

City of Cambridge

The Health and Hospital Committee held a public meeting on April 2, 1996, beginning at 3:30 p.m. in the Sullivan Chamber for the purpose of continuing to consider a proposal to reorganize the Cambridge Hospital as a public authority.

Present at the hearing were Councillor Timothy J. Toomey, Jr, Chair of the Committee, Vice Mayor Kathleen L. Born, Councillor Henrietta Davis, Councillor Francis H. Duehay, Councillor Anthony D. Galluccio, Councillor Kenneth E. Reeves, Mayor Sheila T. Russell, Councillor Michael A. Sullivan, Councillor Katherine Triantafillou, and City Clerk D. Margaret Drury. Also present were Robert W. Healy, City Manager; John O'Brien, Commissioner of Health and Hospital; James Lindstrom, City Auditor, Ellen Semonoff, Human Services.

Councillor Sullivan convened the hearing and explained the purpose. He explained that Councillor Toomey, Chair of the Committee has been delayed, is en route and has requested that the hearing begin.

Councillor Sullivan requested that John O'Brien, Commissioner of Health and Hospitals, begin his presentation.

Mr. O'Brien summarized the documents which he has submitted to the City Council in response to the questions that have come up at prior hearings.

Robert W. Healy, City Manager then summarized the requirements of the legislation that will ensure public accountability. The members of the board will appointed by the City Manager. Two board seats are designated for representatives of the City Manager, a subcommittee of the board will be established to focus solely on Cambridge public health issues, and two thirds of the public members of the Commission must be residents of Cambridge.

Councillor Duehay asked if the matter had been discussed with the Somerville Mayor and Aldermen. Mr. Healy said that there had been discussions with the Mayor, but Cambridge has not made a presentation to the Aldermen. Councillor Duehay recommended that there be a presentation to the Aldermen.

Mr. Healy stated that another big insurance of public accountability is the requirement that the Commission file an annual assessment of the public health needs of Cambridge. The Commission and the City will enter into a public service contract and the City will reserve the right to terminate the contract if the Commission does not adequately provide for public health needs. The contract will be a public document.

Mr. Healy noted that mergers require City Council approval.

Councillor Sullivan observed that the Somerville Hospital merger does not require separate City Council approval and asked when the information regarding this merger would be available for the City Council.

John O'Brien said that there is a nondisclosure agreement with Somerville Hospital, but Somerville Hospital wants to be helpful and is working to provide the requested information.

Councillor Sullivan asked whether the public health services contract had been prepared yet. Mr. O'Brien said that it has not yet been finalized. Councillor Sullivan said that it would affect the FY 97 budget, and he would like to see some summaries of the contract. Mr. Healy agreed that a framework of the contract could be provided.

Councillor Born asked about the future plans for reduction of the tax contributions, and whether at some point no tax transfer is contemplated. Mr. Healy said that there will be a reduction, so that by 2003, there will be a \$17 million savings over the current level contribution if it were continued until then, but the plan is for the City to continue to pay in exchange for the public health services.

Councillor Born asked if the Professional Services Corporation will include Somerville Hospital doctors. Mr. O'Brien said that eventually they will be members.

Councillor Born asked why the two hospitals are staying separate, and whether it was because of union and employee concerns. Mr. O'Brien said that is part of the reason. More importantly Somerville Hospital wants to keep its 501 (c) (3) status; there are ramifications of public versus private status.

Councillor Galluccio asked why the City Council does not see the numbers for the Professional Services Corporation. He requested information about the assets and about who the employees are. Mr. O'Brien said he would provide audited financial statements and a summary of what the organization is about.

Councillor Galluccio asked what the City Manager could do to protect the assets of the City if the Hospital fails in the future; and whether he believes he has enough tools to protect the assets.

Mr. Healy said that the future is very uncertain. He believes that the real property assets can be adequately protected. There is more uncertainty about whether the Hospital can continue to provide the public health services. Mr. Healy said that control lies with the contract, the annual appropriations, and appointments to the board. He is satisfied that in relinquishing control to provide for the public health needs of the City, an appropriate balance has been struck. It takes a leap of faith balanced with fiscal responsibility.

Councillor Galluccio noted that importance of appointing board members who will understand the need to consider the interests of the tax payers. Mr. Healy cautioned against assuming that the City Manager will have that level of control of board members thoughts. He said that there is a relinquishing of control, but the "hammer" of the annual appropriate is always there.

Councillor Sullivan noted that there is also the possibility of legislative action. Mr. Healy agreed that the Council could rescind its home rule approval.

Mr. O'Brien then turned to the balance sheets. He explained the audit process. Councillor Galluccio requested historical information about third party liabilities as it relates to the medicaid/medicare third party liabilities.

Councillor Galluccio asked about the possibility of a panel of experts. Mr. O'Brien stated that he is working on providing this.

Councillor Galluccio asked whether the auditor's estimate of liability and the financial outlook takes into account the exposure of possible future changes in the regulations and the health care system. Mr. O'Brien said that previous years' liabilities are dependent upon the medicare/medicaid regulations for that year. Mr. O'Brien noted that the cash reserves at the Hospital have prevented the City from having to make these payments to medicaid from the City's cost reserves.

Councillor Born asked how this liability occurs. Mr. O'Brien said that medicaid pays a flat rate to the hospital two times a month. Then there is an extensive audit by medicaid/medicare and if there are overpayments, then the Hospital is billed for the overpayment and must reimburse medicaid/medicare.

Councillor Born asked about the amount of the potential liability. Mr. Healy said that the potential liability is \$22 million as calculated by the CPAs. Mr. O'Brien stated that this debt will go with the Hospital into the authority and will provide the City with insulation from the danger.

Councillor Duehay asked whether remaining assets would return to the City if the commission ceased to exist. Mr. O'Brien stated that if it ceased to exist, the assets would return to the City. In a merger, the City Council would decide what would happen to the assets.

Councillor Duehay asked what would happen if there were a dispute and the City Manager thought the commission should end, while commission thought it should continue. Mr. O'Brien said that all the board members could be removed for cause. Mr. Healy said that he was satisfied that the City has reasonable tools for that situation.

Councillor Born asked whether the balance sheet shows complete equality of debts and assets. Mr. O'Brien said that there is \$71.8 million net worth.

Councillor Born asked how the City Council would know the financial position of the hospital authority in time to take action. She posed the hypothetical of an outstanding bond for expansion, 30 million bond, and the third party liability still outstanding. In this case debts and assets would show as equal. Then what if there were a depression and a downturn in hospital revenues. Mr. Healy said that there are physical and tangible assets that would be viable. If outpatient facilities are the wave of the future, the neighborhood health care system is a particularly valuable asset. Medicaid re-payment after 1996 (assuming the Hospital becomes a commission) would be the responsibility of the commission not the City.

Mr. O'Brien added that this scenario would not happen overnight. There would be time to react to such a downturn. The greatest exposure that the City has is the failure of the system, and the status quo is the most dangerous situation for the future.

Councillor Sullivan asked whether future projections of present level funding of the current system would show larger tax expenditures than the contemplated tax transfer to the authority. John O'Brien agreed that it would be much higher. He noted that details of how the tax transfer reduction will happen must still be worked out.

Mr. O'Brien then outlined the breakdown of control between the City and the authority in comparison to the breakdown for a not-for-profit entity and the City. The City maintains much more control in the authority situation.

Councillor Galluccio asked whether Somerville Hospital and Cambridge Hospital employees can be integrated and whether layoffs are anticipated. Mr. O'Brien said that layoffs are not anticipated in the shortterm. There is a need for consolidation.

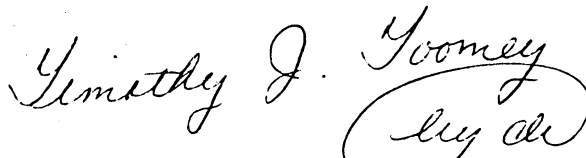
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Mr. Healy stated that there is another meeting with the unions tomorrow. A goal is to have union support for this proposal. Councillor Galluccio requested a legal opinion on the legality of a preference for Cambridge employees.

Councillor Sullivan requested that Mr. Healy and Mr. O'Brien work with the City Council's consultant Lorilyn Allan and Auditor James Lindstrom.

The meeting was adjourned at 4:55 p.m. motion of Councillor Galluccio.

For the Committee

A handwritten signature in cursive script that reads "Timothy J. Toomey, Jr." The signature is written in dark ink and is positioned above the printed name of the signatory.

Councillor Timothy J. Toomey, Jr., Chair

REPORT ACCEPTED. PLACED ON FILE.

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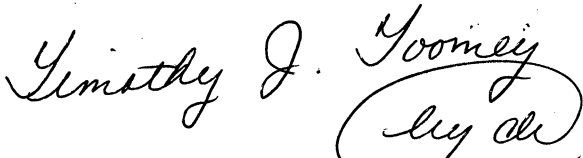
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For the Committee


Councillor Timothy J. Toomey, Jr., Chair

Committee Report #5

S-188

Health and Hospital Committee
transmitting a report of a public
meeting held on Tuesday, April 2,
1996 for the purpose of continuing
to consider a proposal to reorganize
the Cambridge Hospital as a public
authority.

In City Council April 8, 1996

Report Accepted
Placed on file