The Cambridge Hospital

1493 Cambridge Street, Cambridge, Massachusetts 02139 (617) 498-1000

March 31, 1989

Mr. Robert W. Healy, City Manager
City of Cambridge
City Hall
Cambridge, MA 02139

Dear Mr. Healy,

I am writing in response to Council Order #16, March 20, 1989 regarding monies currently owed to The Cambridge Hospital by the Commonwealth of Massachusetts. As we have discussed extensively over the past several months and as outlined in my Open Letter to our entire staff (copy attached) the Commonwealth currently owes this hospital more than $7.25 million for services provided to Medicaid patients as well as monies owed from the uncompensated care pool which they administer. In addition to the $7.25 million, the State owes the hospital more than $800,000 for final year Medicaid settlements, for the period FY1983-FY1988.

As outlined in the attached letter, negotiations originated with the State's Crisis Team commenced several weeks ago and hospital staff is working with the Medicaid program on resolution of outstanding claims for services rendered as well as working with the Department of Medical Security on resolving the uncompensated care receivables. The Medicaid Program has committed to accelerated payments of $50,000. per week for the remainder of the fiscal year so as to reduce the significant backlog of claims. We are concerned that this commitment may not be fulfilled as there are rumors that the Medicaid budget is near depleted as well as the fact that essentially all hospitals are facing similar proportional backlog in payments. Representative Charles Flaherty has been instrumental in assisting us with these negotiations. Intensive efforts on this issue are clearly indicated with no guarantee of payment in this fiscal year.

We are finalizing an agreement with the Department of Medical Security that will commit the State to a schedule whereby the receivables for uncompensated care will be reduced with one payment in April 1989, of approximately $1.6 million and one payment in late June 1989, of $2.5 million. Unlike Medicaid, there is a solid probability that this level of payment will be procured in the upcoming months. We will continue to pursue this matter through administrative and legislative channels prior to initiating litigation against the State as discussed.

In an effort to reform the current reimbursement environment, the Massachusetts Hospital Association (MHA) has convened a committee of hospital executives with the intent of developing legislation that will amend the existing Universal Health Care bill so as to provide hospitals with the full funding of the requirements of providing care. One of the three subcommittees of the Reform Task Force will develop recommendations specifically for those hospitals providing most of the care to the indigent. I will be the Chairperson of this committee on adequate funding for Disproportionate Share Hospitals and will therefore continue to focus much of our administrative energy at the hospital not only on collecting the monies currently owed to the hospital but also participating in the development of hopefully an improved payment mechanism for the future.

In response to your query relative to possible litigation against the State, I recommend that we continue our existing negotiations before pursuing that avenue. While it may be inevitable in the near future, obtaining relief through administrative channels in the short term appears preferable to competing in the courts with other hospitals for desperately few dollars left in the State coffers.

I will keep you abreast of developments as they unfold and await any further direction you may have on this matter.

Sincerely,

John G. O'Brien
Hospital Administrator

CC: Melvin H. Chalfen, M.D.

JGO/lsv
Attachment

The Cambridge Hospital

1493 Cambridge Street, Cambridge, Massachusetts 02139 (617) 498-1000

TO: Chiefs of Service, Members of the Medical Staff, Department Heads, All Cambridge Hospital Employees

FROM: John G. O'Brien, Administrator JGOB

RE: Open Letter on The Current Fiscal Crisis

The Cambridge Hospital is currently confronted with an unprecedented financial crisis as a result of the state budget shortfall and proposed federal cuts in the Medicare program.

THE PROBLEM

The attached Boston Globe editorial provides an overview of the increasingly well publicized financial woes faced by Massachusetts hospitals. Between ten (10) and forty (40) hospital closures are predicted, while the layoff of thousands of employees has commenced. Locally, the Commonwealth owes this hospital $3 million for uncompensated care provided in FY1987 and FY1988 and more than $2.5 million for unpaid FY89 Medicaid claims or Medicaid settlements for prior year services rendered. Current year payments (FY89) for uncompensated care are also under-funded and will lead to an additional $1.75 million to be owed by the state. Total state indebtedness to this institution through this year therefore exceeds $7.25 million.

For the upcoming fiscal year (FY90) commencing on July 1, 1989, the outlook is no better. Neither the budget proposed by Dukakis or by House Ways and Means includes $164 million in minimum requirements mandated by Chapter 23; i.e. $50 million for FY90 shortfall monies, $37 million for currently owed Medicare shortfall monies, and $77 million for the state's responsibility for uncompensated care. I highlight that these are minimum requirements in that it is estimated that the actual cost for free care as well as the Medicare cuts will be more than twice that amount.

We estimate that not budgeting these statutorily committed monies will add an additional $4.3 million to the hospital's deficit.

WHAT IS BEING DONE

Formal relief in addressing the current state's indebtedness to the hospital ($7.25 million) was sought by the hospital through the state "Crisis Team" established by the Governor to help ailing hospitals. Although meeting with this group of state department heads (representing Public Health, Medicaid, Medical Security, the Rate Setting Commission and the Governor's Office) usually is the first stage of formal negotiations with the Conversion Board established under the Universal Health Care bill, we will not be pursuing Board relief unless the situation further deteriorates. Seeking Conversion Board relief can have serious long term implications. On Monday, the "Crisis Team" has negated the need for Conversion Board intervention at this time by agreeing to structure a payment schedule for the majority of the money owed the hospital. Bob Cooper, our Chief Financial Officer, and his staff will work with state personnel on hammering out a time table to which we expect adherence.

FY90 relief will be achieved only if the Legislature restores the monies previously committed to in the Universal Health Care legislation. If the Governor and Legislature renege on their promise, disastrous implications will result as quality and access to care will immediately and irreversibly suffer. The "mecca of healthcare" will resemble a wasteland of hospitals teetering on bankruptcy.

We are actively lobbying at the State House to gain support for the restoration of these monies through legislative amendments endorsed by the Massachusetts Hospital Association (MHA). We will continue to advise our legislators of the dire consequences if the current budget proposals move forward to the Senate. It is likely that we will be enlisting the support of the entire Cambridge Hospital community in the near future as we expand the current lobbying efforts to a broader-based effort to be anchored by a major MHA media campaign. It is also important that the story be told of Cambridge Hospital's handling of a disproportionate share of care to the indigent be told. (Details are now being developed at MHA regarding these grass-root efforts and will be passed along as soon as they are available).

ARE WE GOING TO MAKE IT?

Although we are facing a terrific challenge, we are clearly positioned to weather the storm although additional local tax support appears to be inevitably needed. The size of our workforce will be reduced in the upcoming budget (approximately fifty positions) and hopefully if the current situation doesn't worsen we can accomplish all but a handful of cuts through attrition. We may also need certain staff members whose positions are scheduled for elimination to transfer to other existing vacancies. Productivity and a close examination of how we historically deliver services will be a primary focus in the next two years.

While the short term picture looks bleak, we are confident that as the major restructuring now underway in this state evolves, The Cambridge Hospital will survive, and future prosperity will occur, albeit, in a very much changed environment.

Thank you for your anticipated understanding and support during this difficult period.

jmc

cc: Robert W. Healy, City Manager
James Maloney, Assistant City Manager for Fiscal Affairs
Melvin H. Chalfen, MD, Commissioner
Governing Board Members
Associate Administrators

attachmment

The Boston Globe

Ailing hospitals

The health-care industry in Massachusetts is in serious financial trouble. Hospitals are caught in a crossfire of threatened cutbacks in both federal and state funds that exceeds anything they have faced in the past. If business and government do not pay close attention to the huge money problems now undermining health care in Massachusetts, the system may break down.

Medical costs keep going up because the demand for care keeps growing. Today's population is larger, older and sicker. AIDS imposes a new burden in patients and costs to protect health workers; improved treatment (from saving high-risk newborns to organ transplants) is expensive.

Bigger health-care bills translate into higher health-insurance premiums; into bigger government medical bills under Medicare and Medicaid; and into larger "free care" losses for hospitals caring for patients – largely the working poor – who cannot pay their medical bills and lack any form of coverage.

Massachusetts took a major step in 1988 toward comprehensively addressing the two sides of health-care financing with passage of the so-called universal health care law.

Half of the law assures that everyone can have coverage by having government, all employers and workers share the cost – adding a new universal health-insurance program to existing government coverage under Medicaid and Medicare for the poor and elderly. It would cover 600,000 people in the state who have lacked health insurance.

The other half of the law sets the rates of payment for the next three years to hospitals and clinics for delivering care. It also spells out a new formula by which the state, for the first time, would compensate for two big sources of hospital losses – free care for those unable to pay, and for shortfalls in federal payments for the elderly under lowered Medicare rates.

Passing this law was a feat. All affected parties – employers, hospitals, insurers and beneficiaries – had to agree. The coalition was held together and approval by the Legislature was secured only through heroic efforts by House and Senate Ways and Means chairmen Richard Voke and Patricia McGovern.

Enactment was built on mutual trust – with coalition support for universal health insurance a quid pro quo for the state's assumption of a share of free care and Medicare losses. Governor Dukakis and his administration pledged to abide by the law.

Over three years the law held the state to pay hospitals $137 million to cover the Medicare shortfall; and $77 million toward free care to ease the burden on businesses that are paying $300 million a year in health-insurance surcharges for such losses.

A year after making this pact, the governor has acknowledged that the state is facing a deficit. Dukakis says he will not pay hospitals the $214 million for Medicare or free-care losses. Further, he has not included them in his proposed plan to raise $600 million in new state revenue.

The state also owes hospitals $250 million in old Medicaid bills, dating back to 1985, and intends to cut $45 million more out of Medicaid payments to hospitals next year.

All told, hospitals in Massachusetts are facing a loss of $509 million in state funds. They also would lose $100 million more under federal health-care cutbacks proposed by President Bush. These losses would wipe out 10 percent of the hospitals' $6 billion a year operating funds – as costs rise.

Massachusetts hospitals have no place left to turn. They have borrowed so much that banks have limited further lending and some have put a loan watch on hospital accounts.

Hospitals have shut down 800 beds and are taking 2,000 more out of the statewide complement of 17,000 acute-care beds. Staffs are being cut, even in hospitals running at full capacity and even though emergency rooms are often overwhelmed.

Before the hospitals in Massachusetts reach the financial breaking point, state and business leaders need to forge an emergency plan for their economic survival.

5.

CITY OF CAMBRIDGE

CAMBRIDGE, MASSACHUSETTS 02139
TEL. 498-9011

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

April 10, 1989

To the Honorable, the City Council:

In response to Awaiting Report No. 37 regarding monies currently owed to the Cambridge Hospital by the Commonwealth of Massachusetts, I submit the attached report from the Hospital Administrator.

Very truly yours,

Robert W. Healy
City Manager

Agenda Item No. 5 F-139

Re: response to Awaiting Report Item 37 on monies currently owed to the Cambridge Hospital by the Commonwealth.

In City Council,

April 10, 1989

4-10-89

Placed on file.