C. C. '06

City of Cambridge

MASSACHUSETTS

Agenda 17 A

In City Council 4- 3 1995

Transfer of $1200,000 from Public Investment Fund

YEA	NAY	ABSENT	PRESENT	
✓				Ms. Kathleen L. Born
✓				Mr. Francis H. Duehay
✓				Mr. Anthony Galluccio
✓				Mr. Jonathan S. Myers
✓				Mrs. Sheila T. Russell
✓				Mr. Michael A. Sullivan
✓				Mr. Timothy J. Toomey, Jr.
✓				Ms. Katherine Triantafillou
		✓		Mayor Kenneth E. Reeves
8	0	1	0	

Consent Agenda # 17A
CITY COUNCIL
CITY OF CAMBRIDGE
April 3, 1995

INTRODUCED BY CITY MANAGER ROBERT W. HEALY

AN ORDER CONCERNING AN APPROPRIATION FOR THE FISCAL YEAR BEGINNING JULY 1, 1994

ORDERED: That the following transfer be made from the Public Investment Fund of the City of Cambridge:

FROM	AMOUNT	TO	AMOUNT
Health & Hospital Services Extraordinary Expenditures	$200,000.00	Public Works Extraordinary Expenditures	$200,000.00

REASON (S) **To provide funds for furnishing and equipment for City-wide Senior Center.**

In City Council April 3, 1995.
Adopted by a yea and nay vote:-
Yeas 8; Nays 0; Absent 1.
Attest:- D. Margaret Drury, City Clerk.

A true copy; D. Margaret Drury

ATTEST:-

D. Margaret Drury
City Clerk

C. C. 106

City of Cambridge

MASSACHUSETTS

Agenda 17b

In City Council 4-3 1995

Appropriation of 10,000,000 in Public Investment Fund

YEA	NAY	ABSENT	PRESENT	
✓				Ms. Kathleen L. Born
✓				Mr. Francis H. Duehay
✓				Mr. Anthony Galluccio
✓				Mr. Jonathan S. Myers
✓				Mrs. Sheila T. Russell
✓				Mr. Michael A. Sullivan
✓				Mr. Timothy J. Toomey, Jr.
✓				Ms. Katherine Triantafillou
		✓		Mayor Kenneth E. Reeves
8	0	1	0	

Consent Agenda # 17B
CITY COUNCIL
CITY OF CAMBRIDGE

April 3, 1995

INTRODUCED BY CITY MANAGER ROBERT W. HEALY

AN ORDER CONCERNING APPROPRIATIONS FOR THE FISCAL YEAR BEGINNING JULY 1, 1994

ORDERED: That in addition to sums previously appropriated by the City Council for the fiscal period 1994-95 the following sum is hereby appropriated in the Public Investment Fund the City of Cambridge:

FUNCTION	DEPARTMENT OR PROGRAM	SALARY & WAGES	OTHER ORDINARY MAINTENANCE	TRAVEL & TRAINING	EXTRAORDINARY EXPENDITURES	APPROPRIATIONS
Human Resource Development	Health & Hospital Services				$10,000,000	$10,000,000.00

BE IT FURTHER ORDERED: That the above appropriation in the Public Investment Fund to be financed by estimated revenues drawn from the following sources:

FINANCING PLAN	REVENUE
Excess patient receipts	$10,000,000.00

In City Council April 3, 1995.
Adopted by a yea and nay vote:-
Yeas 8; Nays 0; Absent 1.
Attest:- D. Margaret Drury, City Clerk.

A true copy: D. Margaret Drury

ATTEST:-

D. Margaret Drury
City Clerk

C. C. 106

City of Cambridge

MASSACHUSETTS

17 C

In City Council 4-3 1995

Appropriation of $1,300,000 in Hospital & Ambulatory Fund

YEA	NAY	ABSENT	PRESENT	
✓				Ms. Kathleen L. Born
✓				Mr. Francis H. Duehay
✓				Mr. Anthony Galluccio
✓				Mr. Jonathan S. Myers
✓				Mrs. Sheila T. Russell
✓				Mr. Michael A. Sullivan
✓				Mr. Timothy J. Toomey, Jr.
✓				Ms. Katherine Triantafillou
		✓		Mayor Kenneth E. Reeves
8	0	1	1	

Consent Agenda # 17C
CITY COUNCIL
CITY OF CAMBRIDGE

April 3, 1995

INTRODUCED BY CITY MANAGER ROBERT W. HEALY

AN ORDER CONCERNING APPROPRIATIONS FOR THE FISCAL YEAR BEGINNING JULY 1, 1994

ORDERED: That in addition to sums previously appropriated by the City Council for the fiscal period 1994-95 the following sum is hereby appropriated in the Hospital and Ambulatory Care the City of Cambridge:

FUNCTION	DEPARTMENT OR PROGRAM	SALARY $ WAGES	OTHER ORDINARY MAINTENANCE	TRAVEL & TRAINING	EXTRAORDINARY EXPENDITURES	APPROPRIATIONS
Human Resource Development	Health & Hospital Services		$1,300,000			$1,300,000.00

BE IT FURTHER ORDERED: That the above appropriation in the Hospital and Ambulatory Care Fund to be financed by estimated revenues drawn from the following sources:

FINANCING PLAN	REVENUE
Excess Patient Receipts	$1,300,000.00

In City Council April 3, 1995.
Adopted by a yea and nay vote:-
Yeas 8; Nays 0; Absent 1.
Attest:- D. Margaret Drury, City Clerk.

A true copy; D. Margaret Drury

ATTEST:-

D. Margaret Drury
City Clerk

The Cambridge Hospital

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

March 30, 1995

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

Dear Mr. Healy,

The Cambridge Hospital was budgeted to collect $63,447,115 for patient care services and miscellaneous revenues for this current fiscal year FY1995. It is clear based upon receipts already collected and projected payments through June 30, 1994 that we will collect more that $74,747,115 in FY1995, exceeding the budgeted amount by at least $11,300,000. I am requesting, via this letter, that the City Council appropriate this $11,300,000 in excess receipts. $10 million would be designated, as the City Council did in FY1993, for the purposes of funding depreciation; i.e. monies that would be used in the future for plant and equipment replacement and other capital purchases. The remaining $1.3 million dollar appropriation is necessary to pay expenses above our original budgeted expenses appropriation. Neither of these actions effect the tax allocation the hospital is budgeted to receive from the City.

As a result of the above actions, the hospital would have adequate expenditure appropriation to pay our expenses through June 30, 1995. Furthermore we will have restricted another $10 million for capital while not adversely affecting the City's financial position. Our overall restricted cash reserves would therefore be as follows: $18.9 million for our expansion/renovation program and $20 million for funded depreciation ($10 million from this year's excess receipts added to the $10 million restricted in FY1993). Remaining cash reserves are needed for working capital and to repay overpayments by third party payers.

Finally, the hospital has significant capital expenditure requirements and would like approval to utilize the FY1993 established funded depreciation account utilizing $3.1 million during the remainder of FY1995 and much of the balance in FY1996.

Reason for Receipts Excess

We are delighted that revenues will exceed originally budgeted amounts by at least $11.3 million. The primary reasons for this excess are:

1) Original estimates were quite conservative and anticipated deep Medicare and Medicaid cuts that were not enacted;

2) The hospital has estimated that over the past several years third-party payers such as Medicare, Medicaid, Blue Cross, and others have overpaid the hospital by more than $15 million. These third party liabilities are common for hospitals and the hospital has cash reserves available if the hospital was required through our audit and appeal process to pay this full amount back. In FY1995, we have settled some of these third party disputes in a favorable manner significantly reducing the expected cash paybacks this year;

3) The hospital through effective pricing and reimbursement strategies has maximized payments from Medicaid and the uncompensated care pool. Our cash flow for care to the indigent has been much better than budgeted.

Why Fund Depreciation?

Funding depreciation, that is setting aside monies each year to replace plant and equipment at the end of its useful life, is a standard accounting practice for most businesses, and particularly hospitals. This is done to stabilize cash flow by ensuring that monies needed to pay for large capital purchases with multiple years of life are partially funded from annual capital reimbursement payments received by hospitals. Because the hospital functions as an enterprise fund, it uses generally accepted accounting principles (GAAP) as the basis for capital reimbursement, which means that depreciation costs not principal payments (along with interest expense) are the basis for calculating capital expenses. The purpose of the funded depreciation request is to increase hospital reimbursement for capital expenses. While capital expense reimbursement rules vary by payor, it is generally required that interest expense be adjusted for operating interest income, thus reducing the net interest expense. Since Medicaid and the Uncompensated Care Pool fully reimburse capital expense, and Medicare partially reimburses capital expense, this netting of operating interest income against interest expense reduces our capital expenses for reimbursement. Therefore, it is a common practice in the hospital industry to have the Board (in our case the City Council) designate surplus cash funds for long term, not short term use, such as the funding of depreciation. In this way, the interest income from these designated funds is reported as Non-operating Income, rather than operating interest income. Therefore, it is not netted against interest expense for capital reimbursement purposes.

Reason for Additional Appropriation for Expenses

The principal reasons for costs above budget are:

•Costs associated with delivery of care to patients are the cause of the requested appropriation for operating expenses. Primary care physician expenses for providing the 136 sessions per week in the Neighborhood Health Centers and hospital clinics increased approximately 12%. Also, one additional session was added to East Cambridge and Teen Health and two additional sessions were added at Windsor, the PCU, and the Zinberg Clinic. The aggregate costs amount to $486,000.

•The cost of Physician services in the medical and surgical subspecialties increased over previous years requiring an additional $304,000.

•Interpreter services uses have exceeded the level projected during the budget preparation and require $65,000 of additional funding.

•Drug costs, primarily due to the increased volumes resulting from the oncology clinic, are projected to exceed the budgeted amount by $100,000.

•Department of Medicine expenses for Health of the City, Community Medicine, House Calls, Aids/Primary Care Access, Specialty Care Access/Training and additional efforts supported by the Hospital require funding in the amount of $340,000.

Capital Equipment Needs

Nearly $3.1 million of the $10 million depreciation monies restricted in FY1993 would be utilized during the remainder of FY1995 as follows:

•Senior Center: $200,000 will be transferred from the Hospital fund to contribute to the overall financing for the Senior Center, particularly to help defray additional costs associated with the Senior Health Center buildout and furnishings.

•Medical Equipment: Approximately $1,000,000 will be required to fund medical equipment commitments for the remainder of FY1995. Laboratory equipment, including replacement of the Coulter Test Equipment ($205,000), Radiology equipment, including the Digital Room ($425,000), replacement of mattresses ($44,000), a laproscopic camera system ($45,000), two operating room tables ($70,000), and a vascular ultra-sound system ($171,000) will account for the major portion of these monies.

•Renovation and Improvements to existing buildings: Approximately $700,000 will be needed as follows: furnishing the Partial Day Treatment area ($60,000), steam & oil line replacements ($150,000), plumbing valve replacements ($92,000), sterilizer/radiology

HVAC alterations ($95,000), architectural and design expenditures for future projects such as the birthing center, ventilation improvements for the Cahill Building and the Pharmacy ($200,000), and miscellaneous other projects.

•Information Systems: Approximately $1,000,000 will be needed to fund the continued improvement and upgrade of Hospital Information Systems. New applications will include Meditech modules for cost accounting, OR Scheduling, Physician Billing and Managed Care tracking. Hardware purchases include additional terminals and printers, a CPU upgrade to Digital Equipment Alpha processors, and optical disk capability for archive storage.

•Other: $300,000 will be available for equipment purchases at Neighborhood Health Centers, unplanned capital needs, and non-medical equipment.

In FY1996, capital expenditures are projected by the hospital's Capital Expenditure Committee to consume the $7 million balance of the FY1993 designated monies. The Committee currently is evaluating requests in excess of this amount and staff are prioritizing what expenditures can actually occur in FY1996. Some of the most significant items include new health centers in East Cambridge and the Windsor Street area ($4.5 million), renovations to the Macht building including a new roof, new HVAC system, and repairs to the facade ($3 million), a Birth Center ($900,000), additional information system technology, medical equipment upgrades and replacement, and a variety of other needs required to meet the needs of our patients.

While I recognize this request is complex and the dollar amounts are significant, the Finance Committee of the Governing Board, medical staff leadership, and my administrative team have worked diligently to put forward a thoughtful proposal. The approval of the funded depreciation request will enable the Hospital to maximize the dollars it generates from services and to continue to fund significant capital needs from internally generated funds rather that debt financing, while the operating expenditure appropriation will allow the Hospital to continue to provide the ongoing level of services to the community. This will be done causing no additional burden to the taxpayer or City. I have met with City Councilors individually to review these matters in detail and would appreciate your recommendation of same to the City Council.

Thank you very much. I am available and will be present at the City Council to address any other concerns.

Sincerely,

John G. O'Brien

John G. O'Brien
Chief Executive Officer
The Cambridge Hospital Community Care Network

17.

CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

TEL. 349-4300
FAX. 349-4307

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

April 3, 1995

To The Honorable, The City Council:

Please find attached a request from John O'Brien, CEO of The Cambridge Hospital Community Care Network for an appropriation of $11,300,000 in excess patient receipts.

Very truly yours,

Robert W. Healy
City Manager

RWH/mev
attachment

Consent Agenda # 17 F-53

Transfer of $200,000 for the Senior Center

Appropriation of $10,000,000 in the Public Investment Fund for the Health and Hospital Services

Appropriation of $1,300,000 in the Hospital and Ambulatory Care Fund for the Health and Hospital Services.

In City Council,

April 3, 1995

17A - Order adopted
8-0-1

17B - Order adopted
8-0-1.

17C - Order adopted
8-0-1.