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March 2, 2004

Mr. CC Henderson
Milwaukee Health Services, Inc.
2555 North Martin Luther King Drive
Milwaukee, WI 53212

Dear Mr. Henderson:

Thank you for submitting your proposal regarding how Milwaukee Health Services, Inc. (MHSI) and the City of Milwaukee (City) could work together to address the large outstanding debt MHSI owes the City related to occupancy and operating maintenance charges at the Isaac Coggs Community Health Center in the Municipal Health Services Program (MHSP).

We wish to reiterate that 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.

As of 2/17/04 the balance owed the City by MHSI for occupancy and operating maintenance charges combined is \$1,177,761.51. This 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 are forthcoming.

Based on the Bersch audit through fiscal year 2002, and subsequent tentative and final settlement payments made for program year 2000, it has been determined that 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 Medicare settlements if a provider fails. This account includes \$364,862 from MHSI, which will be retained by the city until all settlements are finalized at the end of the MHSP program.

Your proposal has been reviewed by a group that includes representatives of the City Comptroller, City Attorney, Health Department and Community Block Grant Administrator. While we cannot accept the conditions offered in your letter, we offer the following solution:

We are willing to consider 2/3 of the occupancy and operating maintenance charge balance (\$785,174.33) a zero interest loan by the city to MHSI to be reimbursed by MHSI as expeditiously as possible. Until this amount has been repaid, City of Milwaukee will retain 15% of all monthly Medicare reimbursements as well as 15% of all interim and final MHSP Medicare settlements from CMS to MHSI, applying the full amount of such withholding to the \$785,174.33 balance until it reaches zero. All of the 15% withhold will be applied to the repayment of this loan; no additional withholding will be made for the City's risk management account.

The City offers further to consider the remaining 1/3 of the balance (\$392,587.16) as a no-interest debt payable only under the following condition: should MHSI show a surplus in any organizational fiscal year, 10% of that surplus will be required to be paid to the City until it has been reduced to zero. The

City is willing to effectively relieve MHSI as a creditor for this balance except, exclusively, in years when MHSI is in a positive income balance, and only in each such years (in other words, a positive-income balance in one year would not activate a need to pay for this debt in any subsequent loss year).

We will seek (subject to Common Council approval) Community Development Block Grant funding of \$150,000 each year, based on documentation of equal care patient care costs for services not reimbursed by any other payor, including the HRSA 330 grant or similar funds, General Assistance Medical Program (GAMP), Medicaid or contracts for specific services such as HIV or mental health care. MHSI would be required to provide documentation of such unreimbursed care for each year to receive these funds.

We will replace boilers in the Isaac Coggs building at city expense in the hope of reducing building energy costs which would be reflected in the occupancy charge. This project is already in progress.

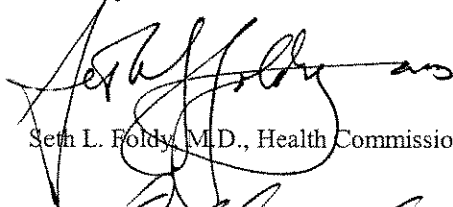
We have shared with MHSI administration other possible methods whereby they might reduce their monthly liability to the city, including assuming direct control of telephone, cleaning, and other services. We ask that you provide information on any such actions promptly to the City as they may require changes to contracts currently in effect.

As a result of the completion of the 2002FY Bersch Audit, and further factoring in the tentative and final settlement payments made for 2000PY, the amount of \$267,474 is determined to be owed to MHSI for the cumulative balances of program years 1996-2000. This will be remitted to MHSI minus 15% to be applied toward debt repayment.

This proposal (including support for block grant funding) is contingent on full and timely payment of all future occupancy and operational maintenance charges. Failure to pay these charges would void this understanding.

We are aware of the challenges your organization faces in providing access to healthcare for low income city residents. This letter represents our best effort to assist you within the limited resources available to the city.


Sincerely,



Seth L. Foldy, M.D., Health Commissioner



W. Martin Morics, City Comptroller



Michael D. Arnato, Alderman
Chair of Judiciary and Legislation Committee

c: Bevan K. Baker, CHE
Yvette M. Rowe, Business Operations Manager-Health
Gerald Schroeder, Healthcare Access and Services Manager
Ellen Tangen, Asst. City Attorney
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