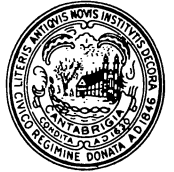




The Cambridge Hospital



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

December 18, 1987

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

Dear Mr. Healy:

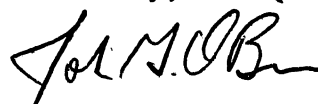
I am writing in response to a City Council order requesting a report detailing the projected losses at The Cambridge Hospital on a departmental basis for FY1988. I have attached a profitability breakdown by clinical service that represents one approach to segregating the hospital's budgeted profit and loss into several components. It provides an indication of the relative "profitability" of the clinical services. However, there are numerous factors which must be taken into consideration when reviewing this information. Some of the more significant qualifications I would mention are:

- 1) Hospital's don't typically aggregate data for clinical profit and loss purposes, so that due to data limitations, numerous assumptions about revenue, expense, and reimbursement were used in developing this spreadsheet.
- 2) Eliminating a service will not eliminate the total loss associated with the services due to complex reimbursement formulas as well as the fact that although direct expenses may be eliminated, allocated overhead expenses would to some extent have to be absorbed by other services.
- 3) The statistical bases used to apportion the overhead costs to the patient care departments were developed for regulatory cost reporting purposes. Therefore, the apportionment of expense in this analysis may not reflect actual resource consumption patterns.
- 4) Shifts in payor utilization which would alter the calculations of third party reimbursement could occur for various reasons including pricing strategies and would change the results.

- 5) Finally, and most importantly, the financial profitability is only one factor in assessing the contribution of a service. For example, the fact that the Emergency Department has one of the largest losses from operations must be viewed in a much broader context.

Please advise if any clarification of this material is required.

Sincerely,

A handwritten signature in dark ink, appearing to read "John G. O'Brien", with a stylized flourish at the end.

John G. O'Brien
Hospital Administrator

THE CAMBRIDGE HOSPITAL - P & L

[illegible]



CITY OF CAMBRIDGE

CAMBRIDGE, MASSACHUSETTS 02139
TEL. 498-9011

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

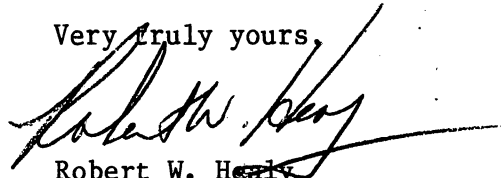
RICHARD C. ROSSI
Deputy City Manager

December 21, 1987

To the Honorable, the City Council:

In response to Awaiting Report Item No. 9 relative to projected losses at The Cambridge Hospital enclosed please find copy of a report from John O'Brien, Hospital Administrator.

Very truly yours,



Robert W. Healy
City Manager

RWH/mbf
Enc.

Agenda Item No. 4 F-677

Re: response to Awaiting Report Item 9
enclosing the report of the Hospital Ad-
ministrator Re: projected losses at the
Cambridge Hospital.

In City Council,

December 21, 1987

Placed on F. L.