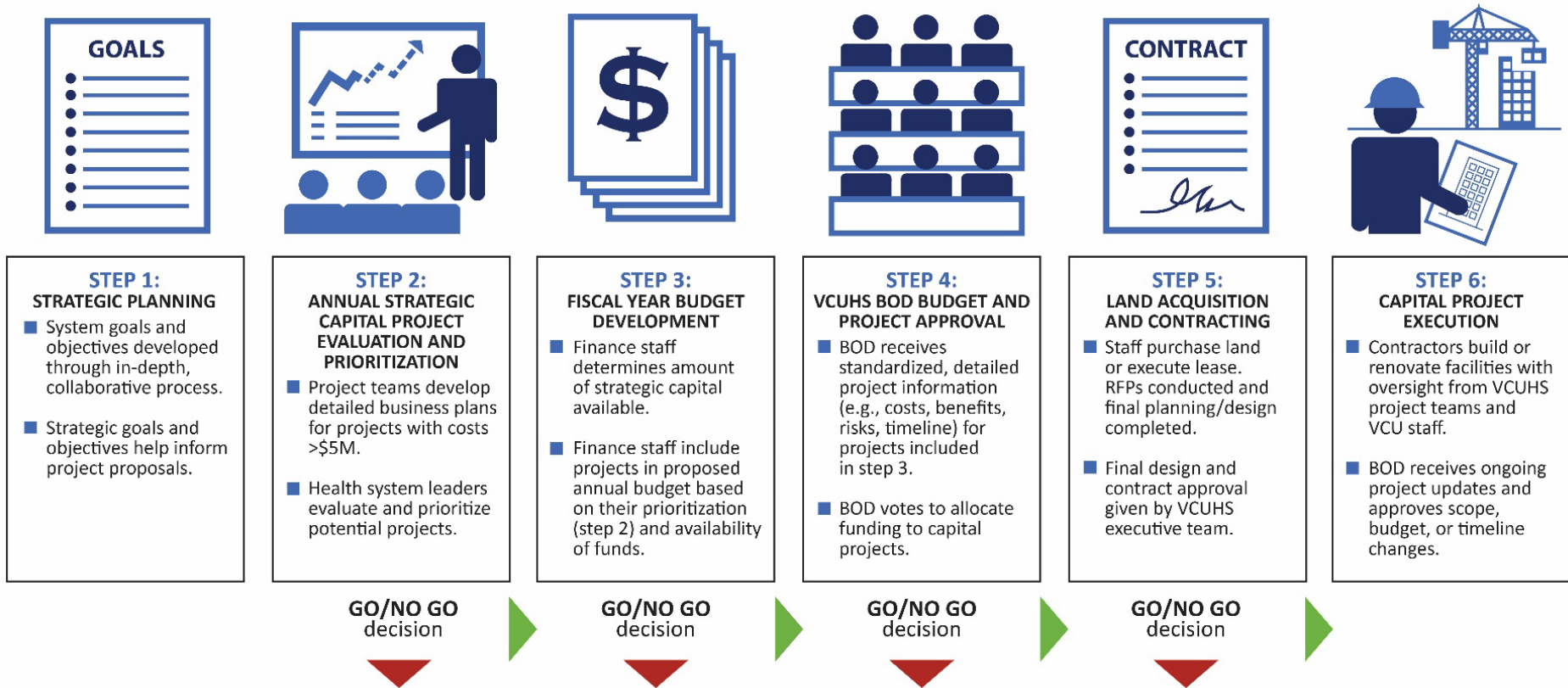
VCUHS historically has lacked standard process for evaluating past capital project proposals

- Inconsistent quality and volume of information was shared with BOD members across projects
- Information shared was driven by staff member judgments rather than BOD policies
- At staff level, process for allocating capital and planning projects lacked rigor, transparency

“Before, I don’t think there was a lot of clarity on how capital decisions were made and finances were deployed.”

- VCUHS staff

VCUHS implemented new capital project process in FY23 that is more rigorous and standardized



Source: JLARC analysis of VCUHS documents and staff interviews.

Improved policy requires VCUHS staff to provide detailed information on proposed capital projects

- Before VCUHS BOD reviews capital projects, “Significant Transaction Policy” requires staff to document
 - legal, financial, business, talent, and reputational risks of the project;
 - project’s connection to strategic plan and mission;
 - underlying assumptions regarding need for project;
 - financial projections, funding sources, and timeline to positive cash flow;
 - any conflicts of interests and steps to mitigate them;
 - analysis of the right to exit the project;
 - identification of outside experts consulted and their role; and
 - a proposed timeline with “go/no go” decision points.

Most current VCUHS BOD members are satisfied with information they receive on capital projects

- Most BOD members who responded to JLARC survey reported they now receive enough information on following topics to make informed decisions on capital projects:
 - How proposed projects align with capital needs
 - How proposed projects align with strategic priorities/mission
 - Extent to which projects address unmet market demands
 - Financial projections related to proposed projects
 - Extent of potential risks related to proposed projects
- New capital process promising but only in effect for short time
















Finding

VCUHS will need to undertake numerous major capital projects in the future to sustain and expand operations but lacks a documented long-term strategy for prioritizing and sequencing major capital projects.

VCUHS could pursue a variety of projects that advance mission and address system needs

- VCUHS has broad mission that could be served by various major capital projects; for example, VCUHS could:
 - Expand high acuity, inpatient capacity by renovating or rebuilding aging downtown hospital
 - Expand outpatient access in surrounding communities
- Potential projects advance VCUHS's mission but would be costly and time intensive and could not be pursued simultaneously
- Number and complexity of potential capital projects necessitates long-term capital strategy

VCUHS does not have a long-term, system-wide major capital strategy plan

	Long-term timeframe	System- wide perspective	Evaluates facilities' capacity/ conditions	Prioritizes future facility needs	Establishes timeline for addressing needs
<u>Quest 2028 Strategic Plan</u> <i>Broad, guiding document that establishes goals and strategies for organization</i>					
<u>Strategic Growth Framework</u> <i>Specifies strategies and tactics to optimize and grow system's key services</i>					
<u>AMC Site Plan*</u> <i>Addresses health system, health sciences, and research facility needs on downtown medical center campus</i>					

*Academic Medical Center Site Plan is still under development and will be part of broader ONE VCU Master Plan, which was completed in 2019.

Lack of long-term capital strategy plan contributes to competing priorities; board desires clarity

- BOD members' responses to JLARC's survey show lack of consensus about system's major strategic capital priorities
 - Half of BOD members reported expanding downtown medical center inpatient capacity as the system's #1 capital need
 - Remaining half of BOD members ranked other projects as #1 capital need (e.g., ambulatory centers, dental school*)
- BOD members and VCUHS staff want additional clarity on system's capital priorities

"We require more extensive prioritization...more alignment across the leadership team..."
– BOD member

"We need to understand what our top four to five priorities are."
– VCUHS staff

*Dental school would be VCU project, but several VCUHS BOD members identified it as a VCUHS priority.

Long-term strategic facilities plans can help align capital projects with system needs and priorities

- Best practice is to develop and maintain a multi-year, strategic facilities plan for major capital projects
 - Plan should prioritize projects based on system's mission, facility needs, financial position, and risk capacities
- Several peer systems have long-term facilities plans spanning 10+ years (e.g., University of Iowa Health Care, Oregon Health and Science University, Harris Health)
 - Plans tie projects to strategic goals and anticipated capacity needs

Recommendation

VCUHS staff should develop and propose to the VCUHS BOD for its consideration and approval a 10-year strategic capital plan that (i) identifies the system's major facility needs, (ii) assigns projected costs and revenue estimates to each potential major facility project, (iii) describes how each project advances the missions of VCUHS and VCU, (iv) prioritizes projects, and (v) identifies a timeline and funding strategies for completing each project.

VCUHS staff and BOD should review and update the capital plan at least every two years.

Finding

VCUHS lacks sufficient leadership and staff capacity in key functions related to capital projects, including project planning, procurement, and management.

VCUHS has recently experienced significant staffing changes in capital project functions

- VCUHS established new positions to oversee real estate and capital project function and stopped using contractor
 - 2021 – Created and filled a chief real estate officer (CREO) position
 - 2022 – CREO hired an in-house construction manager
 - 2023 – Terminated project management contractor to reduce costs
- CREO and construction manager have since left, and VCUHS no longer has access to contract staff
 - Staff estimated 8–10 contractors previously worked on each major capital project, significant loss of capacity

VCUHS has relied on VCU staff to fill staffing gaps but has experienced challenges

- In 2023, VCU directed VCUHS to collaborate with VCU facilities and real estate functions; VCU staff filled VCUHS leadership and staffing gaps for capital projects
- Collaboration with VCU has addressed some short-term staffing needs, but VCUHS staff report drawbacks
 - Insufficient knowledge of VCUHS functions from VCU staff
 - Lack of expertise in health-care construction from VCU staff
 - Too much hands-on involvement required by VCUHS leadership
 - Potential legal risks associated with contracts and insurance

VCUHS needs dedicated capital project leadership and staffing for future projects

- Some peer organizations have leadership positions dedicated to oversight of system's construction management and real estate functions
 - Peers also have robust internal teams for planning, procuring, and managing capital projects
 - Examples: Parkland Health (TX), University of Wisconsin Health, University of Iowa Health Care
- VCUHS staff in multiple functions expressed concerns regarding capacity to handle anticipated capital project volume

"This team is getting close to the breaking point...there is a need for additional resources on the health system side."

- VCUHS staff

Recommendation

VCUHS should (i) have director-level positions overseeing construction and real estate functions that report to a health system executive and (ii) develop the staffing capacity necessary within VCUHS to effectively plan, procure, and manage future capital projects.

Note: VCUHS has recently taken steps that address this recommendation, including filling a vacant director of construction project management position, and creating a director of real estate position. These steps partially implement this recommendation, but additional actions are necessary for full implementation, including filling the director of real estate position and adding staff capacity in planning, procurement, and project management functions.

Finding

VCUHS's new capital project policies do not

- (i) specify when outside experts should be used to help plan, assess, or implement capital projects, which may result in unknown or unnecessary project risks
- (ii) ensure that sufficient information is provided to the BOD to help it determine whether the costs of capital projects are reasonable

Outside experts can help mitigate capital project risks

- Capital projects are complex and present substantial financial, operational, legal, and reputational risks
- Best practices for mitigating capital project risks include using outside experts to
 - supplement staff expertise
 - validate key staff assumptions and projections
- Health systems commonly use outside legal counsel, environmental consultants/civil engineers, financial consultants, brokers, and planning consultants

VCUHS uses outside experts but on an ad hoc basis

- VCUHS has not always used outside experts when needed
 - *Example – No site consultant used on failed Clay Street project; outside legal counsel hired after BOD approval of the project*
- New policy requires staff to use outside experts if directed by the BOD but does not establish guidelines for when and what types of experts should be used

VCUHS BOD members report desire for additional information from outside experts

- BOD policy does not specify the extent to which results of outside experts' work should be shared with BOD
- About half of VCUHS BOD members who responded to JLARC's survey did not feel they receive enough information about the results of third-party evaluations of staff's financial projections and/or project risks

“Thorough third-party assessments from experienced and successful reviewers in the case of capital projects, especially those types new to the institution, would prove valuable.”

– VCUHS BOD member

Comparing projects' costs to similar projects and benchmarks can reduce risk of overpayment

- Project budgets can be compared to similar projects' costs and common benchmarks (e.g., average cost per square foot or per patient bed, ratio of construction cost to total project)
- Staff presented comparative cost information to VCUHS BOD for some recent projects, but have not always
 - *Example – Comparative costs not included in BOD materials on Children's Tower proposal (total cost = \$423M) or Adult Outpatient Pavilion (total cost = \$384M)*

Recommendation

The VCUHS BOD should amend the Significant Transaction Policy to

- (i) clarify which projects or circumstances require use of outside experts (e.g., projects with high costs or substantial risks), when in the project planning and implementation process experts should be engaged, and what information should be shared with the BOD about the work completed by these experts; and
- (ii) require staff to share with the BOD comparisons of the estimated costs of proposed major capital projects to the costs of similar projects and industry benchmarks, such as cost per square foot.

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VCU president holds several key VCUHS leadership roles



VCU HEALTH SYSTEM BOD CHAIRMAN

- Public face of VCUHS BOD
- Sits on all VCUHS BOD committees
- Convenes VCUHS BOD Executive Committee
- Can modify order of business in BOD meetings

VCU PRESIDENT

- Leads VCU
- Supervises VCU executives, including SVP of Health Sciences
- Tie breaker for CEO/SVP employment decisions

VCU HEALTH SYSTEM PRESIDENT

- Leads coordination efforts between VCUHS and VCU
- Works closely with VCUHS CEO (e.g., weekly meetings, president conveys feedback on CEO performance)

Note: Current and former VCU president chaired VCUHS BOD and held VCUHS president position. Requirement for VCU president to chair VCUHS BOD and be tiebreaker for VCUHS CEO employment decisions was codified in 2014 (SB 341). VCUHS president position is established in VCUHS bylaws.

Finding

VCU input into VCUHS's strategic planning and operations is important given shared mission and mutual interests, but VCU president's VCUHS leadership roles create the potential for that position to have too much influence on VCUHS operations and decisions.

VCU president's leadership roles at VCUHS are influential

- VCU president is permanent VCUHS BOD chair
 - Part of evaluation and compensation committee that evaluates VCUHS CEO performance and recommends compensation
 - Can convene executive committee meetings
 - Can modify order of business in BOD meetings
- VCU president is VCUHS president
 - Facilitates communication, coordination, and compatible decision making between VCUHS and VCU
 - Is not supposed to supersede CEO in overseeing VCUHS operations

Source: VCUHS bylaws.

VCU president's leadership roles at VCUHS have enabled VCU to have too much influence over VCUHS

- CEO has statutory authority to oversee and manage VCUHS operations but doing so independently of the VCU president is difficult in practice
 - CEO reports to the BOD chair/VCUHS president; both positions are filled by the VCU president
 - CEO is also the SVP of Health Sciences and reports to the VCU president in this role
- VCU president's roles at VCUHS can result in decisions about VCUHS operations and strategies being influenced by VCU interests
 - Example: Former VCUHS CEO signed Clay Street lease after being strongly advised by members of VCU president's cabinet who believed they were carrying out VCU president's priorities

Multiple stakeholders think VCU president should no longer be VCUHS BOD chairman or VCUHS president

- Majority of BOD members who responded to a JLARC survey agree that:
 - VCU president should not be VCUHS BOD chair
 - VCU president should not be voting BOD member
 - VCUHS should eliminate position of VCUHS president
- VCU president has publicly supported idea of no longer serving as VCUHS BOD chair or VCUHS president
- Multiple VCUHS staff expressed concerns that VCU president in VCUHS leadership position creates risk of president influencing VCUHS to take actions that disproportionately benefit VCU
 - Concerns about current structure, not individual in president position

Recommendations

The General Assembly may wish to consider amending § 23.1-2402 of the Code of Virginia to limit the role of the VCU president on the VCUHS BOD to being a non-voting member who is ineligible to serve as the BOD chair.

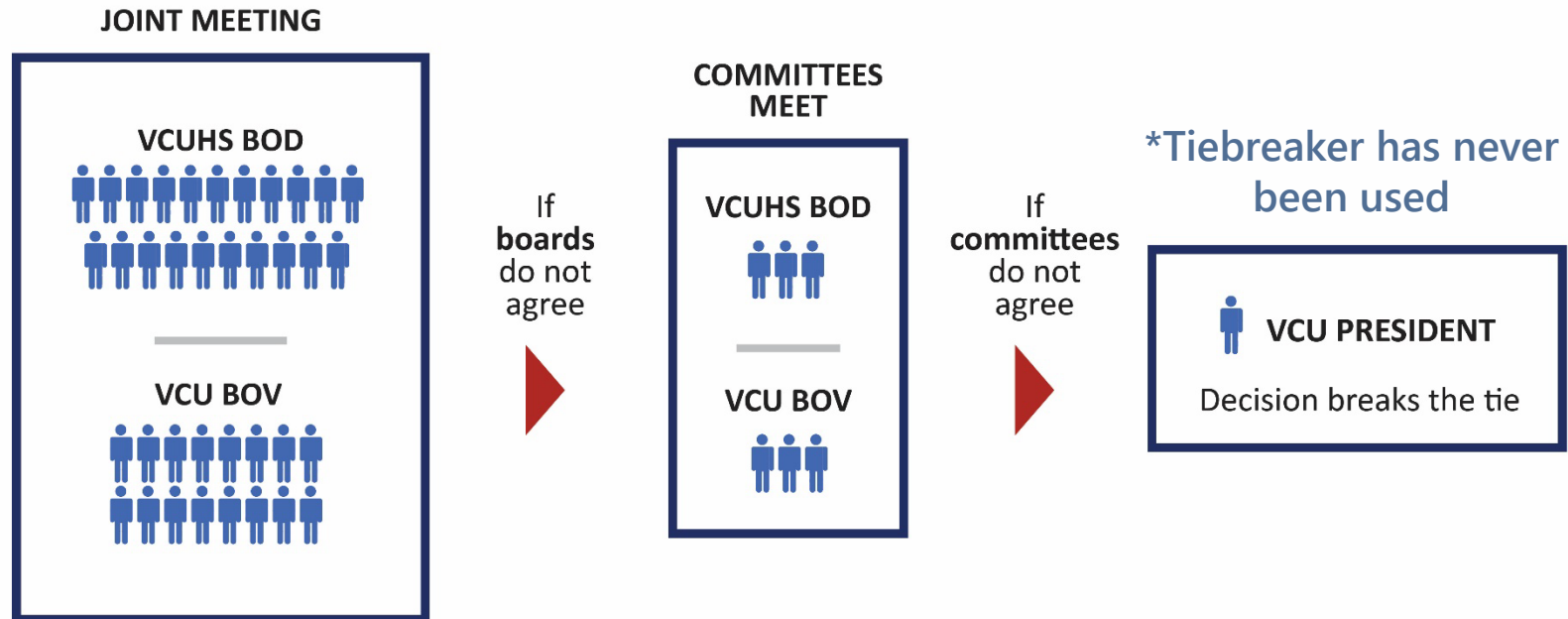
The General Assembly may wish to consider amending § 23.1-2402 of the Code of Virginia to require the VCUHS BOD to elect a chair every two years who must (i) be a citizen member and not a VCUHS employee, VCU employee, or VCU or Board of Visitors member and (ii) have served at least one full term on the VCUHS BOD.

Recommendation

VCUHS should amend its bylaws to eliminate the VCUHS president position, making the VCUHS CEO the top health system executive who reports to the VCUHS BOD.

VCU president should also no longer be “tie breaker” for VCUHS CEO employment decisions

- VCUHS CEO hiring, firing, and salary decisions are made jointly by VCUHS BOD and VCU BOV



Source: Code of Virginia, § 23.1-2403.

Note: Members who are on VCUHS BOD and VCU BOV vote twice during initial joint meeting.

Recommendation

The General Assembly may wish to consider amending § 23.1-2403 of the Code of Virginia to remove language giving the VCU president the authority to decide on the selection, removal, or conditions of appointment (including salary) of the VCUHS CEO when committees appointed by the VCUHS BOD and VCU BOV cannot reach agreement.

Finding

Having the same individual serve as the VCUHS CEO and the VCU SVP for health sciences assigns a large number of responsibilities to one role, makes the position difficult to fill, and creates the potential for VCU to have too much influence over VCUHS operations and decisions.

Combined CEO/SVP of health sciences role is intended to support VCUHS/VCU coordination

- Facilitates collaboration between VCUHS and VCU on areas of mutual interest, for example
 - Physicians dually employed as faculty/researchers
 - Students participating in patient care
 - Clinical research involving patients
- Can reduce risk of “turf wars” for funding and space

Combined CEO/SVP of health sciences role has several disadvantages

- Combined position oversees 18 positions (10 at VCUHS, 8 at VCU); creates risk not all areas receive necessary attention
- Different skillsets needed for CEO and SVP of health sciences roles
 - CEO role = experience running large organization, finance, HR, strategic planning, etc.
 - SVP role = experience with academic leadership, research, etc.
- Creates potential for VCU to have too much influence over VCUHS operations and decisions because SVP reports to VCU president
- Majority of BOD members think CEO/SVP position should be split into two separate positions; opinions split among key VCUHS leadership staff

Code change should accompany new structure to require CEO to serve on VCUHS BOD

- Statute allows the VCUHS CEO to be the same individual who holds the VCU SVP of health sciences position
- Statute requires VCU SVP of health sciences to serve on the VCUHS BOD as ex-officio voting member, but does not separately require the CEO to serve on the VCUHS BOD
- Change in statute will be needed to ensure CEO retains seat on VCUHS BOD
 - CEO should be a voting member of the BOD to ensure VCUHS leadership is represented
 - CEOs of health systems commonly serve as voting members of their boards

Recommendations

VCUHS and VCU should separate the VCUHS CEO role from the VCU SVP of health sciences role so that they are two different positions.

The General Assembly may wish to consider amending § 23.1-2402 of the Code of Virginia to require the VCUHS CEO to be an ex-officio member of the VCUHS BOD with voting privileges.

Essential for VCUHS CEO and VCU SVP to work together to support mutual interests

- If CEO/SVP positions are split, separate individuals will fill each role
- VCUHS and VCU have mutual interest in positive working relationship between CEO and SVP
 - Poor relationship would hurt ability to attract top talent (e.g., faculty, researchers, clinicians) and could reduce financial strength/bond ratings
- Individuals recruited to fill CEO and SVP positions need to be able to work collaboratively and resolve conflicts
 - In defining responsibilities for these positions, VCU and VCUHS should require the individuals in them to collaborate with one another and factor collaboration into job performance evaluations
 - When evaluating applicants for these positions, VCU and VCUHS should consider candidates' collaborative abilities

VCUHS CEO and VCU SVP should have “dotted line” relationship with one another to help collaboration

- VCU SVP would report to VCU’s president, who would serve as the primary supervisor (“solid line” report)
- A "dotted line" relationship between the CEO and SVP* would help ensure VCUHS and VCU communicate and collaborate on key issues
 - CEO/SVP relationship would be informative; involve frequent updates on key strategic, operational, and financial matters of both entities

*See recommended VCUHS organizational structure in appendix slides, which shows VCUHS CEO as highest position in VCUHS reporting to the VCUHS BOD, and VCU SVP of health sciences reporting to the VCU president.

Statutory language would further ensure VCUHS CEO/VCU SVP communication and collaboration

- Statute lists several of VCUHS's purposes that involve supporting VCU health sciences programs, but there is no language emphasizing the importance of collaboration between the leaders of the health sciences programs and the health system
- If the CEO and SVP positions are split, statute could be modified to require the VCUHS CEO and VCU SVP of health sciences to regularly communicate and collaborate to support their mutual interests and success

Recommendations

The General Assembly may wish to consider amending § 23.1-2403 of the Code of Virginia to require the VCUHS CEO and VCU SVP of health sciences to regularly communicate and collaborate to support the mutual interests and success of VCUHS and VCU.

VCUHS and VCU should agree to establish a “dotted line” relationship between the VCUHS CEO and the VCU SVP of health sciences when the CEO and SVP positions are split into two positions to ensure they meet regularly to discuss ways that VCU’s health sciences programs, VCU’s research, and VCUHS’s patient care can coordinate to benefit VCUHS and VCU.

Number of VCUHS CEO's direct reports should be reduced

- VCUHS CEO would benefit from more executive-level staff support to oversee key operational and administrative functions
- VCUHS leadership recently made some organizational changes to reduce CEO's direct reports, but additional staff could report to positions other than CEO
- Current organizational structure is inefficient; should not be based on individual preferences
 - Near-term concern about low staff morale because some employees prefer reporting to CEO

Recommendation

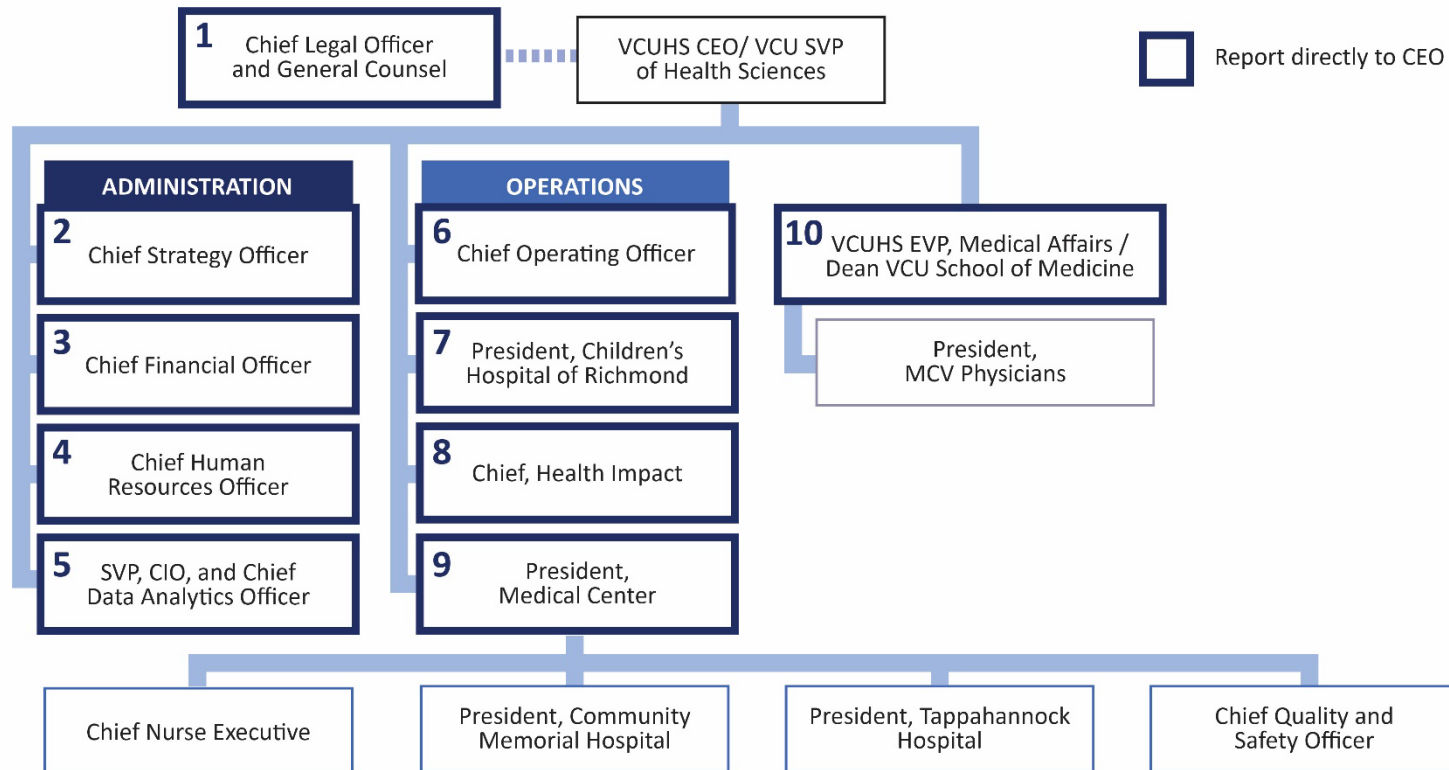
VCUHS should adjust its current organizational structure to reduce the number of individuals who report directly to the VCUHS CEO.

Example – Revised VCUHS organizational structure with fewer direct reports to CEO

- Current COO position could oversee all operational functions (e.g., medical center and hospitals)
- New CAO position could be created to oversee all administrative functions (e.g., finance, HR, IT, strategy)
- Ultimate number of direct reports to CEO depends on whether CEO/SVP position is split or remains combined
 - If positions split, number of CEO direct reports could be reduced to as few as 5 individuals*

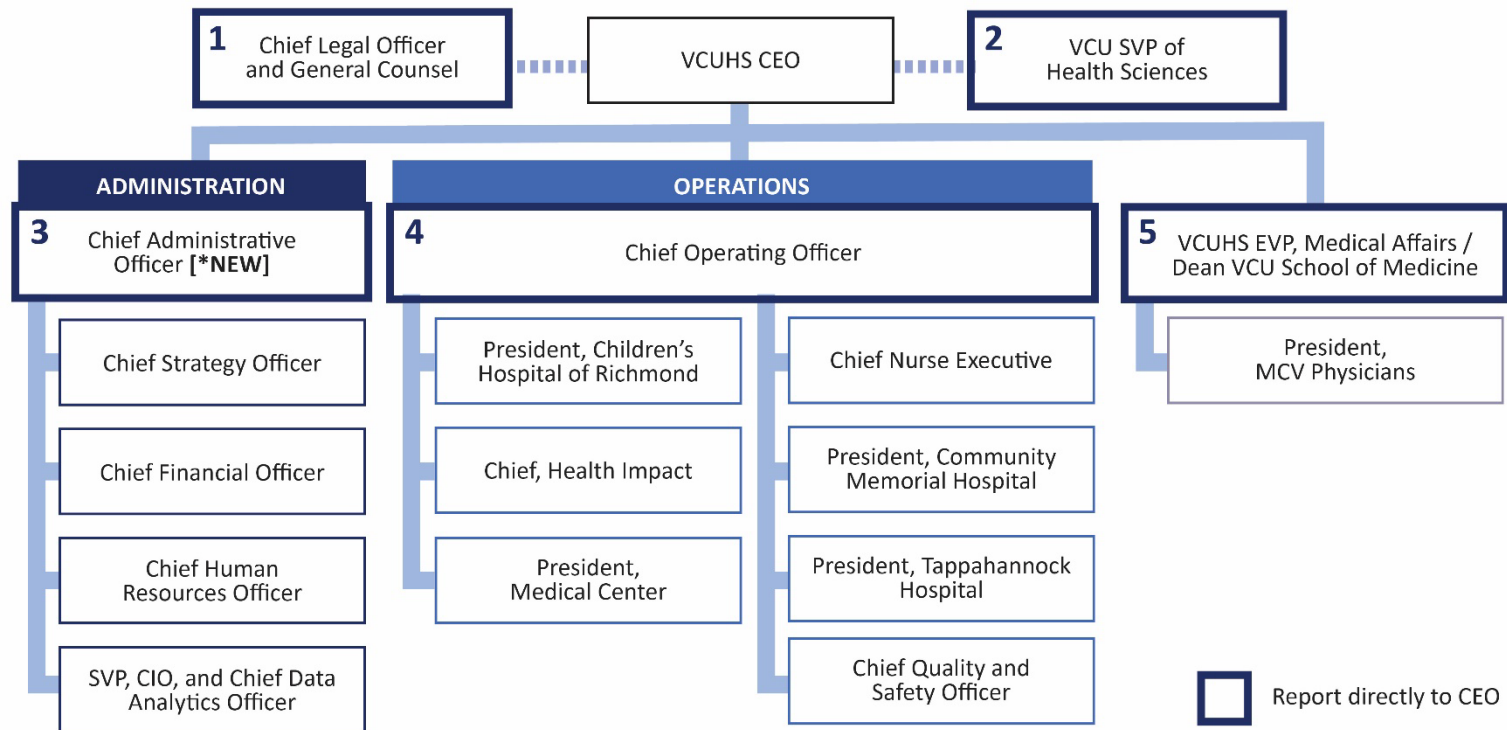
*Five individuals include VCU SVP of health sciences having “dotted line” relationship with VCUHS CEO.

Current VCUHS organizational structure has 10 direct reports to CEO on VCUHS side



Notes: Chief legal officer has dotted line because position also reports to the VCUHS BOD. Chief operating officer currently oversees ambulatory services, information security, enterprise portfolio and project management, healthcare transformation, and health equity.

Example revised structure would reduce CEO reports to five individuals and consolidate similar functions



Notes: Revised structure includes VCU SVP of health sciences having “dotted line” relationship with VCUHS CEO. Revised structure would significantly alter several current leadership positions. VCUHS leadership would need to consider whether individuals in existing roles have skillsets needed for revised positions.

In this presentation

Background

VCUHS system structure

Clay Street project & recent improvements

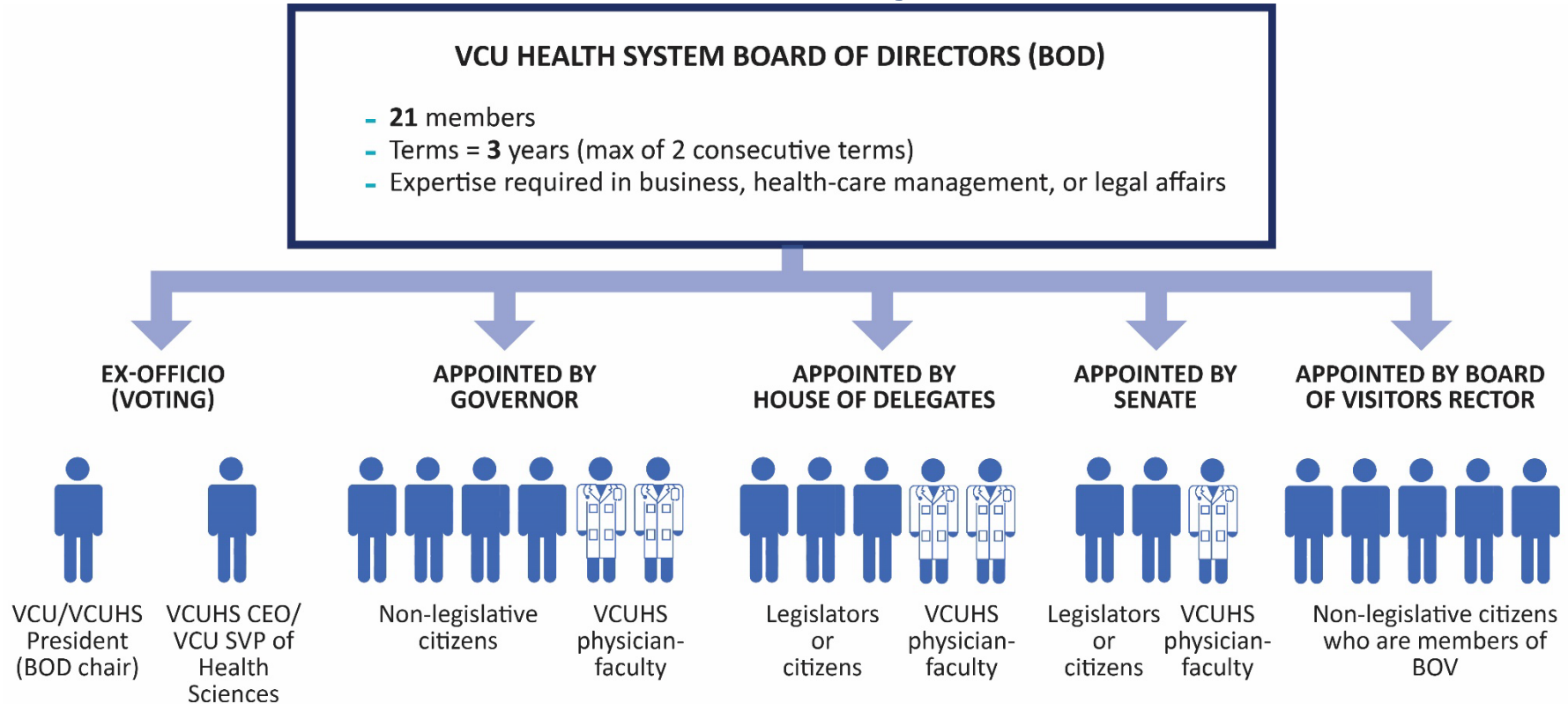
Capital project process

VCUHS executive leadership

VCUHS board

* Appendixes and VCU response letter located at back of briefing slides.

VCUHS BOD has 21 members with varied expertise, most appointed by political entities



Source: Code of Virginia, § 23.1-2402.

Note: Statute does not require legislators to be on the VCUHS BOD, but some members are permitted to be legislators. The BOD typically has one legislator from each chamber.

Finding

Three-year terms make it difficult for VCUHS BOD to maintain knowledgeable and engaged BOD members.

VCUHS BOD members typically need some time to understand VCUHS complexities

- BOD members receive 8 hours of orientation training on VCUHS and ongoing education at annual retreat and meetings
 - VCUHS plans to implement self-paced ongoing training (Summer 2024)
- Despite training, it can take BOD members multiple years to develop full understanding of VCUHS

“The VCUHS is a complex organization. While many board members immediately and positively impact the quality of the discussions, it still often takes two years to reach a mature understanding of the organization.”

- VCUHS BOD member

Most BOD members indicated 4-year BOD member terms would be beneficial

- Longer terms would enable VCUHS BOD members to serve effectively for longer portion of their terms
- Most VCUHS BOD members who responded to JLARC survey agreed 4-year terms would be beneficial
- Average length of board member term for health system boards nationally is 4 years*

* 2022 National Health Care Governance Survey Report, AHA Trustee Services.
See appendix slides for more information.

Recommendation

The General Assembly may wish to consider amending § 23.1-2402 of the Code of Virginia to establish 4-year terms for VCUHS BOD members.

Note: Statute currently specifies a term limit of two consecutive terms for VCUHS BOD members.

Finding

VCUHS BOD members need expertise in areas that are not specified by current statutory requirements to provide meaningful input on capital projects and other key strategic and financial decisions.

Expertise requirements for VCUHS BOD members are too broad; necessary skillsets not guaranteed

- BOD members are required to have expertise in “business, healthcare management, or legal affairs” (§ 23.1-2402)*
- Broad categories cover a range of skillsets
 - *Example – “Business” can cover executive management, HR, commercial real estate, finance, etc.*
 - *Example – “Healthcare management” can cover physicians, health insurance experts, leaders of health systems, etc.*
- Required categories of expertise are important (e.g., business), but more specific skillsets within categories would help ensure that BOD members have the most relevant expertise

*VCU BOV members appointed to the BOD are excluded from expertise requirements.

Real estate and finance expertise on BOD essential to effectively govern VCUHS, achieve strategic objectives

- Commercial real estate and finance expertise are not currently required, but they are needed
 - VCUHS expansion plans will require land acquisition, leases, and construction
 - VCUHS is \$3B+ entity with complicated finances and certain requirements to retain Aa3/AA bond rating
- Most BOD members who responded to JLARC survey agreed specifying and requiring additional expertise in statute would be beneficial
- Some BOD members currently have real estate and finance expertise

Recommendation

The General Assembly may wish to consider amending § 23.1-2402 of the Code of Virginia to (i) add “commercial real estate” and “finance” to the existing list of expertise requirements for VCUHS Board of Directors (BOD) members and (ii) require appointing entities to ensure that each area of prescribed expertise is represented on the BOD.

VCUHS should study ways to attract individuals with experience leading large health systems

- VCUHS staff emphasize importance of having BOD members with expertise leading large, complex health systems
 - One (out of 21) BOD member has this type of experience
- Difficult to attract these individuals because
 - Large time commitment to serve on BOD
 - Individuals should not be from competing health system
 - BOD members currently unpaid
- VCUHS should hire expert to study ways to attract this expertise
 - Study could assess whether compensating some or all BOD members would be effective (permitted in statute § 23.1-2402)

Recommendation

VCUHS should hire an outside expert to examine strategies VCUHS could use to attract individuals with experience leading large health systems to serve on the BOD, such as whether some or all BOD members should be compensated.

Finding

Board membership requirements result in a majority of members holding professional roles at VCU or VCUHS, which (i) challenges members' ability to act in the best interests of VCUHS and (ii) results in an unnecessarily large board.

Statute and bylaws establish restrictions and expectations for addressing BOD conflicts of interest

- Fiduciary duty of “loyalty” requires BOD members to act “in a manner designed to benefit only the hospital or health system... [and] avoid competition with the organization”*
 - VCU-affiliated BOD members statutorily prohibited from voting on “matters that require them to breach their fiduciary duties to [VCU] or [VCUHS]” (§ 23.1-2402)
- BOD members are subject to VCUHS’s conflict-of-interest policy
 - “Conflict” occurs when “outside interests or relationships...create a risk that professional judgment or actions regarding [VCUHS’s] interests will be unduly influenced by such outside interests or relationships.”
 - BOD member has potential conflict when “he/she serves in a fiduciary capacity for another institution which may be impacted by an action of the BOD.”

*Board member expectations for VCUHS BOD.

BOD makeup creates possibility that some members do not adequately prioritize broader VCUHS interests

- Majority of BOD members have roles at VCU and/or VCUHS, which is intended to ensure that key stakeholders at VCU and VCUHS have input into BOD strategies and decisions
 - VCU president, VCU SVP health sciences, and 5 VCU BOV members bring VCU perspective
 - 5 VCUHS physicians bring departmental perspective
- Historically, BOD members did not always recuse themselves when there were potential conflicts of interest
 - All BOD members voted on Clay Street project
 - Seems to have improved; JLARC staff observed several recusals at recent BOD meetings

General Assembly could better safeguard VCUHS interests if majority of BOD unaffiliated with VCU/VCUHS

- Comprehensively identifying all BOD matters that present a potential conflict of interest is impractical; all have financial or strategic implications for one entity or the other
- BOD members selected for their expertise do not have professional ties to VCU or specific VCUHS departments
- Some VCU and VCUHS physician representation is beneficial for coordination and collaboration, but should not make up a majority of the BOD

Large number of VCU- and VCUHS-affiliated BOD members make BOD unnecessarily large

- VCUHS BOD size (21 members) creates challenges, according to several VCUHS BOD members and staff
 - Engagement of BOD members is mixed
 - BOD member outreach is time consuming; staff frequently brief members one-on-one ahead of BOD meetings
- Smaller board could increase BOD member engagement and improve efficiency of BOD operations
- Average health system board size is 16 members*

* 2022 National Health Care Governance Survey Report, AHA Trustee Services.

Recommendation

The General Assembly may wish to consider amending § 23.1-2402 of the Code of Virginia to reduce the size of the VCUHS BOD and ensure the majority of VCUHS BOD members do not have professional roles at VCU and/or VCUHS. To ensure input from VCU and VCUHS physicians, the VCUHS BOD should still have voting members who represent VCU and VCUHS physicians.

Example – Revised BOD membership with majority of members not affiliated with VCU and/or VCUHS

- Revised VCUHS BOD = 16 members
 - 9 members selected based on expertise* (1 added)**
 - 3 VCUHS physician members (2 removed)
 - 1 VCU BOV member*** (4 removed)
 - 2 ex-officio members, voting
 - VCUHS CEO**** (added)
 - VCU SVP for health sciences*****
 - 1 ex-officio member, non-voting (VCU president)

* VCUHS BOD has historically had one legislative member from each chamber.

** One member selected based on expertise could be appointed by VCU BOV rector.

*** VCU BOV member could be VCU BOV rector.

**** VCUHS CEO would need to be added to BOD once CEO and SVP are two separate positions.

***** SVP of health sciences is already statutorily required to be on BOD.

Finding

Intentional, thoughtful, and regular communication and collaboration between VCUHS and VCU contributes to VCUHS's strong financial position and can be supported by the VCUHS BOD and VCU BOV.

VCUHS/VCU currently have effective communication and collaboration, which is important for both entities

- VCU/VCUHS leadership have worked to ensure strong communication and collaboration
 - “One VCU” strategic planning and campus planning
 - Shared services (e.g., security, marketing, development)
 - Regular cross-organizational updates among leaders and boards
 - Marketing campaign to have same “VCU” name at both entities
- Maintaining strong communication and collaboration is in best interest of both entities
 - Positive working relationship contributes to favorable bond ratings
 - Strong collaboration is key to successful downtown campus renovations
- Recommended changes to staff organization and governance structure should not negatively affect VCUHS/VCU collaboration

Joint VCUHS/VCU board committee could help ensure continued communication and collaboration

- VCUHS BOD and VCU BOV currently have one joint meeting per year, but members report meeting is not substantive
- Temporary joint BOD/BOV taskforces created after Clay Street project to assess shortcomings and potential governance changes
- Permanent joint BOD/BOV committee could be created to facilitate regular communication between VCUHS and VCU
 - Meetings could be held at least 4x annually; provide updates on key strategic, operational, and financial matters of both entities
 - Membership could include key VCUHS and VCU executives and subset of BOD and BOV members
- Establishing committee in statute would underscore its importance and visibility

Recommendation

The General Assembly may wish to consider amending § 23.1-2402 of the Code of Virginia to create a standing joint committee of the VCUHS BOD and VCU BOV that is responsible for ensuring effective communication and collaboration between VCUHS and VCU. The joint committee should meet at least as often as the VCUHS BOD and provide updates on key strategic, operational, and financial matters that could directly or indirectly affect both entities.

Success of downtown campus renovations will be helped by changes

- Significant facility renovations needed to ensure quality of clinical and research facilities downtown
 - Beneficial to operations and services of both VCUHS and VCU
- VCUHS/VCU will likely have competing interests
 - Some capital projects may benefit one entity more than the other
 - Some properties are owned by one entity but used by the other
- Success will be facilitated by
 - Improved capital planning
 - Reduced potential for VCU to have too much influence over VCUHS decisions
 - Improved BOD composition
 - Continued VCUHS/VCU communication and collaboration

JLARC staff for this report

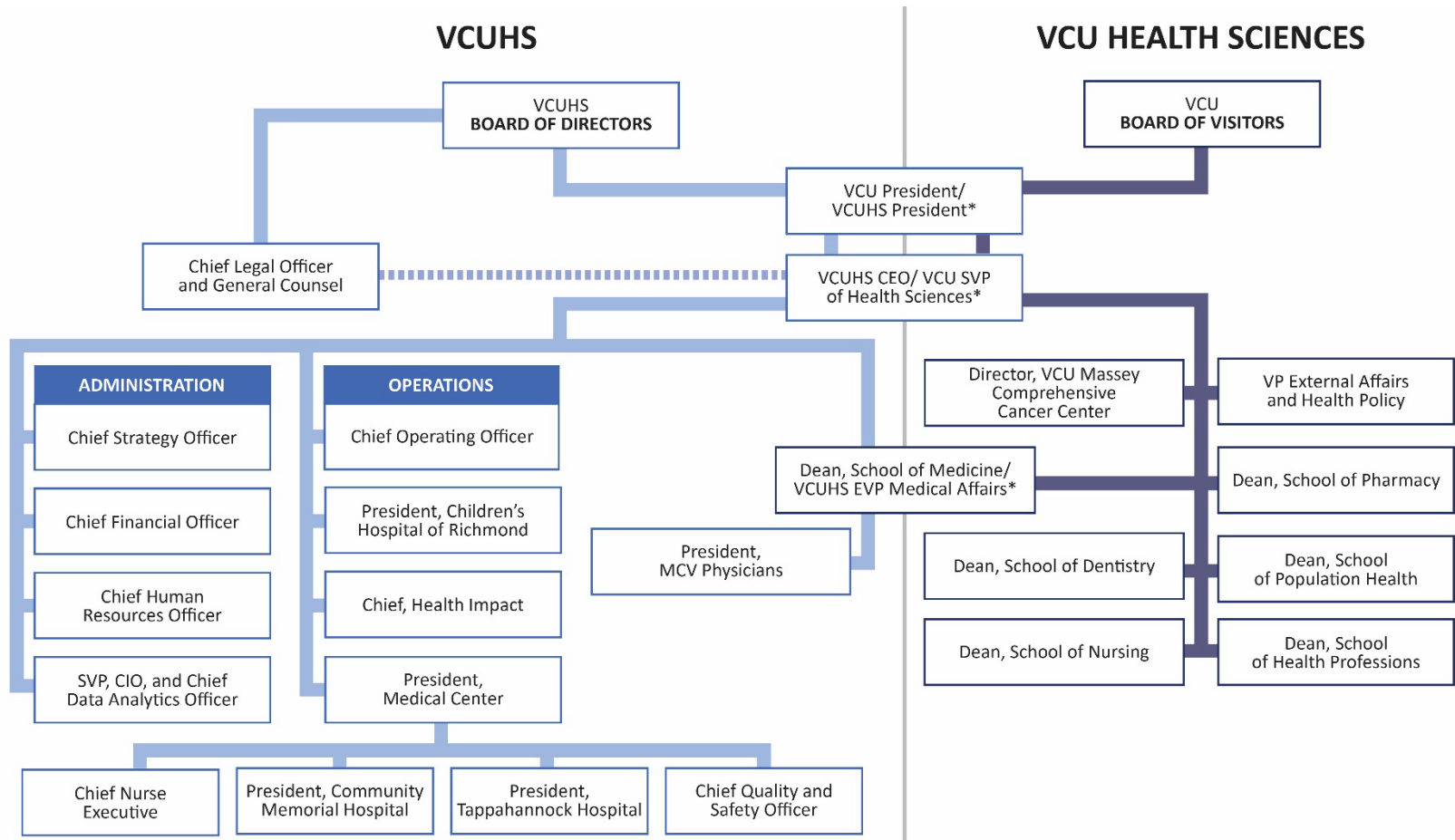
Tracey Smith, Associate Director

Lauren Axselle, Chief Legislative Analyst

Dillon Wild, Senior Legislative Analyst

Appendixes

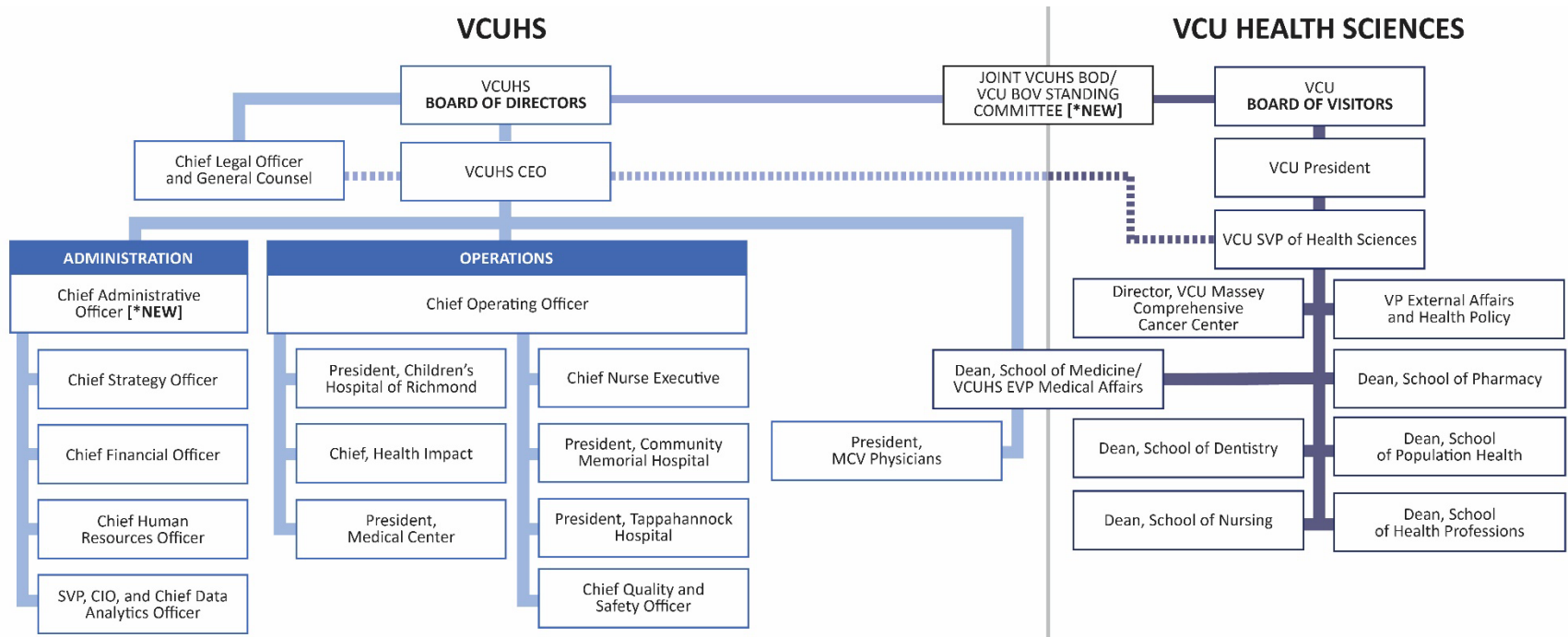
VCUHS organizational structure (current)



*Positions with dual roles at VCUHS and VCU.

Note: Figure shows only top level of VCUHS and VCU health sciences organizational structures.

VCUHS organizational structure (recommended)



Note: Figure shows only top level of VCUHS and VCU health sciences organizational structures.

JLARC review of VCUHS capital project data and documents

- Reviewed data for completed or ongoing VCUHS capital projects exceeding \$5M from FY20–FY24 (29 total projects)
 - Budget and timeline data reviewed for projects in planning and execution (22 of 29 total projects)
- Reviewed detailed materials shared with VCUHS BOD for several major recently completed and ongoing projects
 - Adult Outpatient Pavilion, Children’s Tower, Main 7 renovation
- Reviewed documents for VCUHS projects evaluated through new prioritization process (15 projects)

JLARC review of industry best practices for capital projects

- Publications related to best practices in health-care capital allocation and capital project planning, construction, and oversight, including
 - *Managing Capital Project Risks in a Challenging Environment: What Health Care Boards and Executives Need to Know*, American Hospital Association's Center for Healthcare Governance
 - *The Healthcare Executive's Guide to Allocating Capital*, Sussman, Jason H.
 - *The Art and Science of Healthcare Capital Allocation*, CBRE staff
 - *Managing Capital Project Risk*, Glenn Boardman.
 - *Capital Budgeting for Healthcare Organizations*, Syntellis Performance Solutions
 - Various publications from the Healthcare Financial Management Association's hfm Magazine.

JLARC review of other health-care systems

Interviews with selected health systems

- Systems were selected if they
 - had similar characteristics to VCUHS (e.g., public ownership, major teaching hospital, indigent care provider, similar amount of patient revenue, or similar “authority” status);
 - were cited as having an effective governance structure; or
 - were located in Virginia
- Systems interviewed = University of Virginia Health (VA); Sentara (VA); Parkland Health (TX); University of Iowa Health Care (IA); Oregon Health and Science University (OR); University of Wisconsin Health (WI); and Temple Health (PA).
- Additional programs interviewed = Virginia Tech Carilion School of Medicine; Eastern Virginia Medical School/Old Dominion University health sciences center

JLARC review of other health care systems, cont.

2022 National health care governance survey

- Administered by American Hospital Association
- 933 responses from hospital/health system CEOs (17.8%)
- Public, not-for-profit, and investor-owned

Study Resolution

Virginia Commonwealth University Health System governance

Authorized by the Commission on November 13, 2023

WHEREAS, the Virginia Commonwealth University Health System Authority was established as a political subdivision to “provide for the health, welfare, convenience, knowledge, benefit, and prosperity of the residents of the Commonwealth;” and

WHEREAS, the VCU Health System is the medical and health care affiliate of Virginia Commonwealth University (VCU) and is required by law to “facilitate and support the health education, research, and public services activities of the Health Sciences Schools of the University” and serve as the university’s principal teaching and training hospital;” and

WHEREAS, the VCU Health System is required by law to engage in “specialized management and operational practices to remain economically viable, earning revenues necessary for operations, and participating in arrangements with public and private entities;” and

WHEREAS, VCU and the VCU Health System have integrated governance and leadership structures such that, for example, the selection and removal of the health system’s CEO is the joint responsibility of the university’s Board of Visitors and the authority’s board of directors, and the university’s president also serves as the chair of the Health System’s board of directors; and

WHEREAS, the VCU Health System’s decision to cancel a significant construction project obligated it to pay at least \$73 million in penalties to the developer; now, therefore, be it

RESOLVED by the Joint Legislative Audit and Review Commission that staff be directed to review the Virginia Commonwealth University Health System Authority. In conducting its study staff shall (i) evaluate the membership, duties, and authorities of the VCU Health System board of directors, (ii) evaluate the advantages and disadvantages of the integrated relationship between the Health System’s board and executive staff and the university’s board and executive staff; (iii) compare the relationship between the Health System and the university to other Virginia teaching hospitals and their university affiliates; (iv) evaluate the Health System’s procurement function, in particular capital planning and construction; and (v) evaluate the Health System’s oversight of capital projects.

JLARC may make recommendations as necessary and may review other issues as warranted.

All agencies of the Commonwealth, including the VCU Health System Authority Board of Directors, VCU Health System, VCU Board of Visitors, Virginia Commonwealth University, and the Department of General Services shall provide assistance, information, and data to JLARC for this study, upon request. JLARC staff shall have access to all information in the possession of agencies pursuant to § 30-59 and § 30-69 of the Code of Virginia. No provision of the Code of Virginia shall be interpreted as limiting or restricting the access of JLARC staff to information pursuant to its statutory authority.

Recommendations: VCU Health System Capital Process and Governance Structure

Recommendations

RECOMMENDATION 1

VCUHS staff should develop and propose to the VCUHS BOD for its consideration and approval a 10-year strategic capital plan that (i) identifies the system's major facility needs, (ii) assigns projected costs and revenue estimates to each potential major facility project, (iii) describes how each project advances the missions of VCUHS and VCU, (iv) prioritizes projects, and (v) identifies a timeline and funding strategies for completing each project. VCUHS staff and BOD should review and update the capital plan at least every two years.

RECOMMENDATION 2

VCUHS should (i) have director-level positions overseeing construction and real estate functions that report to a health system executive and (ii) develop the staffing capacity necessary within VCUHS to effectively plan, procure, and manage future capital projects.

RECOMMENDATION 3

The VCUHS BOD should amend the Significant Transaction Policy to (i) clarify which projects or circumstances require use of outside experts (e.g., projects with high costs or substantial risks), when in the project planning and implementation process experts should be engaged, and what information should be shared with the BOD about the work completed by these experts; and (ii) require staff to share with the BOD comparisons of the estimated costs of proposed major capital projects to the costs of similar projects and industry benchmarks, such as cost per square foot..

RECOMMENDATION 4

The General Assembly may wish to consider amending § 23.1-2402 of the Code of Virginia to limit the role of the VCU president on the VCUHS BOD to being a non-voting member who is ineligible to serve as the BOD chair.

RECOMMENDATION 5

The General Assembly may wish to consider amending § 23.1-2402 of the Code of Virginia to require the VCUHS BOD to elect a chair every two years who must (i) be a citizen member and not a VCUHS employee, VCU employee, or VCU or Board of Visitors member and (ii) have served at least one full term on the VCUHS BOD.

RECOMMENDATION 6

VCUHS should amend its bylaws to eliminate the VCUHS president position, making the VCUHS CEO the top health system executive who reports to the VCUHS BOD.

RECOMMENDATION 7

The General Assembly may wish to consider amending § 23.1-2403 of the Code of Virginia to remove language giving the VCU president the authority to decide on the selection, removal, or conditions of appointment (including salary) of the VCUHS CEO when committees appointed by the VCUHS BOD and VCU BOV cannot reach agreement.

RECOMMENDATION 8

VCUHS and VCU should separate the VCUHS CEO role from the VCU SVP of health sciences role so that they are two different positions.

RECOMMENDATION 9

The General Assembly may wish to consider amending § 23.1-2402 of the Code of Virginia to require the VCUHS CEO to be an ex-officio member of the VCUHS BOD with voting privileges.

RECOMMENDATION 10

The General Assembly may wish to consider amending § 23.1-2403 of the Code of Virginia to require the VCUHS CEO and VCU SVP of health sciences to regularly communicate and collaborate to support the mutual interests and success of VCUHS and VCU.

RECOMMENDATION 11

VCUHS and VCU should agree to establish a “dotted line” relationship between the VCUHS CEO and the VCU SVP of health sciences when the CEO and SVP positions are split into two positions to ensure they meet regularly to discuss ways that VCU’s health sciences programs, VCU’s research, and VCUHS’s patient care can coordinate to benefit VCUHS and VCU.

RECOMMENDATION 12

VCUHS should adjust its current organizational structure to reduce the number of individuals who report directly to the VCUHS CEO.

RECOMMENDATION 13

The General Assembly may wish to consider amending § 23.1-2402 of the Code of Virginia to establish 4-year terms for VCUHS BOD members.

RECOMMENDATION 14

The General Assembly may wish to consider amending § 23.1-2402 of the Code of Virginia to (i) add “commercial real estate” and “finance” to the existing list of expertise requirements for VCUHS BOD members and (ii) require appointing entities to ensure that each area of prescribed expertise is represented on the BOD.

RECOMMENDATION 15

VCUHS should hire an outside expert to recommend strategies VCUHS could use to attract individuals with experience leading large health systems to serve on the BOD, such as whether some or all BOD members should be compensated.

RECOMMENDATION 16

The General Assembly may wish to consider amending § 23.1-2402 of the Code of Virginia to reduce the size of the VCUHS BOD and ensure the majority of VCUHS BOD members do not have professional roles at VCU and/or VCUHS. To ensure input from VCU and VCUHS physicians, the VCUHS BOD should still have voting members who represent VCU and VCUHS physicians.

RECOMMENDATION 17

The General Assembly may wish to consider amending § 23.1-2402 of the Code of Virginia to create a standing joint committee of the VCUHS BOD and VCU BOV that is responsible for ensuring effective communication and collaboration between VCUHS and VCU. The joint committee should meet at least as often as the VCUHS BOD and provide updates on key strategic, operational, and financial matters that could directly or indirectly affect both entities.



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May 29, 2024

Mr. Hal Greer, Director
Joint Legislative Audit and Review Commission
hgreer@jlarc.virginia.gov

Dear Mr. Greer:

Thank you for JLARC's capital process and governance structure review of the VCU Health System Authority.

JLARC's review is important for many reasons, most critically to ensure VCU Health continues to serve patients as Virginia's leading provider of safety net *and* tertiary and quaternary care. Concurrently, the health system must be operationally and financially accountable to the citizens of Virginia.

Your team asked us not to share the report with members of the VCU Health Board of Directors or the VCU Board of Visitors until it was publicly released on June 5. Sharing these recommendations with both boards and beginning important conversations about specific recommendations and their impact on VCU Health and VCU are the immediate next steps.

Changes Well Underway

Many of JLARC's recommendations align with work already underway at VCU Health, based on the reports we commissioned about best practices at academic health systems from two independent consultants.¹ The reports were the product of a Joint Task Force of both boards to review and strengthen governance and controls across the VCU enterprise.

Based on these reports, VCU Health has already made significant progress on many of JLARC's observations and recommendations. This includes strengthening VCU Health's 10-year strategic capital plan, creating a significant transactions policy and process for the board, using third-party advisers for high-profile or high-dollar transactions, establishing project management teams and more.

¹ *Richmond BizSense*, September 18, 2023

Last year, I initiated multiple conversations with our boards about — and publicly supported ^{2,3} — updating the role of the VCU president and VCU Health board chair. As I said when we met, I am pleased that JLARC shares similar recommendations about these roles and notes that concerns focus on the overall organizational structure, not the current position holder.⁴

Virginia code outlines that the health system CEO, not the president, has day-to-day, operational authority of VCU Health, and that the CEO reports to the VCU Health Board of Directors.⁵ That is how we have operated, and JLARC's recommendations reinforce that.

Healthcare is changing rapidly and significantly and the Board of Directors requires a chair 100 percent devoted to the health system. As I indicated publicly in September of 2023, I support updating the roles of the VCU president and VCU Health board chair with input from the Board of Directors and Board of Visitors.

Board Review Important

The VCU Health and VCU boards should have the opportunity to review and provide comments on all of JLARC's recommendations, specifically those that impact board governance, composition and accountability.

Many of these recommendations about the boards are logical — longer terms for the Board of Directors, reducing the size of the Board of Directors and seeking specific experience in board members. Others require deep consideration about how they would fundamentally alter the relationship between the university and health system.

For instance, VCU is the foundation of VCU Health's academic mission. There are deep-rooted and multi-faceted operational, financial, clinical and mission-based relationships between the health system and the university's nationally recognized Health Sciences programs (Medicine, Health Professions, Dentistry, Nursing, Pharmacy and Public Health) that should be considered before governance changes can be made.

Though separate legal entities, VCU Health and VCU have considerable organizational and operational connections in research, audit, police and emergency response, marketing and communications, development, the Massey Comprehensive Cancer Center, the Stravitz-Sanyal Institute for Liver Disease and Metabolic Health and more.

Changes to one entity may significantly impact the other in anticipated and unanticipated ways.

² *Richmond Times Dispatch*, September 20, 2023

³ *Richmond BizSense*, September 21, 2023

⁴ JLARC "VCU Health System Capital Process and Governance Structure" draft report, page 57

⁵ Virginia Code, section 23.1-2403: "The Authority shall be under the immediate supervision of a chief executive officer; subject to the policies and directions established by the board."

Our Mission

As your report notes, VCU Health's role in Richmond and the Commonwealth is unique and essential. ***Our mission is not the same as private, for-profit or other academic health systems — VCU Health is different because we do things that no one else does.***

Like VCU's sister institution, UVA, our distinction as an *academic* health system means our mission is to combine cutting-edge, university-based research with patient care, fostering advancements in medical science and innovative treatments. VCU Health, through the university's academic programs, provides top-tier education to future healthcare professionals and offers comprehensive, specialized care to patients, serving as a critical resource for complex and rare medical conditions.

We combine that academic mission with our role as Virginia's leading safety net provider, offering essential services to underserved and vulnerable populations, ensuring that everyone has access to medical care regardless of their ability to pay. In this way, VCU Health is a crucial backbone of Virginia's healthcare system^{6,7}, offering comprehensive care and support to communities that might otherwise lack adequate medical resources.

Our national-caliber and compassionate research-based caregivers save and heal lives every day.

Thank you for your recommendations to help improve VCU Health. I look forward to the Board of Directors and Board of Visitors reviewing JLARC's important recommendations starting on June 5.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Rao", with a stylized flourish at the end.

Michael Rao
President

⁶ U.S. News and World Report, June 21, 2023

⁷ U.S. News and World Report, August 1, 2023