



Health Department

Marvin E. Pratt
Acting Mayor

Seth L. Foldy, MD
Commissioner of Health

Bevan K. Baker, CHE
Health Operations Director

Administration



Frank P. Zeidler Municipal Building, 841 North Broadway, 3rd Floor, Milwaukee, WI 53202-3653 phone (414) 286-3521 fax (414) 286-5990
web site: www.milwaukee.gov

Alderman Don Richards
Milwaukee City Hall
200 W. Wells
Milwaukee, WI 53202

March 24, 2004

Thank you for your letter of March 18, 2004 regarding the consensus proposal by the Health Commissioner and Comptroller related to a comprehensive settlement of outstanding financial issues between Milwaukee Health Services, Inc. [MHSI] and the city Municipal Health Services Program [MHSP] outlined in our letter of March 2, 2004. You may be pleased to know that negotiations have been ongoing with Milwaukee Health Services, Inc. [MHSI] since the March 2 letter. These have resulted in a new agreement that will produce a faster, surer pay-down of the past-due occupancy and operating costs owed the city. A letter describing this agreement is attached.

In response to the questions posed in your letter (and referring now to the March 18 letter to MHSI, not the March 2 letter):

1. The new agreement does not forgive any of the past due occupancy charges, and therefore, to my understanding, does not require any formal action by council with the exception of approval of the CDBG funding. The involvement of the Judiciary and Legislative Committee chair had been preparatory to a possible waiving of money owed to the city. The consensus process managed to find a solution that does not result in direct expenditure of tax levy funds.

Had MHSI been forced into bankruptcy this would have entailed a loss of city funds.

You will note that in the new letter receipt of CDBG funding is explicitly contingent on written acceptance of the terms of the agreement.

2. Financial difficulties at MHSI are a fairly recent phenomenon, and date to a management team in place between 1999 and 2001. In August, 2001, the MHSI management team was replaced under federal oversight, first by a federally-chosen administrator, and then (in January, 2002) by the current CEO and his team, with approval of federal administrators. As a major federal grantee the clinic operates under very close scrutiny, and recently underwent a satisfactory review of both clinical and financial operations by the U.S. Health Services and Resources Administration. To my knowledge the current team at MHSI has been

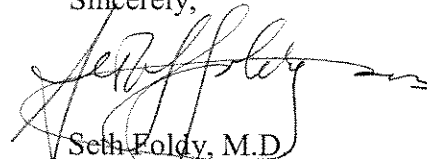
promptly forthcoming with all City requests for information. Further questions regarding the financial management of the center may perhaps best be left to the City Comptroller, but his endorsement of our consensus position follows careful review of all available financial records.

3. The new agreement calls for MHSI payment on one third of the past due occupancy and maintenance charges (\$392,587.16) only when MHSI shows a \$500,000 surplus in a given operating year. No interest will accrue on this obligation. I am not aware that the center has shown any such a surplus in the past, nor does it appear likely to the Comptroller or me that they will see such a surplus anytime in the near future. This clause permits the city to carry this balance on the books without adversely affecting current accounts, while permitting MHSI to improve its credit standing. Unlike many other MHSI creditors, the city is not directly writing off this debt, but admittedly is unlikely to collect much, if any, of this amount in the near future. We do anticipate receiving the other two-thirds of past due occupancy and operating expenses from the center.
4. Although you state that MHSI has been “struggling to meet its obligations for the past several years,” you should know that, despite considerable financial issues, the clinical staff has continued to deliver health services to the City’s Municipal Health Services Project enrollees without interruption. In short, the most important obligation, that of continuous access to health care, has been met. The Block Grant Office director worked with us in the creation of the consensus agreement and helped us ensure that: a) we would not exceed applicable caps on public service uses of CDBG funds and; b) we would fund only real deliverable activities that would meet the approval of the US Department of Housing and Urban Development. You will also find new stipulations regarding the receipt of CDBG funds in the new consensus agreement.
5. CDBG funds cannot and should not be used to reimburse the City for rent. We propose public service activity funding to MHSI for health care to low income people not reimbursed by other sources such as county General Assistance Medical Program, Medicaid and others. It will help the clinic serve its increasing numbers of uninsured and underinsured clients, which is consistent with both MHSI’s and the Health Departments’ mission. As you know, CDBG funds have been used to assist other federally-supported health centers during periods of duress, most recently in 1999 at the Lisbon Avenue clinic of Westside Health Care, which is one of the survivor agencies following the insolvency of Rainbow Community Health Center. Unlike MHSI, that health center had no contractual relationship with the city.
6. Delivering care to un- and underinsured persons is a business that is highly sensitive to government health care policy. Fortunately, there has been strong bi-partisan support for the Federally-Qualified Health Centers. On the other hand, it is fairly clear that the Federal government will allow the Municipal Health

Services Program (that created the Isaac Coggs Health Connection and led to the relationship between MHSI and the City) to expire at some point in the future. Our goal is to help MHSI survive the transition so that patient care is not interrupted.

I appreciate your concern that city and block grant funds be used wisely, and that they should not support inefficient or ineffective service providers. While Milwaukee Health Services, Inc. has had problems, they are being aggressively addressed by current management. To date, most other creditors of Milwaukee Health Services, Inc. have reached forgiveness agreements with the agency in recognition of the quality of the current administrative team and the importance of preserving primary care in underserved neighborhoods of Milwaukee. By our March 19 letter the city is not forgiving any costs that would have to be borne by city taxpayers. We do propose the use of modest CDBG funds to help pay for care to city residents who otherwise might be forced to go without. The agreement was formulated by a consensus process that involved representatives of the City Attorney's Office, the Comptroller, and Block Grant Administration, and members of Common Council in addition to the Health Department.

Sincerely,



Seth Foldy, M.D.
Commissioner of Health

Cc:

Ald. Angel Sanchez
Ald. Marlene Johnson ✓
Ald. Willie Wade
Ald. Michael Murphy
Ald. Willie Hines
Ald. Michael D'Amato
Bevan Baker
Curtiss Harris, Mayor's Office
Nick Loth, Comptroller's Office
W. Martin Morics, City Comptroller
Steve Mahan, Block Grant Director
Yvette Rowe
Gerald Schroeder
Ellen Tangen, Asst. City Attorney

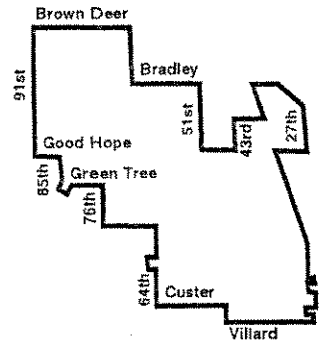


DON RICHARDS

Alderman RECEIVED

MAR 18 PM 3:06

MILWAUKEE HEALTH DEPARTMENT



9th Aldermanic District

March 18, 2004

Dr. Seth Foldy, M.D.
Commissioner of Health
Milwaukee Health Department
841 North Broadway
Room 315

Dear Dr. Foldy:

As you are aware, Common Council File Number 031612, a resolution authorizing the use of Community Development Block Grant reprogramming funds for health care of uninsured persons at Milwaukee Health Services, Inc., has been introduced to the Common Council and referred to the Community Development Committee, of which I am the chair. Before this matter can be heard, I believe certain questions about this proposed use of block grant resources must be answered. I would request that you put your answers to these questions into writing and send them to me as soon as possible. I would observe that the next regularly-scheduled meeting of the Community Development Committee is Tuesday, March 30, 2004.

1. This \$150,000 grant from the City's block grant allocation looks to be only one part of a multi-part agreement intended to improve Milwaukee Health Services, Inc.'s financial situation. Your letter dated March 2, 2004, outlines this agreement. Given this:
 - a. Have the necessary pieces of legislation been prepared to implement the other provisions of this agreement? Will they be? If not, why not?
 - b. Has MHSI agreed to the terms outlined in your letter? Is its agreement in writing? If not, why not?

2. Milwaukee Health Services, Inc., has a long history of internal mismanagement and external uncooperativeness. The January 28, 2002, letter from Bersch Accounting, for example, uses very strong language as it describes MHSI's lack of cooperation with Bersch's attempts to audit the agency. Are both the Health Department and the Comptroller's Office satisfied that these problems have been remedied? Is MHSI working cooperatively with the City and its representatives?

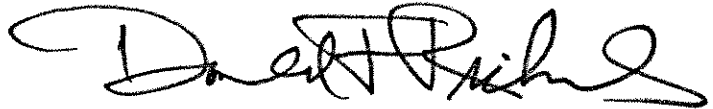
City Hall
200 E. Wells Street
Milwaukee, WI
53202-3570

City Hall (414) 286-2868
T.D.D. (414) 286-2025
Fax (414) 286-3456
Voice Mail (414) 286-3799
e-mail dricha@ci.mil.wi.us

Res. 5360 N. 45th Street
Milwaukee, WI
53218-3419
(414) 462-9191

3. One portion of the agreement included in your letter of March 2, 2004, calls for one-third of MHSI's debt to the City (\$392,587.16) to be converted to a no-interest debt to the City, payable only in those years in which MHSI shows a surplus. Has the agency ever shown a surplus? Given the recent history of the agency, when does the Comptroller expect the agency to show a surplus in the future?
4. The limits on the City's block grant allocation are well known. Given that MHSI has been struggling to meet its obligations for the past several years, and various attempts have been made to resolve the outstanding issues between MHSI and the City, what is the urgency in using reprogramming dollars for this purpose? Is this to be an on-going commitment of entitlement dollars? If so, has the Block Grant Administration been contacted for its input?
5. What portion, if any, of the \$150,000 will be used to either pay down MHSI's existing debt to the City or assist it in making regular rent and service payments in the future?
6. What assurances can the signers of the March 2, 2004, letter give that this money will be effectively used to restore MHSI's long-term fiscal viability?

Sincerely,



Ald. Donald F. Richards
Chair, Community Development Committee

Cc: Ald. Angel Sanchez
Ald. Marlene Johnson-Odom
Ald. Willie Wade
Ald. Michael Murphy
Ald. Willie Hines
Ald. Michael D'Amato
Bevan K. Baker, CHE
Curtiss Harris, Mayor's Office
Nick Loth, Comptroller's Office
Steve Mahan, Block Grant Director
W. Martin Morics, City Comptroller
Yvette M. Rowe, Business Operations Manager – Health
Gerald Schroeder, Healthcare Access and Services Manager
Ellen Tangen, Asst. City Attorney



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March 19, 2004

Mr. C.C. Henderson
Milwaukee Health Services, Inc.
2555 North Martin Luther King Drive
Milwaukee, Wisconsin 53212

Dear Mr. Henderson:

At a meeting on March 16, 2004, you and other representatives of Milwaukee Health Services, Inc. (MHSI) presented various concerns in response to our earlier letter of March 2, 2004 proposing a resolution of the current outstanding debt owed by MHSI to the City of Milwaukee in connection with the Municipal Health Services Program (MHSP).

As of February 17, 2004, MHSI currently owes the City \$1,177,761.51 for occupancy and operating maintenance charges at the Isaac Coggs Community Health Center. This amount includes charges from the time period commencing 4th Quarter of 1999 through the 4th Quarter of 2003. Further, there are some Fourth quarter charges that have not been billed yet that will be forthcoming.

The occupancy charge is the rent expense and is based on current building costs. Operating maintenance charges are separate from the occupancy charge and include expenses such as cleaning, security, receptionist, telephone and miscellaneous operating expenses. All providers are billed for these proportionally and are responsible for reimbursing these to the City.

The City retained an outside auditor to perform an audit through fiscal year 2002, and subsequent tentative and final settlement payments made for program year 2000. Based on this audit, the City owes MHSI \$267,474 as a cumulative balance for program years 1996-2000. In addition, the City has for some time withheld 15% of monthly Medicare payments to all MHSP providers, including MHSI, to protect the City from negative adjustments to MHSP settlements by the Centers for Medicare and Medicaid Services (CMS). This account includes \$364,862 from MHSI.

In response to the proposals you raised at our recent meeting, we recommend that the following proposal be submitted to the Common Council for consideration:


1. MHSI will repay 2/3 of the currently outstanding occupancy and maintenance charge balance (\$785,174.33), without interest, as expeditiously as possible. To facilitate repayment of this balance, the City will apply the \$364,862 amount currently held (as a result of the City's withholding of 15% of monthly Medicare settlements due to MHSI as protection from negative cost adjustments by the CMS) to reduce this debt. In addition, the City would also apply \$200,000 of the \$267,474 balance due to MHSI for program years 1996-2000 to reduce this debt. The remaining \$67,474 of this amount will be paid directly to MHSI for program operations. The remaining balance due to the City on this amount will be repaid through withholding by the City of 15% of all future interim and final MHSP Medicare settlements from CMS to MHSI, for the life of the City's agreement with MHSI under the Municipal Health Services Program. The full amount of such withholding will be applied to reduce the past due balance. The withholding amount will be reduced to 10% in the event that MHSI remains current in its occupancy and operating maintenance charge payments for a period of twelve consecutive months. In the event of any late payment thereafter, the withholding amount will be increased to 15%.
2. The remaining 1/3 of the outstanding occupancy and operating maintenance charge balance (\$392,587.16) shall be repaid, without interest, only in the event that MHSI shows a surplus in any organizational fiscal year of \$500,000 or more. In that event, 10% of that surplus will be required to be paid to the City until the remaining balance has been reduced to zero.
3. To address the City's need for financial protection in the event of negative cost adjustments against MHSI by CMS in the future, MHSI will obtain a letter of credit in the amount of \$93,000 which may be drawn upon by the City in the event that final settlement by CMS in any program year results in a negative balance with respect to MHSI.
4. Future annual occupancy and maintenance charges will continue at MHSI's proportionate share of actual costs of occupancy and maintenance.
5. The City Comptroller and the Health Commissioner will support a request by MHSI for an allocation of \$150,000 of Community Development Block Grant (CDBG) funds for the purpose of providing health care services to the indigent. Any award of CDBG funds is subject to review and approval by the U.S. Department of Housing and Urban Development and shall be subject to all applicable regulations governing CDBG funding (24 C.F.R. Part 570), including the obligation to provide audited financial statements in a timely manner.
6. Any subsequent consideration of an award of CDBG funding to MHSI in future years is contingent upon MHSI remaining current on all future operating and occupancy maintenance charges.
7. In the event that MHSI is 60 days or more past due in payment of any future operating and occupancy maintenance charges, the City shall have the right to terminate MHSI's lease upon 30 days written notice.

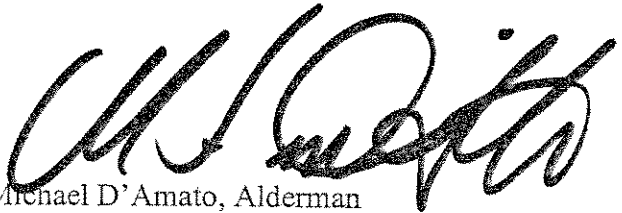
We will recommend to the Common Council that any award of CDBG funds to MHSI be made contingent upon execution of an agreement by MHSI amending its current lease and service

agreements with the City under the Municipal Health Services Program to incorporate each of the conditions itemized above.

If you agree to these conditions and wish them to be presented to the Common Council for consideration, please indicate your acceptance by signing below.

Very truly yours,


Seth L. Foldy, M.D.
Health Commissioner


Michael D'Amato, Alderman
Chair of Judiciary and Legislation Committee


W. Martin Morics
City Comptroller

Accepted:

MILWAUKEE HEALTH SERVICES, INC.

By: _____

Title: _____

Date: _____

- C: Senator Spencer Coggs
- Alderman Donald Richards
- Alderman Frederick Gordon
- Alderman Marlene Johnson-Odom
- Curtiss Harris, Mayor's Office
- Seth Foldy, Health Commissioner
- Bevan K. Baker, CHE
- Steven Mahan, Block Grant Director
- Yvette M. Rowe, Business Operations Manager –Health
- Gerald Schroeder, Healthcare Access and Services Manager
- Ellen Tangen, Assistant City Attorney