COUNTY OF MILWAUKEE
Interoffice Memorandum

DATE: July 11, 2008

TO: Supervisor Elizabeth M. Coggs, Chairperson, Committee on Finance and Audit
Supervisor Peggy West, Chairperson, Committee on Health and Human Needs
Supervisor Toni M. Clark, Chairperson, Committee on Economic and Community Development

FROM: Jerome J. Heer, Director of Audits
Douglas C. Jenkins, Deputy Director of Audits
Glenn E. Bultman, Research Analyst, County Board
Steve Cady, Fiscal & Budget Analyst, County Board
Martin Weddle, Research Analyst, County Board

SUBJECT: **AUTHORIZATION REQUESTED BY COUNTY ADMINISTRATORS TO ENTER INTO FINAL LEASE NEGOTIATIONS WITH WEAS DEVELOPMENT COMPANY FOR THE LONG-TERM LEASE OF THE ST. MICHAEL'S HOSPITAL FACILITY FOR THE BEHAVIORAL HEALTH DIVISION INPATIENT AND NURSING HOME OPERATIONS (FILE NO. 07-71(a)(b))**

REQUEST

At the May 2008 meetings of the Committee on Health and Human Needs and Committee on Finance and Audit, the recommendation by county administrators to enter into final lease negotiations with Weas Development Company for the long-term lease of the St. Michael's Hospital facility for the Behavioral Health Division Inpatient and Nursing Home operations was referred to County Board and Department of Audit staff for a review of the proposed alternatives; renovate current BHD space, build a new facility, purchase St. Michael's, lease St. Michael's, or maintain the status quo. The county administrators had recommended the leasing option of St. Michael's. This report is to include an opinion as to which option, based on our analysis, should be pursued. In addition, the County Board at its meeting on May 22, 2008 authorized an appropriation not-to-exceed $50,000 from the Appropriation for Contingencies for the Department of Audit to retain an outside consultant. The consultant is to provide technical real estate consulting services that, among other things, will help quantify the value of the current Behavioral Health Division site.

SUMMARY

The facilities that house Milwaukee County's Behavioral Health Division are no longer adequate to meet the needs of the program. From a structural, operational and programmatic perspective, maintenance of the status quo is not a viable long-term option. The Division has analyzed several alternatives and concluded that a lease of the former St. Michael's property is the best option. Our analysis leads us to conclude that this approach would not be as financially favorable as described in the initial analysis, especially when the cost of privatization is removed so that the options can be compared on a more apples-to-apples basis.

The following table shows total project costs for each of several options as identified in the original analysis presented to the County Board in May. The table also shows revised figures resulting from our additional analysis.

Total Project Cost Summary

	Renovate BHD to New Care Model	Build New BHD Facility	Purchase St. Michael's Facility	Lease St. Michael's Facility	Maintain Status Quo at BHD
Original Analysis					
25-Year Cost	$386,089,650	$433,891,033	$381,753,084	$339,756,990	$441,438,504
Average Annual Cost	$15,443,586	$17,355,641	$15,270,123	$13,590,280	$17,657,540
Revised Analysis					
25-Year Cost	$379,598,769	$421,673,281	$382,090,406	$359,828,174	$444,842,699
Average Annual Cost	$15,183,951	$16,866,931	$15,283,616	$14,393,127	$17,793,708

This next table highlights the impact of isolating an estimated $81.4 million savings embedded in the recommended lease option. The original analysis presented privatization under only one option—a lease of the former St. Michael's property. As such, it not only distorts comparability with other alternatives, but it has the effect of relegating a privatization policy decision to an afterthought on a nearly $400 million facility decision. We believe that any privatization decision should stand on its own merits, with careful and deliberate scrutiny. We note that many of these positions are targeted for privatization in BHD's 2009 Budget request submitted to the County Executive.

Privatization Impact on Total Project Cost

	Renovate BHD to New Care Model	Build New BHD Facility	Purchase St. Michael's Facility	Lease St. Michael's Facility	Maintain Status Quo at BHD
Revised Analysis With Privatization					
25-Year Cost	$379,598,769	$421,673,281	$382,090,406	**$359,828,174**	$444,842,699
Average Annual Cost	$15,183,951	$16,866,931	$15,283,616	$14,393,127	$17,793,708
Revised Analysis Without Privatization					
25-Year Cost	$379,598,769	$421,673,281	$382,090,406	**$441,238,069**	$444,842,699
Average Annual Cost	$15,183,951	$16,866,931	$15,283,616	$17,649,523	$17,793,708

There are other variables that the County Board may want to consider before relocating the BHD facility outside of the Milwaukee Regional Medical Center (MRMC); primarily related to value of the land at the County Grounds versus the St. Michael's site as evidenced by potential interest in development at the respective sites. *It is our recommendation that the County Board choose to either renovate the current facility or build a new facility on county-owned property near the current site. If either option is pursued, this could be accomplished with the assistance of an outside party based on a request for proposal (RFP) process.*

We further recommend that any policy decision to privatize County services be reviewed and scrutinized separately.

BACKGROUND

The 2006 Adopted Budget for the Behavioral Health Division continues the following language:

> *In 2006, BHD plans to work with Economic and Community Development Division to identify potential alternative locations for its inpatient, crisis and nursing home operations and/or to house its administrative and program staff. The Mental Health Complex has considerable vacant space due to inpatient and nursing home downsizing initiatives that have occurred over the past decade, and the costs associated with maintenance and operation of the facility are exorbitant and out of line with most other hospital and nursing home facilities. BHD believes that it may be able to significantly reduce those costs in alternative settings and utilize savings to enhance inpatient care and outpatient services. An increased professional services appropriation in the Economic and Community Development Division budget will allow for the procurement of consulting assistance to help with this initiative.*

In February 2007, $200,000 was authorized for a structural and environmental analysis of the former St. Michael's Hospital (2400 W. Villard Street, Milwaukee) as a potential new location. An analysis of the current BHD location was also requested. In July 2007, the Directors of Administrative Services, Health and Human Services and Economic and Community Development reported the results of their studies and recommended the negotiation of a long-term lease or purchase of the St. Michael property. Their report also highlighted a recommendation that "If a move to this St. Michael facility is not part of the answer to these challenges, then it is crucial for the County to develop alternative solutions." After considering the July 2007 report, the County Board authorized the Directors to begin negotiations to purchase or lease St. Michael's from Wheaton Franciscan Healthcare or a third party developer. In addition, the Board called for a complete analysis of four alternatives; renovate current BHD space, build a new facility, purchase St. Michael's, or lease St. Michael's.

In May 2008, the Director of DHHS, Director of DAS-ECD and the BHD administrators issued a follow-up report on the status of ongoing negotiations with Weas Development, the developer designated by Wheaton Franciscan Healthcare (see **Exhibit 1**). The report also highlighted clinical and fiscal analysis related to relocation of BHD and presented the analysis of the four options for potential locations. The report recommended that the Director of DAS, DHHS and ECD be authorized to enter into final lease negotiations this summer for a long-term lease of the St. Michael's property with Weas Development Company. At the May 15, 2008 meeting of the Committee on Finance and Audit, the report was referred to County Board and Department of Audit staff for a review of the proposed alternatives. In addition funds were authorized for an outside consultant to provide technical real estate consulting services to help quantify the value of the current BHD site.

ANALYSIS

Our review focused on the methodology of the original analysis developed by BHD staff of the 25-year costs associated with each alternative. There are several significant changes that are reflected in the summary table at the beginning of this report that are further discussed below.

Legacy costs are health care and pension related obligations that remain even if an employee is no longer working for the County. For 2008, the Adopted Budget breaks out active and legacy costs per employee so that policymakers can better understand the variable and fixed components of health care and pension obligations. As a percent of salary, active (variable) health care and pension costs are approximately 41.65% this year, while legacy (fixed) costs are 32.70%. The combined amount of 74.35% is often stated as the fringe benefit rate, leading some to incorrectly believe that county workers receive a fringe benefit package that is almost 75% of their salary. When a position is abolished, the county is able to reduce its variable health care and pension costs, but must now apply its fixed costs over a smaller number of workers.

The original BHD analysis included legacy costs in the options involving the use of County staff in building operations. Since these costs would simply be reallocated to remaining county positions in subsequent years, the legacy costs were eliminated from the analysis.

The original BHD analysis also used an across-the-board inflation factor of 2.5% for all items, based on the 2.5% escalator assigned to the base rent portion of the proposed annual lease payment. However, the portion of the proposed annual lease payment designated as operating costs, which are the county's obligation, are not capped at any rate. We were able to identify inflation factors for various components based on historical and projected trends obtained from authoritative sources such as the U.S. Bureau of Labor Statistics and the U.S. Department of Energy, as well as Milwaukee County actuarial projections and payroll data. For example, we applied a general inflation factor of 2.86% to all materials and other miscellaneous items included in the developer's itemized operating cost estimates. Likewise, we applied separate inflation factors for private sector labor costs (3.88%) and Milwaukee County active employee costs (4.03%).

An additional adjustment was made to the original analysis to reflect anticipated energy savings associated with the renovation, build new and purchase options. Since operating cost estimates for those options were based on current operating costs of the energy inefficient BHD facility, a 10% reduction for energy efficiency was assumed for the renovation and purchase option, and a 15% reduction was assumed for new construction.

These various adjustments are reflected in the revised operating costs shown in the following table.

Impact of Legacy, Inflation and Energy Efficiency Assumptions on Operating Costs

	Renovate BHD to New Care Model	Build New BHD Facility	Purchase St. Michael's Facility	Lease St. Michael's Facility	Maintain Status Quo at BHD
Original Analysis					
25-Year Operating Cost	$293,184,594	$293,184,594	$293,184,594	$307,419,875	$422,608,466
Revised Analysis					
25-Year Operating Cost	$287,978,683	$284,385,322	$287,978,683	$321,326,056	$421,645,949

The cost to purchase patient centered security is increased by approximately $5.1 million over the 25-year proposed lease of the St. Michael's facility due to the application of a 3.88%, not 2.5%, inflation rate based on historical trends in the cost of private sector labor. This adjustment highlights the power of compounding when making projections for a 25-year period. These relatively small swings in baseline assumptions can dramatically impact the 25-year summary numbers, as shown in the following table.

Impact of Patient Centered Security Inflation Rate Assumptions

	Renovate BHD to New Care Model	Build New BHD Facility	Purchase St. Michael's Facility	Lease St. Michael's Facility	Maintain Status Quo at BHD
Original Analysis 25-Year Cost	Included in Operating Cost	Included in Operating Cost	Included in Operating Cost	$25,754,954	Included in Operating Cost
Revised Analysis 25-Year Cost	Included in Operating Cost	Included in Operating Cost	Included in Operating Cost	$30,898,310	Included in Operating Cost

The Wraparound Milwaukee (WRAP) program is currently housed at BHD. The original analysis projected that office space in the proximity of the Vel Phillips Children's Court Center would need to be obtained under the renovate the current facility or build new alternatives. Our assessment is that this is not necessary since there appears to be ample space in the currently assumed 410,000 sq. ft. facilities envisioned under the renovate and build new options, and if a new build option was pursued at or near the MRMC location, WRAP's desire to remain close to the Vel Phillips Children's Center could be accommodated. Furthermore, WRAP is charged by BHD for space rental that is paid by non-tax levy (e.g. state medical assistance grants) sources. If the program is housed in a non-county facility, the program would not be able to reimburse the county for all of the fixed costs it currently picks up in the form of cross-charges. We estimate a loss to BHD of approximately 25% of this cross-charge expense, primarily related to facility operating costs.

Impact of WRAP Rent Payment and Cross-Charge Assumptions

	Renovate BHD to New Care Model	Build New BHD Facility	Purchase St. Michael's Facility	Lease St. Michael's Facility	Maintain Status Quo at BHD
Original Analysis					
25-Year Cost	$6,097,161	$6,097,161	$6,097,161	$6,097,161	$0
Revised Analysis					
25-Year Cost	$0 - -Will Use Available Space	$0 - - Will Use Available Space	$7,118,808 Revenue Loss to BHD	$7,118,808 Revenue Loss to BHD	$0

Adjustments in the inflationary assumptions were applied to the original analysis that impacted the projected cost of future major maintenance for several alternatives. The original analysis did not include an escalator in its calculation. We applied the general inflation rate for the past 25 years of 2.86% for our calculation. The impact of that adjustment is shown in the following table.

Impact of Future Major Maintenance Inflation Rate Assumptions

	Renovate BHD to New Care Model	Build New BHD Facility	Purchase St. Michael's Facility	Lease St. Michael's Facility	Maintain Status Quo at BHD
Original Analysis					
25-Year Cost	$5,375,100	$5,375,100	$5,375,100	$0	$7,748,010
Revised Analysis					
25-Year Cost	$7,713,526	$7,713,526	$7,713,526	$0	$7,713,526

Finally, the original analysis indicated there were a total of 73 Full-Time Equivalent (FTE) involved in operating and maintaining the current BHD facility (54 Housekeeping positions, 16 BHD internal Facilities Management positions, and 3 Public Works Facilities Management positions. It was anticipated that 22 of those positions would be reduced, through attrition, as a result of downsizing the current space maintained by BHD under each of the non-status quo options discussed, with 51 positions subject to privatization under the lease option. Subsequent to that analysis, it was discovered that an additional 6.5 FTE of Public Works Facilities Management positions were included in cross-charges for services provided for BHD operations. Therefore, the revised number of positions included in our analysis is 79.5 FTE, with a reduction of 24 positions anticipated from downsizing the current facility, and 55.5 positions subject to privatization under the lease option.

PROCUREMENT PROCEDURES

The proposal recommended by County administrators contemplates negotiation of a 25-year lease designed to compensate Weas Development for renovation/construction and operation of the St. Michaels' facility on the County's behalf. Policymakers may want to consider whether a County financial commitment estimated to approach $400 million should be undertaken without the benefit of a public bidding process (this applies to several options including lease, purchase/leaseback, new construction or renovation). We received conflicting

information regarding which entity initiated discussions regarding the recommended proposal; ultimately, Wheaton Franciscan Healthcare (WFH) officials granted Weas Development the exclusive right to develop the St. Michael's facility. That development option extends through August 1, 2008. However, as indicated by Mr. Weas' recent comments to the Committee on Economic and Community Development, his proposal anticipates "market profits" to accrue to his firm as a result of the proposed lease of the St. Michael facility to Milwaukee County:

> *We always need to look at what is our next best alternative for uses of our resources. We work in the market and there are returns to be made in the market and for us to take two and a half years of our resources against this project it's not a good business decision for us to do that but, I don't mean this in the wrong way, to just confer benefit to the County. We need to ensure that we are making market profits or we ought to be doing something else.*

(Testimony of R. Scott Weas of Weas Development to the Committee on Economic and Community Development, June 6, 2008.)

It is extremely difficult to ascertain, without a public bidding process, whether the proposal proffered by Weas Development is indeed a market rate deal for Milwaukee County. Given the enormous financial obligation the potential lease presents to Milwaukee County, a public bidding process would provide assurance that Milwaukee County is indeed paying fair market rates.

ADVANTAGES AND DISADVANTAGES OF OPTIONS

Each of the alternative facility proposals for future BHD operations has specific advantages and disadvantages. These include:

Renovate at Current Location

<u>Advantages</u>

- Less costly than new construction in the short term
- Consolidation could make adjacent land available for sale
- Premium value of land would still exist after 25 years

<u>Disadvantages</u>

- More disruptive to patients than other alternatives
- Operating costs may be more than new construction
- Design options would be constrained by existing building footprint
- Potential negative impact on adjoining parcels

Build New Facility at Different Location (County Owned)

<u>Advantages</u>

- Operating costs could be reduced for energy and maintenance
- Most flexible option for incorporating program decisions
- Land and structure may have more value after 25 years than other options

- Entire current site would be available for sale

Disadvantages
- New construction costs more than renovation in the short term
- Any land used for BHD would not be available for sale or other use
- Self imposed capital budget limits may be violated unless building is developed as lease-purchase or other financing mechanism

Purchase St. Michael's Facility

Advantages
- Ownership and control of the asset
- Operating costs could be reduced for energy and maintenance

Disadvantages
- Current market value is nominal and may reflect value after 25 years
- Self imposed capital budget limits may be violated unless building is developed as lease-purchase or other financing mechanism

Lease St. Michael's Facility

Advantages
- May be accomplished more quickly than other options
- Significant operating cost reduction with privatization

Disadvantages
- Length of lease term may limit future flexibility
- Current market value is nominal and may reflect similarly low value after 25 years
- Process for selecting developer not based on competition
- Most savings are driven by privatization which involves services provided via a landlord rather than with direct control from contract administration

ANALYSIS OF CURRENT BHD PROPERTY

The Behavioral Health Division is located on the 44-acre Mental Health Complex in the City of Wauwatosa. **Exhibit 2** provides a description of the current property. Because a decision on the location of BHD will affect the future of the current site, we were directed to obtain appraisal services to assist in the decision making process. We retained the services of McSorley and McSorley Real Estate Services Inc. to establish a range of values for the site under several scenarios. Milwaukee County has also issued a Request for Interest (January 28, 2008) to gauge the prospective interest in the property under a variety of options with or without BHD located on the site. Six responses were received but the responses provide no clear statement of the land value.

According to McSorley, there is a wide range in potential value of the BHD parcel depending on the location within the site. The range of value, cleared of

encumbrances is between $15 million and $57 million. (A more detailed report from the appraiser will be issued under separate cover.)

It is important to note that the work of the appraisal firm is premised on the property being free of any adverse conditions. According to the Department of Transportation and Public Works, the cost of clearing the entire site of any structures, utilities and environmental encumbrances could be approximately $19 million. If BHD operations were consolidated into the existing Mental Health Hospital, the remediation costs would be $5.8 million. This figure is lower because there would be less demolition and existing steam tunnels would not all be abandoned. The lower figure does not, however, include any cost for renovation.

Another cost that would offset any revenue generated from the site is the existing debt on the current structures. Current outstanding debt (principal only) is $6.8 million. Two additional factors that affect the value are beyond the direct control of Milwaukee County government. The first is the proposed reconstruction of the Highway 45 and Watertown Plank Road interchange. Potential value and use of the Western edge of the property may be significantly impacted depending on the configuration and terms of the project. The second is the zoning of the parcel. The City of Wauwatosa has zoned the property "Medical Center and Institution District". Any change to that designation would require the support of Wauwatosa.

Regardless of existing debt, encumbrances and zoning parameters, the appraisal by McSorley indicates the significant value of the current BHD property. Milwaukee County needs to develop a strategy for obtaining highest value for the property with or without BHD programs on the site. To the greatest extent possible, the process should involve the expertise of program, real estate, fiscal and legal resources. We have also discussed the benefits of a public bid process. However, if it is decided that a sole source land sale, development agreement or construction project be pursued, the County now has the benefit of an independent appraisal of the land value and should make any decision regarding a developer on its own initiative.

OTHER CONSIDERATIONS

Long-Term Nature of the Lease Option

Mental health services have seen considerable changes in the last 25 years. In 1985, the facility was budgeted for over 830 inpatient beds. In 2008, it is budgeted for 270. Because it is difficult to predict what changes may occur over the next 25 years, BHD administration has focused on a facility design that would be somewhat flexible in meeting any growth in program needs. It is more difficult to plan for any unforeseen reduction in space needs. Some of the variables that could affect demand include a push for mental health parity and expansion of the State of Wisconsin Family Care Program. To the extent that these, or other factors, result in an expansion of community resources, the need for BHD space could diminish. Under that scenario, the County would have greater flexibility if it owned its own space, as opposed to having a lease obligation to a third party. On the other hand, it is not likely that the need for Milwaukee County to provide essential safety net BHD services will end in the near future.

Regardless of any significant increase or decrease in the demand for BHD inpatient space, it is important to consider the County's position in 25 years. From this perspective, the St. Michael's property has limited value today. At the end of a 25 year lease, whether it is purchased or not, it is reasonable to conclude that it may still be of limited value. On the other hand, removing BHD from its current site would create an immediate value from a potential land sale. It is also reasonable to conclude that value would still exist 25 years from now. Consolidating BHD on its current site would also create the potential for some revenue from the sale of land adjacent to a renovated structure with a smaller footprint. Building a new facility on the County grounds would allow for sale of the entire BHD parcel. Under any scenario, it is important to consider what, if any, value will exist 25 years from now as a result of a decision made today.

Other concerns raised at Committee meetings during the May and June committee cycle are addressed in a July 3 memo from Corey Hoze, Director, DHHS (see **Exhibit 3**).

Timing of the Decision

Milwaukee County has been in discussions with Wheaton Franciscan Healthcare for more than two years on the possible relocation of BHD to the former St. Michaels' facility. According to WFH, they have budgeted $2.5 Million of "holding costs" for the vacant buildings in the current fiscal year, which began July 1. Representatives of WFH indicated that, if the future of the facility is not resolved by January of 2009, their intention is to demolish the structures.

CONCLUSIONS

Based on our financial analysis and other considerations as previously detailed in this report, *we recommend* that *the County Board choose to either renovate the current facility or build a new facility on county-owned property near the current site. If building a new facility is pursued, this could be accomplished with the assistance of an outside party based on a request for proposal (RFP) process.*

We further recommend that any policy decision to privatize County services be reviewed and scrutinized separately.

We would like to acknowledge the cooperation of all parties involved in analyzing this complex issue, including County Staff, Wheaton Franciscan Healthcare and Weas Development.

Jerome J. Heer, Director of Audits

Douglas C. Jenkins, Deputy Director of Audits

Glenn E. Bultman, Research Analyst, County Board

Steve Cady, Fiscal & Budget Analyst, County Board

Martin Weddle/sjc

Martin Weddle, Research Analyst, County Board

JJH/DCJ/GEB/SC/MW/cah

cc: Supervisor, Lee Holloway, Chairman, Milwaukee County Board of Supervisors
Milwaukee County Board of Supervisors
Scott Walker, Milwaukee County Executive
Cynthia Archer, Director, Department of Administrative Services
Corey Hoze, Director, Department of Health and Human Services
John Chianelli, Director, DHHS Behavioral Health Division
William Domina, Milwaukee County Corporation Counsel
Richard Canter, Senior VP Strategy and Corporate Affairs, WFH
Julie Swiderski, VP, Government and Community Relations, WFH
R. Scott Weas, Weas Development Company
Delores Hervey, Chief Committee Clerk, County Board Staff
Jodi Mapp, Committee Clerk, County Board Staff
Linda Durham, Committee Clerk, County Board Staff

Exhibit 1
(Without Attachments)

COUNTY OF MILWAUKEE
Inter-Office Communication

DATE: May 1, 2008

TO: Supervisor Lee Holloway, Chairman, Milwaukee County Board of Supervisors

FROM: Corey Hoze, Director, Department of Health and Human Services
Robert Dennik, Director, DAS-Economic and Community Development
John Chianelli, Administrator, Behavioral Health Division

SUBJECT: **FOLLOW-UP REPORT FROM THE DIRECTOR OF ECONOMIC AND COMMUNITY DEVELOPMENT, THE DIRECTOR OF HEALTH AND HUMAN SERVICES AND THE ADMINISTRATOR OF THE BEHAVIORAL HEALTH DIVISION, REQUESTING AUTHORIZATION TO ENTER INTO FINAL NEGOTIATIONS WITH WEAS DEVELOPMENT CO. FOR THE LONG-TERM LEASE OF THE ST. MICHAEL HOSPITAL FACILITY FOR BEHAVIORAL HEALTH DIVISION INPATIENT AND NURSING HOME OPERATIONS**

POLICY ISSUE

At its meeting on February 1, 2007, the County Board of Supervisors adopted Resolution File No. 07-71, which authorized the Directors of the Department of Health and Human Services (DHHS) and the Economic and Community Development Division (ECD) to spend up to $200,000 to conduct a structural and environmental analysis of the St. Michael Hospital facility, which was being considered as a potential new location for the County's Mental Health Complex. A report regarding that directive was presented to the Board at its July 26, 2007 meeting. At that meeting, the Board authorized the Directors of the Department of Administrative Services (DAS), ECD and DHHS to begin negotiations for a long-term lease or purchase agreement with Wheaton Franciscan Healthcare (WFH) or a third party developer (as determined by WFH). Additionally, the Board directed the Director of ECD to conduct a complete analysis of four options for potential locations for the Behavioral Health Division (BHD): renovate current space at BHD, build a new facility, purchase the St. Michael Hospital, or lease the St. Michael Hospital. (File No. 07/71(a)/(a))

This report updates the on-going negotiations with Weas Development Co., the third party developer designated by WFH, and also provides information regarding the four options set forth in the Board Resolution. As a result of the analysis, it is requested that authorization be granted to appropriate County officials to enter into final negotiations for a long-term lease arrangement with Weas Development for the St. Michael property.

BACKGROUND

Per authorization contained in the 2006 Adopted Budget, DHHS and ECD have been exploring potential alternative locations for BHD to conduct its inpatient and nursing home operations. In May 2006, subsequent to an announcement by WFH of plans to discontinue hospital inpatient operations at St. Michael Hospital, DHHS and ECD initiated discussions with WFH regarding the possible utilization of that site.

In January 2007, the Directors of DHHS and ECD submitted a detailed report on the status of their discussions with WFH and the preliminary analysis that had been conducted regarding potential renovation costs and operations savings associated with a move of BHD to the St. Michael facility. The report also requested authorization to negotiate a lease or sale agreement with WFH. At its February 1, 2007 meeting, the County Board of Supervisors adopted an amended resolution that did not include the authorization for DHHS and ECD to begin formal lease or sale negotiations with WFH, but that did authorize the expenditure of up to $200,000 for additional engineering and environmental analysis of the St. Michael building and property, additional architectural analysis to better estimate the cost of necessary building renovations to house BHD, and to obtain outside legal assistance. In addition, the Resolution directed DHHS and ECD to conduct an analysis of major maintenance and capital improvements needed at the Mental Health Complex to allow BHD to effectively conduct inpatient and long-term care operations, and an analysis of the feasibility of consolidating BHD operations in part of the existing Complex in order to reduce overhead costs and allow other parts to be leased or sold to other entities. That report was submitted to the Board in July 2007. A copy of these reports is attached as **Attachment A.**

At its July 26, 2007 meeting, the County Board of Supervisors adopted an amended resolution authorizing DAS, DHHS and ECD to enter into lease negotiations with WFH or a third-party developer for the long-term lease or sale of the St. Michael facility. Based on these negotiations, a letter of understanding from Weas Development Corporation can be found as **Attachment B.** The Board also directed BHD to include precise space amounts and numbers of beds for the new facility and form a work group to have input into the design and capacity issues at the new facility. Finally, the Board directed the Director of ECD to analyze four potential facility options for BHD. The Board resolution is included as **Attachment C.**

OVERVIEW AND ANALYSIS

Subsequent to the July 2007 Board meeting, DAS, ECD and DHHS began working with WFH to discuss terms of a potential lease, solidify space needs, and detail BHD's facility requirements. Weas Development Co. secured the option to buy from WFH for the St. Michael property, and ECD and DHHS have been working with them to develop preliminary plans for the renovation of the St. Michael facility.

In addition to working with the developer, BHD has convened a number of meetings and information sessions for leadership and staff at BHD to provide input into the design process and

layout of patient and staff areas. Many staff, including managers, clinical staff, administrators and union representatives, have taken tours of the facility. The BHD Administrator also established four action teams, one for each licensed patient area (Psychiatric Crisis Services, Community Services, Acute Inpatient and the Rehab Centers), made up of line staff, represented employees and others to provide input into the design and layout of patient care areas. These teams have had the opportunity to work with architectural drawings and structural models to try and configure units to best suit the needs of patients and staff. BHD Administration secured consultation from a nationally recognized expert, Freeman-White Inc., for a throughput analysis of the current BHD operations and operation at St. Michael's location. This consultation was instrumental in assisting with the initial patient flow design process. The original plans have changed substantially due to the valuable input from staff and this consultation.

Following is a clinical and fiscal analysis of the various options for a new BHD facility. Throughout the analysis, it is assumed that BHD maintains its current bed capacity (96 acute inpatient beds, 70 Rehab Central beds, 72 Hilltop beds, and 24 Children and Adolescent beds). No changes in bed capacity or patient care options are proposed as a part of this initiative. All patient areas are assumed to be built at the highest acuity level of standards; consequently, any bed in the facility would be able to meet acute care standards. This tactical strategy creates the necessary swing space needed should future levels of patient care bed demand change. This analysis also assumes that patient care areas would be built to promote three main patient care enhancements: patient safety, a healing physical environment, and efficiency in patient care. The highest priority of the three enhancements is configuration of the environment to improve line of sight opportunities to increase staff's ability to supervise patients.

Clinical

BHD leadership research has been focused on determining the best model of care for patients by comparing the existing model to the hospital industry. The potential move from the existing BHD facility to a new facility creates an opportunity for BHD to reassess not only the environment where care is provided, but also the model of care as a central component of BHD. The environment in which care is provided can set the tone for the clinical operations of the institution. Consequently, much time and attention has been focused on a patient-centered approach to the new facility and model of care. After much research, BHD administration and staff determined that the Planetree New Care Model is the gold standard in the industry and all of the scenarios explored in this report are aligned with the goals and standards of that model.

The Planetree[1] model of care focuses on human beings caring for and serving other human beings. This model involves the provision of nurturing, compassionate, personalized care to patients and families, and also focuses on how staff cares for themselves and each other. Partnerships between patients, family members, and caregivers are encouraged by the care model, which enables patients to be active participants in their health care.

[1] All information regarding the Planetree model came from their website, www.planetree.org. All ideas and model of care detailed in this report is based upon their core components.

The Planetree model believes that the physical environment is vital to the recovery process of the patient. Facility design should include space usage that supports patient dignity and personhood. Planetree also focuses on the importance of creating healthy and safe environments for the staff as well as for patients. The goal of BHD is to try and incorporate as many model components as possible to create a comfortable and recovery-based environment for the patients and a supportive, safe environment for the staff.

Planetree affiliated hospitals in this area include Aurora Sinai Medical Center, St. Luke's South Shore, St. Luke's Medical Center and West Allis Memorial Hospital. There are over 500 Planetree certified hospitals throughout the country.

The opportunity to renovate or build a new facility for BHD provides a unique opportunity to change the culture and model of care at BHD. A newly remodeled, clean, comfortable, and aesthetically sound environment advances a patient's ability to heal and recover. In addition, if BHD wishes to become re-accredited by the Joint Commission Accreditation for Hospitals, it must meet regulations associated with improvement of the environment of care. Simply put, if done right, creation of a new facility for BHD could provide a level of care and safety that would make all residents of Milwaukee County proud.

Fiscal

BHD, along with DHHS Operations, the Department of Transportation and Public Works Architects, Engineers, and Environment Services (DTPW-AE & ES), DAS– Fiscal, and other County staff have conducted an extensive fiscal analysis of the various options requested by the Board. An overview is attached in **Attachment D.** The following is detail regarding how each area of analysis was approached for this evaluation:

- **General:** All of the options below were analyzed based on a 25-year lease/payment option and assume a 2.5% inflationary increase each year. It should be noted that given the recent increases in County fringe benefits and other County services, the County inflationary increase would likely be greater than 2.5%. It is assumed in every scenario that the project would be complete and BHD could relocate in approximately two years.
- **Size of Facility:** The square footage included is based on a comprehensive space plan identifying patient and staff needs. Every option includes the same square footage of 352,000 for office and patient areas. Additional square footage for HVAC and operations is included where Milwaukee County is the owner and therefore responsible for build-out and maintenance of the area (total of 410,000 square feet).
- **Annual Facility Operating Cost (2010 Year Cost):** This calculation is based on 2007 actual costs for the Behavioral Health Division (total 2007 actual operating costs for BHD were $11.4 million) including utilities, sewer, water, housekeeping, purchase of security, building maintenance, time and materials contracts, DPW skilled trades, fire protection, and grounds maintenance. This was inflated to 2010 dollars, translated into a square footage cost, and applied to all scenarios assuming that similar services would be provided if the County maintains ownership of the facility. See **Attachment E** for more detail.

- **25-Year Facility Operating Cost:** This is the total operating cost of the lease/facility and takes the Annual Operating Cost and uses a 2.5% inflationary increase for the life of the proposed lease (25 years).
- **Initial Build Out Cost (Principal):** This is based on DTPW-AE & ES estimates as well as industry standards for square footage costs to build patient areas as well as office space.
- **Improvements Based on Deficiency Report:** This is the cost that was derived in the VFA Deficiency Report and includes necessary maintenance of the Mental Health Complex and the St. Michael facility within the next five years. This report is included in Attachment A.
- **Bond Interest on Build Out:** The information was received from DAS Capital staff and includes interest on the bonds the County would issue to renovate, improve or build the facility.
- **Moving Costs:** These are estimates from Coakley to move all existing BHD patient and office areas.
- **Furniture:** Costs include replacement of all office and unit furniture, such as cubicle walls, desks, chairs, group tables, patient chairs, common space furniture, as is included in the St. Michael facility lease proposal. This does not include patient room furniture, patient beds, specialty equipment or medical equipment.
- **IT Upgrades:** Costs for non-lease options include IMSD estimates for wiring, phone system replacement, switches, fiber network connection, video conferencing, and moves for all BHD personal computers. The St. Michael's lease would include phone and wiring but IMSD would still provide fiber network connection and move personal computers.
- **Wraparound Milwaukee (WRAP) Rent for Additional Space:** The WRAP program must stay at or near the County Grounds to be in close proximity to Children's Court. Since some of the scenarios involve a possible move off the County Grounds or do not include sufficient space for WRAP staff, funding for leased space at the standard per square foot industry rental cost for office space for 25 years is included.
- **Maintenance Costs:** On most buildings, regular maintenance, including painting, carpet replacement, wood refinishing, and other general improvements, is done every 5-7 years. The cost is based on what is proposed to be included in the St. Michael facility lease, including a maintenance reserve fund for miscellaneous items.
- **FTE Reduction:** Based on reduction of square footage or services provided by other entities, this is the anticipated number of FTEs that would be reduced if BHD moved operations to a new facility.

Each option is discussed in detail below.

Summary of Option to Renovate the Existing Mental Health Complex to New Care Model

Currently, BHD is situated on 25.4 acres of land. The DTPW-AE & ES staff evaluated the potential to consolidate existing BHD programs and staff into certain areas of the existing Complex while rendering the remaining areas available for lease or sale. They found that it would be possible for BHD staff to relocate its facilities and services totally within the Mental

Health Complex (MHC) building, leaving significant parts of that building plus the existing Day Hospital Building (DH) available for other uses. The cost to renovate the consolidated area[2] is as follows: $148 per square foot of patient areas (155,000 square feet) plus $103 per square foot of office space/operations area (255,000 square feet) plus $8,875,728 in repairs or replacements that need to be conducted at the Mental Health Complex within the next five years, for a total cost of $58,080,728. The remaining building area (DH includes 181,000 square feet currently) and land (approximately 10 acres) would be available to be leased or sold, which is a potential revenue source for the County.

In addition to the costs detailed above, this scenario includes the cost to move patients to another facility during renovation. This only occurs for this scenario since BHD would not be able to function as-is in its current space during the construction process. The $830,280 cost associated with this option includes $150,000 to bring an alternate facility (approximately 96 beds) up to code for BHD patients, operating costs for new space based on $19.44 per square foot for two years during construction, and moving costs to and from the new facility. During construction at BHD, patients would be moved within the units at BHD while construction was completed unit by unit. Since construction at the existing MHC would have to be phased, it is likely that the above per square foot construction costs are understated. It is important to note that most patients would need to move multiple times in this scenario.

The Mental Health Complex is a 30-year-old facility that was built to serve more than 840 patients and was based on the idea of BHD providing a community for long-term clients. As the industry and State incentives have changed over the past decade, the mental health care model has shifted toward community placement and integration of the majority of clients. Therefore, BHD has changed its focus from long-term patients to more acute short-term stabilization, which, in turn, changes the needs of the facility. Retrofitting a facility that was built for a very different model of care to a new model of care presents some challenges.

The total estimated cost for renovating the Mental Health Complex to the New Care Model is $386,089,650 over 25 years. This includes the cost of financing the estimated $58.0 million cost of renovation and capital improvements. Architectural drawings, plans, and layouts are included in **Attachment F.**

Summary of Option to Build a New Facility

The County Board requested that DAS and BHD consider the cost of building a new facility for BHD. This facility could be built on land that the County owns currently, or additional land would need to be purchased. No cost for additional land is included in the estimates provided, since it is yet to be determined where land would be found or if a purchase is necessary. Also, it is assumed that the building would not be on the land where patient care is currently provided at BHD. If that were to occur, patient relocation costs would need to be estimated and included.

[2] In the July 2007 report, DTPW- AE &ES reported that BHD could be consolidated into 255,478 square feet. This assumed that the patient care area remained the same and that the office space was moved to the MHC. This scenario assumes increased square footage based on renovation of patient care areas.

Additionally, costs for demolition of the current building would also need to be included in estimates.

The cost to build a new hospital facility in the industry is approximately $225 per square foot. The total cost for the initial build out of the 410,000 square feet is $92,250,000.

This option would provide BHD the flexibility to create a space that perfectly fits its needs. It is also the most costly because of the high cost of new construction. The total cost for this option is $433,891,033 over 25 years. This includes the cost of financing the estimated $92.3 million for new construction.

Summary of Option to Purchase St. Michael Hospital Facility

Another option available to Milwaukee County is the purchase of the St. Michael Hospital Facility. In this case, the County would be responsible for the purchase and renovation of the building. The build out costs are as follows: $148 per square foot of patient areas (155,000 square feet), plus $88 per square foot of office space/operations area (255,000 square feet), plus $6.1 million in repairs or replacements that need to be conducted at the St. Michael Hospital within the next five years, for a total cost of $55,305,000.

Under this scenario, the County would assume the risk and be responsible for all maintenance of the facility. The County would also be the owner of the asset. DTPW- AE &ES would complete the renovation, therefore the per-square foot build out costs are approximately 10% higher than a private developer due to government regulations and standards.

The total cost for this option is $381,753,084 over 25 years. This includes the cost of financing the estimated $55.3 million cost of renovation and capital improvements.

Summary of Option to Lease St. Michael Hospital Facility

In this option, Weas Development Co. would purchase the facility from WFH provided that the County agrees to be the anchor tenant with a long-term lease for the space needed for BHD. The developer would finance and perform the renovation, and the cost would be amortized over the length of the County's lease, which would only cover the space needed by BHD. The proposed annual cost is $9 million, inflated by 2.5% per year for 25 years, for a total lease cost of $307,419,875. The developer assumes all risk for the building, including maintenance of the HVAC and all operating systems for the facility.

In the current proposal with Weas Development Co., the north tower (total of six floors) would be utilized for patient care, as well as one floor of the south tower for the Children and Adolescent Inpatient Service. Significant portions of the first floor and the remaining floors of the south tower would be utilized for support functions and offices. This proposed layout assumes that the existing Cancer Center on the ground floor would be remodeled for use as BHD's Psychiatric Crisis Service and for observation beds, and that the walk-in clinic and

support offices would be housed on the first floor. Architectural drawings, plans, and layouts are included in **Attachment G.**

The lease includes all housekeeping services for patient and staff office areas. The patient areas would be maintained at hospital level standards for infection control and cleanliness. The maintenance, including painting, flooring replacement, wood maintenance, and all other normal wear and tear, is provided for in the lease. An additional reserve is included since BHD typically experiences more maintenance needs due to the nature of their service provision. The building will be equipped with video conferencing capabilities, cable, internet, and phone wiring. All office and common area furniture, patient common area furniture, and the move costs are also included. There are additional security costs included for this scenario because the lease only provides for security cameras and basic building, door, and parking lot security. BHD has an on-going need for security in its PCS area to respond to certain codes on the units. This is included at a cost of $754,000 annually for 25 years, with a 2.5% inflationary increase.

The developer would be free to seek and secure additional tenants for the remainder of the facility and all other buildings. It is possible that other County services could relocate to the St. Michael facility and also rent space from Weas Development Co., thus creating a northern County campus. The County will have a lease-to-buy option under which it would take ownership of the facility after the long-term lease expires, but the details are still being negotiated.

Total approximate cost of this option is $339,756,990 over 25 years.

Other Considerations

Staff Reduction and Personnel Costs: Attachment A includes a line that indicates the FTE reduction associated with each scenario presented. Because a lease agreement with Weas Development is anticipated to include all services related to building maintenance and housekeeping, 54 housekeeping positions and 16 maintenance positions are assumed to be eliminated from the BHD budget (based on the 2008 Budget FTEs) under that scenario. In addition, DTPW dedicates certain employees to BHD, and this analysis assumes a reduction of three FTEs from Facilities Management related to the move to St. Michael Hospital. In the non-lease scenarios, the square footage is reduced by 30%; therefore, it is assumed that the housekeeping and maintenance staff can also be reduced by 30%, or 22 FTEs.

Additional Space/Parking: Within the current plans at the St. Michael facility, there is approximately 22,000 square feet of vacant, usable office space. BHD would have the ability to expand operations or rent that space out to other County entities or private users, which would produce revenue and potentially reduce the annual operating cost or lease payment. There are other buildings on the St. Michael Hospital campus that are available for use. As mentioned above, the County could potentially relocate services to the St. Michael campus and create a one-stop shop for many County clients. BHD will work with the Space Planning Workgroup to ensure that space at the St. Michael campus is considered.

BHD conducted an analysis of the number of parking spots needed at peak hours (change of shift etc). The St. Michael facility has sufficient parking spots available for staff, visitors, and clients even at peak hours. As part of the lease negotiations, BHD would negotiate the number of stalls dedicated for BHD use.

Location: The St. Michael facility is located in the Northwestern part of the County. Conversations have begun with the Milwaukee County Transit system to ensure sufficient bus service would be available to BHD clients. In **Attachment H**, there are a series of maps that show where BHD clients live by zip code and travel distances to both sites. The data is also delineated by race, age, and gender. From the maps, it is clear that BHD clients live in every zip code in the County. Regardless of BHD's location, there will be clients who will need to travel a substantial distance to receive services.

In addition, there have been some concerns raised about the distance from the St. Michael facility to a medical hospital. In **Attachment I**, there is a spreadsheet that details the average ambulance time from St. Michaels to area hospitals. Every effort will be made to maintain not only the high quality of behavioral health care, but also the medical care and response to emergency situations.

Recommendation

It is recommended that the Directors of DAS, DHHS, and ECD be authorized to enter into final negotiations for a long-term lease of the St. Michael property with Weas Development Co. and submit a proposed lease agreement to the County Board of Supervisors for its consideration in the summer of 2008.

The following summarizes the conclusions that support this recommendation:

- The long-term lease option is by far the least expensive option of those delineated over the 25-year period under consideration, while providing an optimal level of care. This option would save at least $42 million for the County over the 25-year lease compared to the next lease expensive option.

- The move to St. Michael Hospital provides an important opportunity for culture change throughout BHD and a chance for staff and management to take pride not only in the work they do but in the environment they work in. The relocation creates a chance for positive change for staff and patients.

- The long-term lease option would enable the County to be a tenant in the St. Michael facility, which would eliminate the need for it to seek additional tenants and to handle the myriad of other property management and related issues that are associated with ownership. Being a property owner is not part of the core mission of BHD nor the County.

- The long-term lease option eliminates the need for the County to finance renovation or construction and thereby eliminates a number of difficult issues. For example, the County would need to bond for $45-$91 million over two years to finance the project, depending on which ownership scenario was selected. While this would not necessarily affect the County's bond rating, it would run counter to existing County debt service policy and would require significantly increased debt service payments in the County's operating budget. It can certainly be argued that, from a fiscal perspective, not having this much debt on the County's books is a positive.

- Entering into a long-term lease would relieve the County of responsibility for maintenance of the facility, thus relieving it of further capital improvement obligations. In addition, maintenance of existing buildings has been an ongoing struggle for the County because of budgetary and staff limitations, and the lease scenario would eliminate that issue and potentially free up DPW maintenance staff for other County maintenance activities.

- Either the St. Michael purchase or long-term lease scenario presents the opportunity to sell or lease[3] the entire BHD property[4], which could serve as a tremendous opportunity to offset the cost of the move or renovation, and/or to provide a source of financial support for ongoing BHD operations. The July 2007 Board Report requested authority from the County Board to let an RFP/RFI for the potential sale of the land where the current BHD facility is located. An RFI was let in January 2008 and the County received seven responses. For the purpose of this report, no sale of existing County land is considered, but this is an attractive option that undoubtedly would be considered if a move to St. Michael Hospital takes place.

In summary, this is a significant opportunity for BHD and its patients and staff. There are strengths and weaknesses, as with any major decision one makes, but this relocation will not only improve the environment of care for patients and staff, it will create a new service delivery model, focused on the safe and effective treatment of persons with behavioral health needs and provide a state-of-the-art facility that the County, community, staff and patients can be proud of.

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[3] BHD has a Hill-Burton grant for improvements to the current BHD facility. A preliminary conversation has occurred with the grant administrators, but a final letter would need to be sent before the County would know if repayment of $1.8M in funds would be required with the sale of the building. Since the grant is more than 20 years old, that is very unlikely.

[4] The BHD facility has $6.8 million in outstanding principal related to previous capital projects. If the County were to sell the building, the principal balance would need to be paid in full. If the County were to lease the facility and maintain ownership, the full $8.6 million (outstanding principal and interest) would be paid over the life of the original bond issuances.

Fiscal Impact

There is no direct fiscal impact associated with this request. Also, significant staff time will be required to prepare for and conduct final negotiations with Weas Development Co. A fiscal note form is attached.

Corey Hoze, Director
Department of Health and Human Services

Robert Dennik, Director
Economic & Community Development

John Chianelli, Administrator
Behavioral Health Division

cc: Scott Walker, County Executive
County Board of Supervisors
Cynthia Archer, Interim DAS Director
William Domina, Corporation Counsel
Daniel Schreiber, Fiscal and Management Analyst
Ed Eberle, County Executive's Office
Terrence Cooley, County Board Chief of Staff
Steve Cady, County Board Fiscal and Budget Analyst
Martin Weddle, County Board Staff
Delores Hervey, County Board Chief Committee Clerk
John Oliverio, CEO, Wheaton Franciscan Healthcare
Richard Canter, Counsel, WFH
Julie Swiderski, Vice President of Government and Community Relations, WFH
Scott Weas, Weas Development Co

File No.
(Journal,)

(ITEM) Follow-up report from the Director of Economic and Community Development, the Director of Health and Human Services and the Administrator of the Behavioral Health Division, requesting authorization to enter into final lease negotiations with Weas Development Co. for the long-term lease of the St. Michael Hospital Facility for Behavioral Health Division Inpatient and Nursing Home Operations, by recommending adoption of the following:

A RESOLUTION

WHEREAS, per authorization contained in the 2006 Adopted Budget, the Department of Health and Human Services (DHHS) and the Economic and Community Development Division (ECD) have been exploring potential alternative locations for the Behavioral Health Division (BHD) to conduct its inpatient and nursing home operations; and

WHEREAS, in May 2006, subsequent to an announcement by Wheaton Franciscan Healthcare (WFH) of plans to discontinue hospital inpatient operations at St. Michael Hospital, DHHS and ECD initiated discussions with WFH regarding the possible utilization of that site; and

WHEREAS, in January 2007, the Directors of DHHS and ECD submitted a detailed report on the status of their discussions with WFH and the preliminary analysis that had been conducted regarding potential renovation costs and operations savings associated with a move of BHD to the St. Michael facility, and also requested authorization to negotiate a lease or sale agreement with WFH and to make expenditures on additional engineering and environmental analysis of the St. Michael building and property; and

WHEREAS, at its February 1, 2007 meeting, the County Board of Supervisors adopted an amended resolution that did not include the authorization for DHHS and ECD to begin formal lease or sale negotiations with WFH, but that did authorize the expenditure of up to $200,000 for additional engineering and environmental analysis of the St. Michael building and property, additional architectural analysis to better estimate the cost of necessary building renovations to house BHD, and outside legal assistance; and

WHEREAS, a its July 26, 2007 meeting, the County Board of Supervisors adopted an amended resolution authorizing DAS, DHHS and ECD to enter into lease negotiations with WHF or a third-party developer for the long-term lease or sale of St. Michael facility and the Board also directed BHD to include precise space amounts and numbers of beds for the new facility and form a work group to have input into the design and capacity issues at the new facility; and

WHEREAS, the Board also directed the Director of ECD to analyze four potential facility options for BHD: renovate current space at BHD, build a new facility, purchase the St. Michael Hospital or lease the St. Michael Hospital; and

WHEREAS, subsequent to the July 2007 Board meeting, DAS, ECD and DHHS began working with WFH to discuss terms of a potential lease, solidify space needs and detail BHD's facility requirements; and

WHEREAS, Weas Development Co. secured the option to buy from WFH for the St. Michael property and ECD and DHHS have been working with them to develop preliminary plans for the renovation of the St. Michael facility; and

WHEREAS, in addition to working with the developer, BHD has convened a number of meetings and information sessions for leadership and staff at BHD to provide input into the design process and layout of patient and staff areas; and

WHEREAS, the BHD Administrator also established four action teams, one for each licensed patient area (Psychiatric Crisis Services, Community Services, Acute Inpatient and the Rehab Centers), made up of line staff, represented employees and others to provide input into the design and layout of patient care areas; and

Administration secured consultation from a nationally recognized expert, Freeman-White Inc., for a throughput analysis of the current BHD operations and operation at St. Michael's location. This consultation was instrumental in assisting with the initial patient flow design process. The original plans have changed substantially due to the valuable input from staff and this consultation.

WHEREAS, Administration secured consultation from a nationally recognized expert, Freeman-White Inc., for a throughput analysis of the current BHD operations and operation at St. Michael's location and this consultation was instrumental in assisting with the initial patient flow design process; and

WHEREAS, no changes in bed capacity or patient care options are proposed as a part of this initiative (96 acute inpatient beds, 70 Rehab Central beds, 72 Hilltop beds and 24 Children and Adolescent beds); and

WHEREAS, all patient areas are assumed to be built at the highest acuity level of standards; consequently, any bed in the facility would be able to meet acute care standards thus creating the necessary swing space needed should future levels of patient care bed demand change; and

WHEREAS, the potential move from the existing BHD facility to a new facility creates an opportunity for BHD to reassess not only the environment where care is provided, but also the model of care as a central component of BHD; and

WHEREAS, BHD administration and staff determined that the Planetree New Care Model is the gold standard in the industry and all of the scenarios explored in this report are renovated to align with the goals and standards of that model, which include a focus on human beings caring for and serving other human beings through the provision of nurturing, compassionate, personalized care to patients and families, and also focuses on how staff cares for themselves and each other; and

WHEREAS, BHD, along with DHHS Operations, the Department of Transportation and Public Works Architects, Engineers and Environment Services (DTPW-AE & ES), DAS– Fiscal and other County staff have conducted an extensive fiscal analysis of the various options requested by the Board; and

WHEREAS, the total estimated cost for renovating the Mental Health Complex to the New Care Model is $386,089,650 over 25 years, which includes the cost of financing the estimated $58.0 million cost of renovation and capital improvements; and

WHEREAS, the total cost for building a new facility is $433,891,033 over 25 years, which includes the cost of financing the estimated $92.3 million for new construction; and

WHEREAS, the total cost to purchase the St. Michael facility is $381,753,084 over 25 years, which includes the cost of financing the estimated $55.3 million cost of renovation and capital improvements; and

WHEREAS, in the lease of St. Michael Hospital option, Weas Development Co. would purchase the facility from WFH provided that the County agrees to be the anchor tenant by agreeing to a long-term lease for the space needed for BHD and the developer would finance and perform the renovation, and the cost would be amortized over the length of the County's lease, which would only cover the space needed by BHD; and

WHEREAS, the total approximate cost of this option is $339,756,990 over 25 years; and

WHEREAS, the following summarizes the conclusions that support the recommendation to enter into a long-term lease with Weas Development Co. for the St. Michael Hospital facility:

- The long-term lease option is by far the least expensive option of those delineated over the 25-year period under consideration, while providing an optimal level of care. This option would save at least $42 million for the County over the 25-year lease compared to the next least expensive option.

- The move to St. Michael Hospital provides an important opportunity for culture change throughout BHD and a chance for staff and management to take pride not

only in the work they do but in the environment they work in. The relocation creates a chance for positive change for staff and patients.

- The long-term lease option would enable the County to be a tenant in the St. Michael facility, which would eliminate the need for it to seek additional tenants and to handle the myriad of other property management and related issues that are associated with ownership. Being a property owner is not part of the core mission of BHD or the County.

- The long-term lease option eliminates the need for the County to finance renovation or construction and thereby eliminates a number of difficult issues. For example, the County would need to bond for $45-$91 million over two years to finance the project, depending on which ownership scenario was selected. While this would not necessarily affect the County's bond rating, it would run counter to existing County debt service policy and would require significantly increased debt service payments in the County's operating budget. It can certainly be argued that, from a fiscal perspective, not having this much debt on the County's books is a positive.

- Entering into a long-term lease would relieve the County of responsibility for maintenance of the facility, thus relieving it of further capital improvement obligations. In addition, maintenance of existing buildings has been an ongoing struggle for the County because of budgetary and staff limitations, and the lease scenario would eliminate that issue and potentially free up DPW maintenance staff for other County maintenance activities.

- Either the St. Michael purchase or long-term lease scenario presents the opportunity to sell or lease[1] the entire BHD property[2], which could serve as a tremendous opportunity to offset the cost of the move or renovation, and/or to provide a source of financial support for ongoing BHD operations. The July 2007 Board Report requested authority from the County Board to let an RFP/RFI for the potential sale of the land where the current BHD facility is located. An RFI was let in January 2008 and the County received seven responses. For the purpose of this report, no sale of existing County land is considered, but this is an attractive option that undoubtedly would be considered if a move to St. Michael Hospital takes place; and

WHEREAS, in summary, this is a significant opportunity for BHD and its patients and staff, and although there are strengths and weaknesses, as with any major decision

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[1] BHD has a Hill-Burton grant for improvements to the current BHD facility. A preliminary conversation has occurred with the grant administrators, but a final letter would need to be sent before the County would know if repayment of $1.8M in funds would be required with the sale of the building. Since the grant is more than 20 years old, that is very unlikely.

[2] The BHD facility has $6.8 million in outstanding principal related to previous capital projects. If the County were to sell the building, the principal balance would need to be paid in full. If the County were to lease the facility and maintain ownership, the full $8.6 million (outstanding principal and interest) would be paid over the life of the original bond issuances.

one makes, this relocation will not only improve the environment of care for patients and staff, it will create a new service delivery model, focused on the safe and effective treatment of persons with behavioral health needs and provide a state-of-the-art facility that the County, community, staff and patients can be proud of; and

WHEREAS, there is no direct fiscal impact associated with this request, although significant staff time will be required to prepare for and conduct final negotiations with Weas Development Co.; now, therefore,

BE IT RESOLVED, that the Directors of DAS, DHHS and ECD are hereby authorized to negotiate a final long-term lease for the St. Michael property with Weas Development Co and submit a proposed lease or purchase agreement to the County Board of Supervisors for its consideration over the summer of 2008.

MILWAUKEE COUNTY FISCAL NOTE FORM

DATE: 5/1/08

Original Fiscal Note ☒

Substitute Fiscal Note ☐

SUBJECT: Follow-up report from the Director of Economic and Community Development, the Director of Health and Human Services, and the Administrator of the Behavioral Health Division, requesting authorization to enter into final lease negotiations with Weas Development Co. for the long-term lease of the St. Michael Hospital Facility for Behavioral Health Division Inpatient and Nursing Home Operations

FISCAL EFFECT:

☒ No Direct County Fiscal Impact

☒ Existing Staff Time Required

☐ Increase Operating Expenditures
(If checked, check one of two boxes below)

☐ Absorbed Within Agency's Budget

☐ Not Absorbed Within Agency's Budget

☐ Decrease Operating Expenditures

☐ Increase Operating Revenues

☐ Decrease Operating Revenues

☐ Increase Capital Expenditures

☐ Decrease Capital Expenditures

☐ Increase Capital Revenues

☐ Decrease Capital Revenues

☐ Use of contingent funds

Indicate below the dollar change from budget for any submission that is projected to result in increased/decreased expenditures or revenues in the current year.

	Expenditure or Revenue Category	Current Year	Subsequent Year
Operating Budget	Expenditure	0	0
	Revenue	0	0
	Net Cost	0	0
Capital Improvement Budget	Expenditure		
	Revenue		
	Net Cost		

DESCRIPTION OF FISCAL EFFECT

In the space below, you must provide the following information. Attach additional pages if necessary.

A. Briefly describe the nature of the action that is being requested or proposed, and the new or changed conditions that would occur if the request or proposal were adopted.

B. State the direct costs, savings or anticipated revenues associated with the requested or proposed action in the current budget year and how those were calculated.[1] If annualized or subsequent year fiscal impacts are substantially different from current year impacts, then those shall be stated as well. In addition, cite any one-time costs associated with the action, the source of any new or additional revenues (e.g. State, Federal, user fee or private donation), the use of contingent funds, and/or the use of budgeted appropriations due to surpluses or change in purpose required to fund the requested action.

C. Discuss the budgetary impacts associated with the proposed action in the current year. A statement that sufficient funds are budgeted should be justified with information regarding the amount of budgeted appropriations in the relevant account and whether that amount is sufficient to offset the cost of the requested action. If relevant, discussion of budgetary impacts in subsequent years also shall be discussed. Subsequent year fiscal impacts shall be noted for the entire period in which the requested or proposed action would be implemented when it is reasonable to do so (i.e. a five-year lease agreement shall specify the costs/savings for each of the five years in question). Otherwise, impacts associated with the existing and subsequent budget years should be cited.

D. Describe any assumptions or interpretations that were utilized to provide the information on this form.

A. Authorization is requested to enter into final negotiations with Weas Development Co. for the long-term lease of the St. Michael Hospital facility.

B. There are no direct costs associated with these activities.

C. There is no budgetary impact associated with these activities. However, significant staff time will be required to conduct the negotiations with Weas Development Co.

D. No assumptions are made in this fiscal note.

Department/Prepared By Alexandra Kotze

Authorized Signature

Did DAS-Fiscal Staff Review? ☐ Yes ☒ No

[1] If it is assumed that there is no fiscal impact associated with the requested action, then an explanatory statement that justifies that conclusion shall be provided. If precise impacts cannot be calculated, then an estimate or range should be provided.

PROPERTY FACT SHEET

Milwaukee County
Mental Health Complex

Current Zoning:

- "Medical Center and Institution District"
- Wauwatosa Zoning Code Chapter 24.39 (see attached Exhibit 'D')
- Web access: www.wauwatosa.net (on home page menu click "Links" then "Wauwatosa Municipal Code", then "Title 24 Zoning and Land Use Control", then "Chapter 24.39 Medical Center and Institution District")

Size and Present Use:

The property consists of a complex of low-rise buildings containing approximately 738,733 square feet located on a 43.86-acre site. The property is segmented into two (2) components:

- The eastern 26.40 acres contains 555,733 square feet of building area known as the County Behavioral Health Division (BHD).
  - The Day Hospital currently houses the BHD administrative offices. Building square footage is 129,433. No major renovations have occurred since original construction in 1968 although state mandated code compliance work is in progress. The facility also includes a gym, bowling alley, craft rooms, cafeteria, and support stations. (Identified as D-19 buildings on Exhibit 'C')
  - The Mental Health Center is licensed and used for hospital psychiatric units, long term care nursing home, chronically ill patients, dual diagnosis, and emergency room services, totaling approximately 300 beds. Building square footage is 425,500. Minor renovations have occurred in various sections of the hospital since original construction in 1978 although state mandated code compliance work is in progress. The facility also includes a sandwich shop, courtroom, pharmacy, group therapy and security station. (Identified as D-16 buildings on Exhibit 'C')
  - The site utility building, originally built in 1968 to house the Day Hospital chiller, renovated in 2005, now contains an equipment garage and mechanical equipment. Building square footage is 800.
- The western 17.46 acres contains approximately 183,000 square feet of building area known as the Child Adolescent Treatment Center (CATC). (Identified as D-20 buildings on Exhibit 'C')

Location:

- Situated in the City of Wauwatosa, Wisconsin, the property borders West Watertown Plank Road on the north, North 92nd Street on the east and U.S. Highway 45 on the west.
- The addresses for the eastern 26.40-acre segment of the property, identified as BHD, are 9201 and 9455 West Watertown Plank Road correlating to the Day Hospital (including site utility building) and the Mental Health Center, respectively.
- The address for the western 17.46-acre segment of the property, identified as the CATC site, is 9501 West Watertown Plank Road.

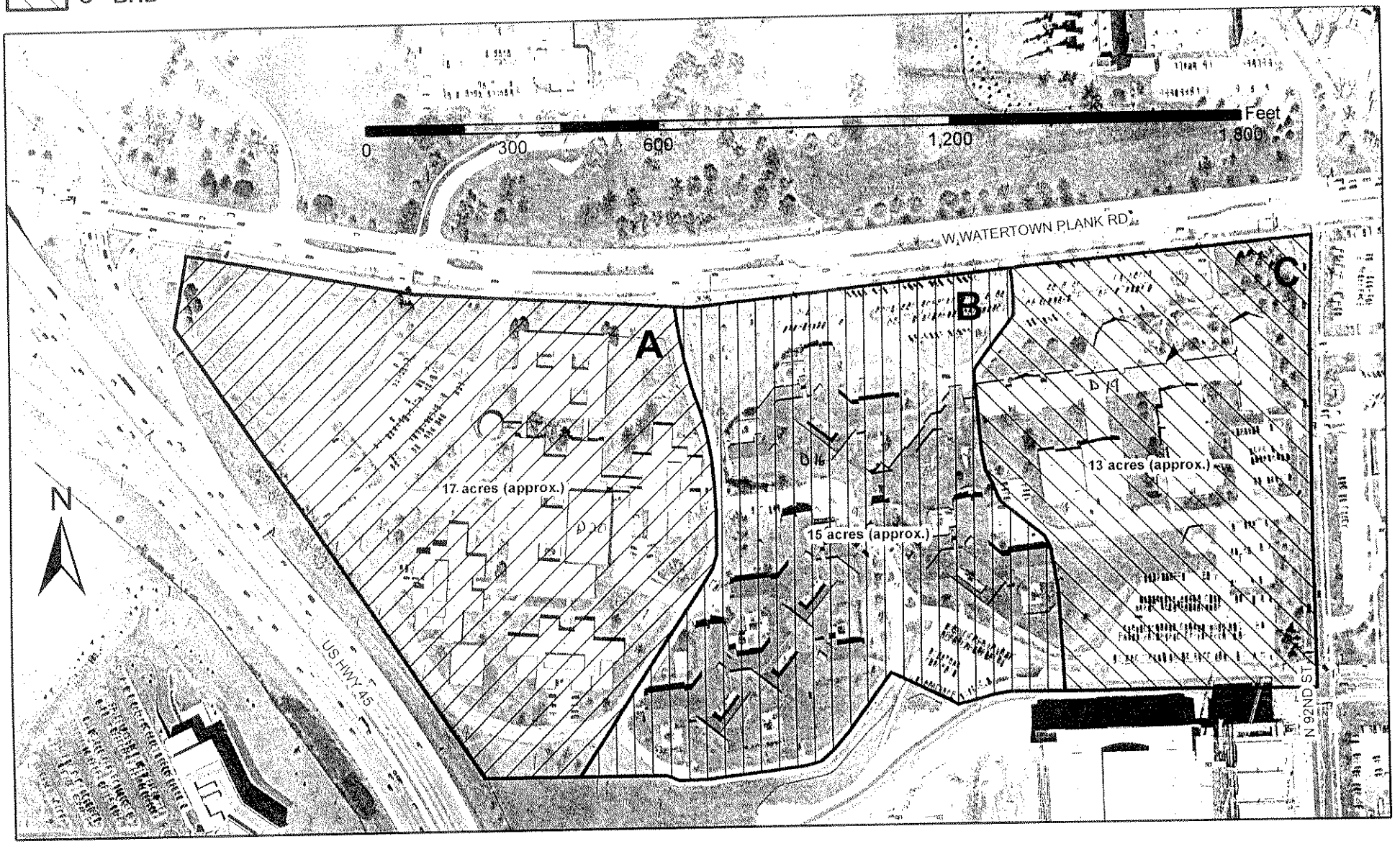
A - CATC

B - BHD (potential consolidation)

C - BHD

BEHAVIORAL HEALTH COMPLEX

Wauwatosa, Wisconsin



Milwaukee County
Land Information Office

December 21, 2007

Exhibit 3

COUNTY OF MILWAUKEE
Inter-Office Communication

DATE: July 3, 2008

TO: Milwaukee County Board of Supervisors

FROM: Corey Hoze, Director, Department of Health and Human Services
Prepared by: John Chianelli, Administrator, Behavioral Health Division

SUBJECT: FOLLOW-UP QUESTIONS FROM THE HEALTH AND HUMAN NEEDS AND FINANCE AND AUDIT COMMITTEES REGARDING OPTIONS FOR RELOCATING BEHAVIORAL HEALTH DIVISION OPERATIONS

ISSUE

At the May 2008 meetings of the Health and Human Needs and Finance and Audit committees of the Milwaukee County Board, committee members posed several questions regarding a potential relocation of Behavioral Health Division (BHD) operations. This memo attempts to answer these questions.

QUESTIONS AND ANSWERS

1. *In the "Renovate BHD to New Care Model" option, where will the patients be located during the construction process?*

    a. To the extent possible, patients would be moved within units at BHD while construction was completed unit by unit. In addition, BHD would secure approximately 96 beds in an alternative facility, since movement within units would not be possible for all patients during construction. Most patients would need to move multiple times in this scenario.
    b. The costs associated with using an alternative facility are detailed on page 6 of the Department's original May 1, 2008 report. Since construction at the existing facility would have to be done in phases, it is likely that the per square foot construction costs and moving costs are understated.

2. *In the "Lease St. Michael's Facility" option, are there increased costs associated with the transportation of patients to medical appointments?*

    No. Currently, most medical services for routine care are performed within the BHD facility during regular hospital hours. BHD funds 2.5 FTE of physicians and 2.0 FTE of nurse practitioners whose primary function is the provision of primary health care to patients on acute and rehabilitation units. This function would be retained in each option. In addition, various medical doctors and specialists come to BHD to provide services,

and the Department's financial analysis assumed that this practice would continue regardless of BHD's location.

If an individual requires physical care beyond what can be provided at BHD, arrangements are made for appointments at area hospitals. In 2007, BHD arranged medical appointments for patients with outside providers as follows:

- Acute Inpatient had 317 visits,
- Rehabilitation units had 454 visits, and
- Hilltop units had 296 visits.

Medical appointments that require off-site transportation will continue to be scheduled for patients. Transportation costs are reimbursable for all Medicaid clients, which include the majority of BHD's clients; therefore, no additional funds are included for this service.

3. *In the "Renovate BHD to New Care Model" option, how much revenue could be generated if the County was able to lease the existing Day Hospital building?*

   a. The remaining building area of the Day Hospital includes 181,000 square feet and 10 acres of land that would be available to be leased or sold. The actual revenue that would be generated for a lease would depend on the County's ability to secure a tenant. In 2005, the County Health Programs Division relocated from the Child and Adolescent Treatment Center building. These buildings are similar in design and age to the Day Hospital building, and the County has been unable to find an entity to rent this space to date.
   b. The Day Hospital area would require significant renovation before it could be leased, which would require County funds. The preliminary estimate for complete renovation into usable office space of the Day Hospital is approximately $10 million, or $1.3 million to gut the space.

4. *What was the cost of the renovations required at BHD in 2006-08 to meet current safety standards?*

   a. The 2006 citations by the State of Wisconsin required BHD to reduce potential suicide risks in the physical environment of its acute adult inpatient units and crisis service. Examples of the necessary modifications include: enclosing or replacing exposed toilet flush valves, shower faucets and plumbing under sinks in inpatient rooms; replacement of hinges on all doors; and, protection of recessed lighting fixtures.
   b. These renovations are completed and the total cost is estimated at approximately $1.2 million, including outside contractors, materials, and BHD and Department of Transportation and Public Works (DTPW) staff time.
   c. The State required all safety renovations to the building to be done, unless the building would be vacated within six months. Non-compliance with State regulations would have resulted in the loss of BHD's hospital certification under

Wisconsin Administrative Code HFS 124 and Medicaid and Medicare conditions of participation.

5. *If BHD relocates to St. Michael's, how does the new location improve patient care compared to BHD's current facility?*

Relocation to St. Michael's Hospital provides the following patient care opportunities:

a. Ability to expand the current Psychiatric Crisis Service (PCS) and Observation Unit to improve BHD's ability to manage higher volumes of patients safely. In addition, a private PCS entrance improves privacy and respectful admissions.
b. Creation of efficiencies in managing patient flow and transitions of patients from one service to another (e.g., from PCS to Inpatient).
c. Development of efficient nursing stations for the optimization of supervision, staff communication, line of sight, and team coordination.
d. Utilization of community great rooms that promote socialization, recreation, and various opportunities for patients to be outside of their individual bedrooms.

6. *How long will it take to achieve accreditation by the Joint Commission? Which option provides the best opportunity to achieve accreditation?*

a. Regardless of the option pursued, BHD's goal is to meet the environment of care standards set forth by the Joint Commission and achieve accreditation by 2012.

b. There is growing evidence of a strong relationship between a health care facility's design and patient safety and quality of care. The construction plan under the "Lease St. Michael's Facility" option provides the most cost-effective way to ensure accreditation within BHD's proposed timeline, by:
   - Incorporating evidence-based health design principles to maximize the potential for safety, clinical effectiveness, and patient and staff healthfulness.
   - Creating the opportunity for BHD to improve patient processing flow, which directly impacts the number of patients that the system can serve.
   - Creating a plan leading to a safe, functional, supportive, and effective environment for care.
   - Eliminating the patient safety risks inherent when treating patients during a renovation project.

7. *Explain the rent cost for the Milwaukee Wraparound Program over 25 years.*

The Wraparound program must stay at or near the County Grounds to be in close proximity to Children's Court. Additionally, when the space assessment was conducted at BHD, Wraparound was not factored into the 352,000 square feet of usable space. Wraparound currently has 70 staff that require office space. The fiscal analysis assumed 150 square feet per employee, for a total square footage need of 10,500. The standard rent

in the Wauwatosa area is $17 per square foot. The first year of rent for Wraparound would be $178,500, which is then inflated at 2.5% annually for 25 years for a total cost of $6,097,161.

8. *Explain the assumptions used in the "Purchase St. Michael's Facility" option for the County bonding of reconstruction costs?*

   Assumptions in the revised financial analysis (June 2008) use rates based on the 2008 Corporate Purpose Bond sale on May 22, 2008 and assume 15-year bonds at a rate of 3.9% and level debt service.

9. *If very few patients take the bus to get to BHD inpatient and crisis service, how do patients return home following their inpatient stay? What are the bus routes that service St. Michael's Hospital? How do Day Hospital clients arrive/leave each day?*

   a. The return home for patients following hospitalization is very individualized. Many patients are picked up by family, significant others, or their case manager. In some instances, BHD will transport patients to their homes if clinically appropriate. The remaining individuals, including Day Hospital clients, may take the bus to and from the facility.
   b. The bus routes that service St. Michael's Hospital from downtown are the 80, 12, and 19. In addition, the 63 route runs along Silver Spring and has connections to many bus routes.

10. *On an annual basis, how many times are the paramedics called to transport patients to Froedtert Memorial Hospital?*

    In 2007, there were 90 paramedic transports from the BHD facility. None of the transports were for trauma emergencies. It is also important to note that not all of these transports were to Froedert, since the Froedert Emergency Department is on diversion approximately 50% of the time. Emergency Medical Services (EMS) protocol requires all advanced life support calls to be transported to the closest hospital. If BHD moves to St. Michael's Hospital, both St. Joseph and Columbia St. Mary's are of equal distance (less than 5 miles) from the hospital.

11. *What is the impact of the loss of the bowling alley and gymnasium currently located in the Day Hospital building?*

    a. As the industry and State incentives have changed over the past decade, the mental health care model has shifted toward community placement and integration of the majority of clients. Therefore, BHD has changed its focus from long-term patients to more acute short-term stabilization. The average length of stay in BHD is seven days.

b. Current research indicates that the preferred model of behavioral health treatment is to provide care for individuals in the most natural-community integrated setting possible. Several decades of research indicate that mental health patients learn new skills and retain competencies when learning in the natural environment. Research regarding learning in institutional settings suggests that individuals are less likely to transfer information learned to real-life situations. Therefore, recreation opportunities in natural social settings, such as bowling, recreation, and exercise, that are integrated within the community, is the preferred mode of treatment.

12. How much land would be available for sale under each scenario? What is the value of the land?

a. In the "Renovate BHD to a New Care Model" option, there would be approximately 10 acres of land available where the Day Hospital currently is located.
b. In the "Build New BHD Facility" option, if the new building were built on the existing BHD grounds, there would be approximately 10 acres available, although there could be more depending on the footprint of the building. If the decision is made not to build on the existing BHD grounds, all 25 acres would be available.
c. In either St. Michael's Hospital option, all 25 acres would be available.
d. The value of the land has yet to be determined. The County Board authorized the Department of Audit to contract with a real estate firm to help conduct this analysis.

13. What are the costs associated with staffing reductions?

Area	FTE	Salary Only	Total Personal Services
BHD Housekeeping	54	$1,427,270	$3,704,298
BHD Maintenance	16	$581,612	$1,190,362
DTPW - Facilities Staff *	9.50	$584,110	$1,148,778
TOTAL (73 FTEs)	**79.5**	**$2,592,992**	**$6,043,438**
25 Year Cost, with 2.5% inflation			$216,880,864 (approx half of the BHD facility operating cost)
For 22 FTEs	22	$717,558	$1,672,398

**The 9.50 FTE amount is from the 2009 requested cross-charge from DTPW – Facilities Management to BHD. It is unknown whether all of these employees would be abolished based on the relocation of BHD or could be re-assigned elsewhere in the County.*

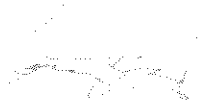
14. What would happen if a patient had a medical emergency and St. Joseph's Emergency Department was closed?

- According to EMS policy, patients requiring advanced life support care are transported to the closest hospital. If St. Joseph's Emergency Department were closed to transports, then the next closest hospital would be Columbia St. Mary's. EMS policy states that, if a situation occurs when all hospital emergency departments have reached capacity, the EMS Medical Director is responsible to monitor this situation and declare what is termed a "forced open," which, in effect, makes all area hospitals open for patients. Hospital bed capacity in the county and the State is managed by a computerized system, WITrack, which tracks bed capacity to inform paramedics of open beds within the system. BHD is also reported on WITrack as a specialty hospital partner in the community system.

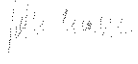
15. Is there an option at the end of the 25-year lease for the County to purchase the St. Michael's facility?

- Although the Department has not yet been given authorization by the County Board to negotiate final lease terms, Weas, Inc. has provided the following schedule for purchase options within the lease:

Purchase Option	
Year 0.....	$ 68,229,732
Year 5.....	$ 60,099,083
Year 10.....	$ 49,767,300
Year 15.....	$ 36,834,017
Year 20.....	$ 20,644,187
Year 25.....	$ 377,826



Corey Hoze, Director
Department of Health and Human Services



John Chianelli, Administrator

Behavioral Health Division

cc: Scott Walker, County Executive
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