



disabilityrights | WISCONSIN



CITIZEN ACTION OF WISCONSIN

Issue Paper #1: The Distribution of Funds: 35% to Public Health and Public Health Community Based Initiatives

Introduction:

ABC for Health, Citizen Action of Wisconsin, and Disability Rights Wisconsin have joined forces to express our concerns about the Medical College of Wisconsin and the University of Wisconsin School of Medicine and Public Health's stewardship over the public health resources designated for the benefit of the people of Wisconsin. The Wisconsin United for Health Foundation (WUHF) Board will meet to review a Legislative Audit Bureau Report that raised serious questions and validates longstanding concerns about the oversight and the designated use of these public resources. Our agencies have concerns about the schools' current system for distributing the Blue Cross-Blue Shield conversion funds-the money that is supposed to represent Blue Cross-Blue Shield's payback to the people of Wisconsin as part of the company's 2001 conversion to a for-profit entity. The purpose of the funds is to promote public health initiatives that will benefit the people of Wisconsin. However, the recent Legislative Audit Bureau Report suggests that these funds were periodically used to benefit their own institutions, rather than the public's health.

I. The 35/65 Split Underfunds the Public Health Needs of Wisconsin Residents

A decade ago, Blue Cross Blue Shield of Wisconsin converted from a nonprofit health insurance provider to a for-profit business. As part of the conversion, Insurance Commissioner Connie O'Connell required that Blue Cross Blue Shield pay back to the public the more than \$600 million¹ that the company had accrued as a result of its tax-exempt status. According to the Commissioner's Order, the purpose of these funds was to "promote public health initiatives that will generally benefit the Wisconsin population."²

The Commissioner assigned the task of administering this \$600 million of public money to Wisconsin's two medical schools, the Medical College of Wisconsin and the University of Wisconsin School of Medicine and Public Health. The Commissioner did not give the funds to

¹ The original conversion value was estimated at \$250 million. Stock value fluctuations in stock since 2000 have increased the total amount of the conversion funds.

² Final Order of the Commissioner of Insurance Re: Blue Cross & Blue Shield United of Wisconsin, Case No. 99-C26038, p. 30. Available at <http://oci.wi.gov/bcbsconv/bcbsdec.pdf>.



the schools as a gift; instead, she explained, “the conversion funds are best viewed as public capital charged with a particular purpose.”³ The Commissioner’s Order charged the medical schools with overseeing the conversion funds and allocating the money to projects that promote Wisconsin’s public health.

More specially, the Commissioner’s Order required that each school spend 65% of their share of the funding on medical education and research and 35% on public health and public health community based initiatives. The Order does not provide a rationale for this distribution, leading to the conclusion that the decision was purely political as the Commissioner does not have the requisite public health background or expertise. However, the order does allow that the distribution of funds between public health and medical education and research could change.⁴ Surprisingly, or not, the schools or designated committees have not changed the formula at all over the last decade despite dramatic changes in the fund value and other resources available to support education and research.

ABC for Health, Citizen Action of Wisconsin, and Disability Rights Wisconsin have long argued that the split between public health and medical education and research funding needs reevaluation.⁵ In addition, we believe that the medical school should not have the authority to determine the distribution of funds, because they have shown that they are unable to distribute funds in accordance with the Commissioner’s Order.⁶ To secure compliance with both the letter and spirit of the Commissioner’s Order, the current Commissioner should order that a truly

³ *Id.*

⁴ *Id.*

⁵ Letter from ABC for Health Inc. and Wisconsin Citizen Action to Members of the Wisconsin United for Health Foundation (Jan. 25, 2005)

⁶ Final Order of the Commissioner of Insurance Re: Blue Cross & Blue Shield United of Wisconsin, Case No. 99-C26038, P. 30. Available at <http://oci.wi.lgov/bcbsconv/bcbsdec.pdf>.



objective third party determine the distribution of these public funds.⁷ As we argue below, the Wisconsin United for Health Foundation, a disinterested third party, would be better able to determine the distribution of these public funds.

The 35/65 split between public health and medical education and research is untypical of BCBS Conversion funds in other states. Other foundations created by BCBS conversions designate the majority of the funds to public health, rather than medical research. For example, the Endowment for Health New Hampshire generally refuses to fund biomedical research.⁸ A review of programs that received “Applied Research Grants” from the New Hampshire endowment indicates a smaller medical research component.⁹ Similarly, a review of the grants awarded by the Universal Health Care Foundation of Connecticut shows no medical research of the sort that consumes 65% of all conversions funds in Wisconsin.¹⁰ Likewise, the Maine Health Access Foundation’s annual report shows very few medical research grants.¹¹ Moreover, the Healthcare Georgia Foundation has only awarded 32 research grants for a total of \$2,833,510 in its eight years of existence,¹² while the medical schools have awarded over \$89,400,000 of the Wisconsin conversion funds for research in the mere four years from 2004 to 2008¹³.¹⁴

⁷ See Wis. Stat. § 601.41 (granting the Commissioner of Insurance authority to “issue such prohibitory, mandatory, and other orders as are necessary to secure compliance with the law”); *Homeward Bound Servs. V. Office of the Ins. Comm’r*, 2006 WI App 208, p44 (Wis. Ct. App. 2006) (construing § 601.41 broadly).

⁸ Endowment for Health New Hampshire, *Proposal Guidelines: Program Year 2010*,

<http://www.endowmentforhealth.org/uploads/documents/grants/EFH97%20ProposalGuides2010.pdf>, p.1.

⁹ Endowment for Health New Hampshire, <http://www.endowmentforhealth.org/grant-center/search-awarded-grants/default.aspx> (Search “Grant Type: Applied Research Grant,” all other fields empty) (7/9/2010).

¹⁰ Universal Health Care Foundation of Connecticut, <http://www.universalhealthct.org/grants-grants.php>.

¹¹ Maine Health Access Foundation, *Annual Report 2009*,

http://www.mehaf.org/media/docs/resources/2010/04/13/Annual_Report_2009.pdf.

¹² Healthcare Georgia, <http://www.healthcaregeorgia.org/grantees/grants-search-results.cfm> (Search “Grantee: All Grantees,” “Grantmaking Regions: All Regions,” “Amount: All Amounts,” “Grantmaking Priority Area: All Areas,” “Year: All Years,” “Support Type: Research”)(7/9/2010).

¹³ Legislative Audit Bureau of Wisconsin, *An Evaluation: Medical Education, Research, and Public Health Grants*, Report 10-6, p.18, Table 8; p.57, Table 19 (May 2010). Henceforth “Report 10-6.”

¹⁴ Although the medical schools’ endowments are much larger than that of Healthcare Georgia, the numbers still reveal a shocking disparity: Healthcare Georgia only spend roughly 2.5% of its endowment on research, while the medical schools spend roughly 15% of their endowments on research.



Furthermore, the Healthcare Georgia Foundation refuses to fund biomedical research,¹⁵ because such research does not fit within its public health grant making priorities¹⁶. Hence all of the 32 aforementioned grants fund research, such as public opinion polls on health care,¹⁷ not biomedical research as the schools fund.¹⁸

The unbalanced tilt toward medical education and research strongly suggests that Wisconsin conversion funds need stronger and unbiased oversight. The staggering disparity between the distribution of the Blue Cross Blue Shield conversion funds in Wisconsin and the distributions in other states with similar funds demonstrates a pattern of self dealing by Wisconsin medical schools. The perilous economic downturn suffered by Wisconsin over the past few years increases the impropriety of 35/65 split, because it increased the number of people in need of public health programs. These essential programs require money, usually in the form of public health grants, which are in short supply due to the 35/65 split. The current distribution must be re-evaluated and altered to accurately reflect Wisconsin's substantial public health needs.

II. The WUHF Board, Not the Medical Schools, Should Have the Authority to Determine the Distribution of Funds

As our organizations have noted in the past, the medical schools have often mischaracterized the conversion funds as gifts to their institutions.¹⁹ And the schools have often spent the funds as if it were their money, rather than money belonging to the public. The Issue

¹⁵ See Healthcare Georgia, *Healthcare Georgia: Our Grantmaking Guidelines*, <http://www.healthcaregeorgia.org/grantmaking/grantmaking-guidelines.cfm>.

¹⁶ Telephone Call from author to Healthcare Georgia (7/13/2010); see also Healthcare Georgia, *Healthcare Georgia: Our Grantmaking Guidelines*, <http://www.healthcaregeorgia.org/grantmaking/grantmaking-guidelines.cfm>.

¹⁷ Healthcare Georgia, <http://www.healthcaregeorgia.org/grantees/grants-search-results.cfm> (Search "Grantee: All Grantees," "Grantmaking Regions: All Regions," "Amount: All Amounts," "Grantmaking Priority Area: All Areas," "Year: All Years," "Support Type: Research")(7/9/2010).

¹⁸ See Report 10-6, Appendixes 3, 6.

¹⁹ See Memorandum from ABC for Health, Inc. and Wisconsin Citizen Action to Board Members of Wisconsin United for Health Foundation Re: "How MCW and UW Medical School Plans for BC/BS Conversion Funds violated the Insurance Commissioner's Order" (June 24, 2003) (on file with author)



Paper on Misdirection of Funds shows that the schools have directed a substantial portion of these public funds to their normal operating expenses, including equipment purchases, faculty recruiting, and development of degree programs. These expenditures do not fulfill the funds' purpose of promoting public health.

In addition, the medical schools have a history of misdirecting some of the 35% reserved for public health to medical education and research. For example, the University of Wisconsin has allocated more than \$2 million of these public health funds to support its Wisconsin Population Health Fellowship Program.²⁰ While it focuses on public health, the fellowship program is fundamentally an educational program, and as such it should be supported by medical education and research funds, rather than public health funds.

As these previous actions show, the interests of the medical schools conflict with the public interest. For that reason, the medical schools should not have the authority to designate how much of the conversion funding goes to public health and how much goes to medical education and research. Instead, a disinterested, third party is in a better position to objectively determine the distribution of funding based on need.

We propose that the Commissioner of Insurance grant WUHF the authority to adjust the split between public health and medical education and research funding. WUHF has long served as the oversight body for both medical schools. As an independent agency, WUHF can ensure that the conversion funds are allocated appropriately and in compliance with the Commissioner's Order.

About the Coalition Agencies:

ABC is a Wisconsin-based, nonprofit, public interest law firm dedicated to linking children and families, particularly those with special health care needs, to health care benefits and services.

²⁰ See Report 10-6, Appendix 7.



Citizen Action of Wisconsin is an issue-focused coalition of individuals and organizations committed to achieving social, economic, and environmental justice and Disability Rights Wisconsin is a private nonprofit organization designated by the Governor to ensure the rights of all state citizens with disabilities through individual advocacy and system change.

For more information or to respond to this paper, contact ABC for Health, Inc.:

Bobby Peterson (608) 261-6939 ext. 201 (office) or (608) 444-7197 (cell)

Brynne McBride (608) 261-6939 ext. 210 (office) or (608) 279-2426 (cell)

