

Report on Clay Street Transaction After Action Review

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Overview

- Project Scope
- Document Review
- Conduct Interviews
- Timeline
- Post-Closing Understanding of Transaction
- Observations Relevant to Recommendations
- Recommendations
- Discussion

Project Scope

- Retained by VCUHSA Board of Directors (“VCUHSA Board”) and VCU Board of Visitors
- Performed under the direction of *Ad-Hoc* Committee of the VCUHSA Board, with objectives to –
 - Evaluate existence and effectiveness of internal controls before Clay Street transaction closing (“Closing”)
 - Evaluate adequacy and reasonableness of information and communications provided to the VCUHSA Board when seeking its approval
 - Understand what organizational changes occurred since Closing
 - Formulate recommendations, within existing legislative framework, for improvements

Document Review

- Analyzed emails with attachments
 - By and between selected VCUHSA and VCU employees involved in the transaction
 - February 2020-July 15, 2021 timeframe
- Studied
 - Select VCUHSA Board presentations
 - New VCUHSA Board member orientation package
 - Select documents prepared in support of Closing
 - Select documents relating to Defeasance Agreement
 - VCUHSA signature authority designations

Conduct Interviews

(April 2023 - May 2023)

- VCUHSA Board member
- VCUHSA current employees
- VCU current employees
- Former VCUHSA employees

Project Timeline

- December 2018 VCUHSA Board and Finance and Property Committee receive an update on the Navy Hill project
- February 2020 Richmond City Council votes to end the Navy Hill project -- VCUHSA participates in continuing conversations regarding a portion of Navy Hill known as “D Block,” which becomes the Clay Street project (“Project”)
- May 2020 Capital City Partners (“CCP”), the developer, submits to the City of Richmond an offer to buy the land associated with the Project
- June 2020 VCUHSA signs a non-binding letter of intent with CCP regarding development and lease terms for the Project
- October 2020 VCUHSA Board’s Executive Committee receives an update on the Project

Project Timeline (cont'd.)

December 2020	VCUHSA Board, as a committee of the whole, approves the terms for the Project development and lease
February 2021	VCUHSA Board's Executive Committee approves revised terms for the Project development and lease
March 2021	City of Richmond approves the sale of land to CCP
April 2021	VCUHSA notifies General Assembly Money Committees
June 2021	VCUHSA Board and Finance and Property Committee approve subleases with Doorways and Ronald McDonald House
July 2021	Closing

Post-Closing Understanding of Transaction

- VCUHSA entered into a credit tenant lease whereby VCUHSA assumed risks
- Project as designed was impossible to build as designed within budget
 - Differing site conditions result in significantly fewer parking spaces
 - Hyperinflation cost impacts
 - Pandemic impact on office demand
 - Doorways and Ronald McDonald House lease terms

Observations

Relevant to Recommendations

1. Origins of Project
2. Project benefits
3. Negotiated during COVID
4. Negotiated during implementation of several significant finance projects
5. Project dynamics
6. Management issues

Observations

Relevant to Recommendations

7. Paucity of analysis regarding whether to continue with the Project during negotiations
8. Insufficient due diligence
9. Communication with VCUHSA Board and impact on decision making

Observations

Relevant to Recommendations

1. Origins of Project

- Born out of the ashes of Navy Hill
- Long-standing desire by VCU to acquire the property
- Institutional eagerness for the property – which continues today
- “Get it done” attitude

2. Project benefits

- New space for Doorways and Ronald McDonald House near Children’s Hospital
- Important for future VCU expansion plans
- Gateway to VCU

Observations Relevant to Recommendations (cont.'d)

3. Negotiated during COVID

- Time of great stress with many other pressing issues
 - Patient and staff safety
 - Availability and distributions of vaccines
 - Efforts to obtain COVID relief funds

4. Negotiated during implementation of several significant finance projects

- EPIC (electronic health system software)
- WorkDay (enterprise management program for finance, HR, planning and spend management)

Observations Relevant to Recommendations (cont.'d)

5. Project dynamics

- CFO *de facto* Project lead working closely with VCU VP for Government Relations, with others called in on an “as-needed” basis
- Developer issues
- City relationship considerations
- Urgency to move forward

Observations Relevant to Recommendations (cont.'d)

6. Management issues

- Project negotiated during the tenure of three CEOs
 - One interim
 - Two permanent with different management styles
- Departure of CFO, General Counsel
- Inadequate in-house real estate expertise
- Project followed a pattern of prioritizing mission, vision and values over financial terms

Observations Relevant to Recommendations (cont.'d)

7. Paucity of analysis regarding whether to continue with Project during negotiations
8. Insufficient due diligence
 - No site survey
 - Limited third party advisors assisting, with advisors called in late

Observations Relevant to Recommendations (cont.'d)

9. Communication with the VCUHSA Board and impact on decision making
 - VCUHSA Board Packages
 - Description of the Project and its risks/benefits
 - Updates to Project as they occur
 - One outside VCUHSA Board member outreach to CFO
 - CEO outreach to another outside VCUHSA Board member near Closing

Recommendations

1. Improve culture to foster open communication
2. Establish management project teams
3. Require management to use third party advisors in high risk and/or high dollar transactions
4. Require management to modify VCUHSA Board packages
5. Enhance VCUHSA Board orientation

Recommendations

6. Enhance/require VCUHSA annual Board education
7. Address Conflicts of Interest, both at the VCUHSA Board level and operationally
8. Ensure VCUHSA Board composition includes relevant expertise, including financial expertise

Recommendations

1. Improve culture to foster open communication
 - Best practices emphasize “tone at the top”
 - Encourage open, candid, respectful discussions
2. Establish management project teams
 - Designate, in writing, project manager and authority
 - Require each affected department to designate a representative
 - Implement “Good to Go” memo process

Recommendations (cont'd.)

3. Require management to use third party advisors in high risk and/or high dollar transactions
 - Require management to inform VCUHSA Board of third party advisors and selection criteria therefor
 - Consider inviting such advisors to VCUHSA Board meetings, as appropriate

Recommendations (cont'd.)

4. Require management to modify VCUHSA Board packages to include --
- Description of projects, together with bullet discussion of risks and benefits and due diligence conclusions, as appropriate
 - Copies of LOI, agreements or other relevant documents, as appropriate
 - Proposed resolutions, as appropriate

Recommendations (cont'd.)

5. Enhance VCUHSA Board orientation
6. Enhance/Require VCUHSA annual Board education
 - VCUHSA operations
 - VCUHSA finances
 - Fiduciary responsibility
 - Relationship between VCUHSA and VCU
 - Ethics/Conflict of Interest

Recommendations (cont'd.)

7. Address Conflicts of Interest, both at the VCUHSA Board level and operationally
 - Develop and implement VCUHSA Board Ethics and Conflict of Interest policy and procedure
 - Modify VCUHSA organizational structure, within legislative constraints, to minimize conflicts of interest
 - Document procedures for VCUHSA/VCU communications
8. Ensure VCUHSA Board composition includes relevant expertise, including finance expertise

DISCUSSION