Councillor Sullivan moved substitution of the amended version as the working document before the commission. The motion passed without objection.

Councillor Toomey commended Mr. Healy and John O'Brien for reaching agreement with the unions.

Councillor Duehay agreed with Councillor Toomey and offered commendation to all of the unions as well.

Councillor Galluccio stated that the City Council will continue to look at keeping the necessary controls to protect the unions and employees into the future.

Councillor Sullivan offered his congratulations to all parties for their negotiations to protect what Dr. Mack so aptly called "a treasure".

Vice Mayor Born added that she is very proud that Cambridge employees and management have been able to work together where so many other health systems and restructurings are so filled with conflict.

Councillor Triantafillou stated that it is a wonderful testament to city that so many talented young professionals choose to come to Cambridge and then often to stay. She noted that, without exception, every Cambridge Hospital employee whose opinion she has asked about the proposed changes has stated support for the proposal and emphasized the need to act quickly.

Mr. Healy then described two additional amendments: one in response to City Council concern regarding the transfer of assets to strengthen City Council control, and one to permit the city to establish in the future a new board of health by ordinance.

Mr. Healy and John O'Brien both expressed their appreciation of the unions' cooperation.

Mr. O'Brien then summarized the next steps. He said that the details of the contract with the city are being finalized. He said that he expects to have all the significant terms outlined for the City Council next week. He added that that Kevin Smith, Boston Bay Consulting, has been engaged to do additional consulting on the issue of future capital needs in relation to appropriate reserves.

Councillor Toomey requested that the information be available on Wednesday prior to the next meeting, May 2, 1996. He announced his intent to request suspension of the rules to submit a final report to the City Council on Monday May 6.

Councillor Duehay noted his request for information about what will be bought by the money that the city will transfer to the health network.

Mr. Healy stated that this information will be provided as part of the outline of the contract between the city and the authority.

Mr. O'Brien said that the contract will provide for three categories: pure public health, subsidized programs and overall system contributions.

Councillor Duehay emphasized the importance of a full list of services that will be provided to the city as well as information about what the money will buy.

Councillor Sullivan noted that he also wants to see the outline of the merger agreement with Somerville Hospital which he previously requested.

Councillor Sullivan asked about Neville Manor. Mr. O'Brien said that Neville Manor is under review. Nursing home bed utilization in Massachusetts is declining. They are looking for a mix of services that will be more financially viable and more meaningful programmatically.

Councillor Sullivan asked about the issue of the ability to contract management of everything less than "substantially all" of the health care system without involving even the City Manager. He recommended additional definition of "substantially all," to avoid the possibility of there being a merger in everything but the technical definition through a management contract.

John Moos, Chair, Mid Cambridge Conservation District Commission, distributed a memorandum setting forth concerns of the Historical Commission and a Conservation District Commission and requested clarification of Section 6 (b) of the proposed ordinance to ensure that the Hospital will continue to be subject to the jurisdiction of the Mid-Cambridge Neighborhood Conservation District.

Mr. Healy stated that it is the intent of the proposed legislation that the commission comply with any general ordinance with which any other entity is required to comply. He does not believe that there is any problem with the proposed amendment.

Councillor Sullivan stated that although he would be willing to vote for this amendment, he believes it is superfluous, and he sees a danger in making specific lists that may not include everything relevant.

Councillor Triantafillou requested that the City Solicitor review the proposal.

Councillor Duehay suggested consideration of whether there are any other specific ordinances that need to be included.

Vice Mayor born suggested adding "but not limited to" after "including" to emphasize that the list is not intended to be exclusive.

William Jones, Norfolk Street, commended Mr. Healy and Mr. O'Brien for their fine work and urged then to save the beds at Neville Manor.

Councillor Galluccio expressed his agreement with Councillor Duehay's comments about the importance of seeing the specifics of the services that will be provided to the city.

Councillor Sullivan moved that all amendments, including the Conservation District Commission amendment be substituted as part of the working document, with the Conservation District Commission amendments not to be merged but to accompany the document. The motion passed unanimously on a voice vote.

The hearing adjourned at 11:30 a.m.

For the Committee,

Councillor Timothy J. Toomey, Jr., Chair

City of Cambridge

The Health and Hospital Committee held a public hearing on Tuesday April 23, 1996, beginning at 10:25 a.m. in the Sullivan Chamber for the purpose of continuing its consideration of 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 Francis H. Duehay, Councillor Anthony D. Galluccio, 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 Hospitals; Ellen Semonoff, Human Services; Lorlynn Allen, consultant, James Lindstrom, City Auditor.

Councillor Toomey convened the hearing and explained the purpose. He requested that Mr. Healy discuss four recent changes to the proposed legislation as a result of meetings with the unions. Robert Healy stated that the most significant proposal, upon which most debate was focussed in meetings of union and management, is the proposal to eliminate Section 14, so that any future conversion of the public commission to a private non-profit entity would require both City Council and state legislature approval. Mr. Healy then invited union representative to comment on the proposed legislation.

Aaron Krakow, Attorney for Local 195, stated that the unions have been involved in intense negotiations over several months. At this point, an agreement has been reached and Local 195 is prepared to endorse the legislation, as amended and with the side letter which contains a provision to honor the economic commitments of the present union agreement. This is very important because the five year union contract put the most significant pay increases in the last years of the contract. The side letter recognizes that it is contingent upon all of the hospital's reserves being transferred.

Kevin Mack, resident physician at Cambridge Hospital, Cambridge resident and head of the house officers union, reported the endorsement of the proposed legislation by the house officers union. Dr. Mack said that he hopes that the City Council appreciates the excellence of the Cambridge Hospital, which attracts dedicated health proposals from all over the country.

Elliot Small, Associated Director of Massachusetts Nurses Association, stated full support for the proposed legislature with the condition that the funding be there to protect economic arrangements.

Mike Gormly, Business agent, union of operating engineers, stated support of the engineers unions for the proposed legislation. He noted the importance of the City Council approving transfer of the hospital's current reserves as part of the endorsement.

Committee Report #3

S-241

Report from Councillor Timothy J. Toomey, Jr. Chair, Health and Hospital Committee for a public hearing held on April 23, 1996 for the purpose of continuing its consideration of a proposal to reorganize the Cambridge Hospital as a public authority.

In City Council April 29, 1996

Report Accepted. 9-0-0.
Placed on file.

Kevin Smith said that with particular regard to the municipal environment, the payroll, purchasing and open meeting requirements are big limitations on the flexibility required to for succeed in the new environment, cut the biggest reason to change to a more independent structure is the need for association with additional networks that managed care and capitation require.

Mr. O'Brien stated that he has contacted other consultants as directed by the City Council. Patricia McGovern and Ann Thornberg would be able to come at some later time if the committee so desires.

Larry Gage reported on issues about which the City Council had requested additional information. One question was why any particular form of organization is chosen over another by municipal hospitals. He said that the reasons are purely local depending on goals and needs. Sometimes it is the need to issue revenue bonds, or to raise taxes directly. The other issue is what powers are given to the authority and what powers are retained. This again is dependent on the local needs. In seven of ten examples provided, real estate assets were transferred by a longterm lease. The shortest lease term in the examples he provided is ten years, and it was just renewed last year for another ten years.

Typical reasons for restructuring are more flexibility, fewer restraints in personnel and purchasing, enhanced ability to respond rapidly to the changing environment. While it would be possible to achieve some of these goals as a city-owned facility, it would probably not be possible to achieve all of them.

Councillor Duehay observed that the proposed model is different from the Boston model; although the locations are close. He asked what are the arguments for and against the model Cambridge has chosen. Mr. Healy stated that Cambridge chose the model that was achievable locally and could garner wide agreement and support. Boston still has not finalized its agreement.

Councillor Duehay requested clarification.

Larry Gage stated that Boston's proposal is not as different as it appears. It is a two step process. They are merging with a much larger hospital, one similar in size, so they are now creating a new nonprofit entity.

Larry Neiterman said that the specifics of the Boston and Cambridge Hospitals are quite different. In Boston, there was grave concern over its financial situation. In additional, the merger with Somerville Hospital is very different. Boston's merger is a full asset merger. Somerville Hospital will remain as a separate. 501 (c)(3) corporation. He advised the City Council to focus on the contractual relationship that will exist with the new entity rather than the formalities of the structure.

Councillor Triantafillou asked what will happen to city assets the in Boston restructuring. Bob Fallen said that he believes they are talking about a lease arrangement for the real estate.

Councillor Triantafillou asked about the arrangements for care in Boston. Bob Fallon said this is a matter of contractual arrangement in Boston.

Councillor Duehay noted that he has asked for a copy of the contract well in advance of the time when the City Council must vote. He asked the panel how confident the City Council can be that this new arrangement will be competitive. Mr. O'Brien said that this proposal represents the best way to proceed at this time. Free care funding will not change dramatically in the next three to four years. There will probably be the need for an affiliation with a larger network in the next couple of years. This will not be a full asset merger at that time. In the longer time, after six or so years, there are significant uncertainties.

Larry Gage added that his expectation is that there will be cost containment for medicare/medicaid rather than a dramatic cut from present levels. Thus efficient management will be important and the question is whether restructuring will provide the tools for more efficient management.

Councillor Sullivan asked whether, if the entire pool is free care, high risk, does not capitation increase the risk. Kevin Smith said that capitation rates reflect the higher level of risk. In addition, the need is for a broad, large client population. In Cambridge and Somerville, there is a very large population of covered lives.

Larry Gage said there is a need to look for partners who can fill in any gaps in the integrated system.

Larry Niederman said that in most markets where this analysis has been done, the impact of 37% of the population being covered by management care means that utilization of impatient services goes down 30 to 50%. In additional there are critical steps at which it is difficult for hospital to stay competitive which relate to scale. Also, the primary care network is crucial to survival. Reaching out to primary care physicians associated with Somerville Hospital is a key step.

In response to a question Councillor Sullivan regarding Boston City Hospital's decision to expand, Mr. Niederman said that Boston City Hospital's debt represents a big difference from Cambridge's situation. However, Boston City Hospital's physical plant was extremely decrepid. Councillor Sullivan asked about the structure chosen for Boston City Hospital. Mr. Niederman said that the decision making process in Boston was always that there had to be a full merger, so the question for the first step was what structure would be best for the merger.

Councillor Sullivan asked about recent changes reported in the Globe which make the Boston structure look more like the Cambridge proposal. Mr. Niederman said that an authority is not quite as far along the spectrum of relinquishment of control as a not-for-profit organization.

Councillor Sullivan asked what would happen without a merger. Mr. Neiderman said it would be okay in the shortterm, a year or so; after that it would be very difficult to implement the steps necessary to survive, to affiliate with networks, etc. The Hospital would be dealing from a position of weakness.

Councillor Sullivan requested that John O'Brien provide a draft contract and outline of the merger with Somerville Hospital as soon as possible.

Councillor Galluccio asked about the future availability of the consultants. Mr. O'Brien said the expectation is that they would be available over the few weeks through Ms. Allan, the City Council's consultant.

Councillor Galluccio noted the importance of protections for employees but also noted his acceptance of the need for the hospital to grow. His concern is to protect taxpayer money and to balance priorities in the use of taxpayers' funds. The City has provided over $50 million to the hospital over the past several years. He noted that at the present time 50% of the hospital's patients are not from Cambridge, and it is possible that the non cambridge ratio could increase.

Councillor Galluccio said that he expects to file an order that Cambridge Hospital return $10 million to the city. He requested that the panel consider whether that is realistic in view of the financial situation of the hospital, and he requested that the panel look at the control left for the city to be able to look at tax transfers down the lives if the situation changes.

Mr. O'Brien said that significant work would be required for the panel to look at cash reserves.

Councillor Galluccio said he would like to see a review of the likelihood of having to repay the medicaid/medicare third party liability.

Mr. O'Brien said that the taxpayers have already paid for Peat Marwick to spend many weeks determining the prudent assessment of this liability.

Councillor Galluccio stated that he would like to know whether the estimate of necessary cash reserves is based on looking three years down the line or seven years down the line.

Larry Gage said that in terms of having looking at several other systems, there is nothing that appears unusual about the proposal for cash reserves. He would be happy to look more closely at the issue.

Mr. O'Brien said that just this week $2 million which was not in the longterm capital plan was appropriated for the Windsor Health Clinic. The longterm capital plan is for $90 million and there are not sufficient funds for that at this time.

Councillor Duehay noted the importance of Councillor Galluccio's question.

Mr. O'Brien said that in 1987 tax support to the hospital was 12% of the city budget by 2.003 it will be 2.5%. This is a major cut in tax support. If there is a big reduction in assets there will be layoffs.

Mr. Neiderman said that he could do the analysis requested by Councillor Duehay. He noted that Councillor Galluccio has raised the question of return on investment. If that is the only concern, the City Council should also be considering selling to a for-profit hospital. Mr. Neiderman went on to say that the hospital is, relatively speaking, a lot better financially than seven or eight years ago. It is relatively stronger than Somerville Hospital and relatively weak compared with Partners. Somerville Hospital was probably more of a strategic than financial decision, in that there was likely an analysis of the problems that could come from purchase of Somerville Hospital by an entity such as Partners.

Councillor Triantafillou asked what is Ms. Allan's function. Councillor Duehay said that his understanding is that the City Manager has authorized Ms. Allan to work for the City Council over the time it is considering this issue, and that the panel to be here today. Additional services of the panel would require approval of the City Manager.

Councillor Duehay asked Mr. Healy how much consultant time he had authorized. Mr. Healy stated that his hope was that this day's presentation would be all that was required of the panel. He is looking towards a May 6th adoption date. Councillor Duehay stated that his ruling as chair would be that as of now, the panelists are here for today. Any issue of additional work by the panelists should be raised with Councillor Toomey, Chair of the Committee, to confer with the City Manager.

Councillor Galluccio asked about the possibilities for the city's control of a future merger. Mr. O'Brien said there are several mechanisms.

Kevin Smith said that from a business standpoint, the worst thing to do is undercapitalize the new enterprise. It's the greatest cause of business failure. He suggested looking at what are the three-to-four-year capital needs, whether those identified are appropriate needs, and to what extent they can be met in other ways.

Vice Mayor Born asked about the longer term merger issues. She stated that she needs assurance that in five or six years if Cambridge is part of a much bigger network, the city will not still have outstanding liabilities.

Councillor Triantafillou said that she has heard that the Boston City Hospital was a political dumping ground. She asked whether that is a problem here. Mr. O'Brien said that Cambridge does not have that kind of interference. There has been a positive relationship with the City. This is one reason why the recommendation is for a public authority rather than a first non-profit.

Councillor Triantafillou stated a concern with the change from providing public health as part of the basic mission and providing services for a specific payment from the city. She asked how the services will work. Mr. O'Brien acknowledged that there are difficult questions regarding how the mechanism will work and how a fee for services will be defined.

Councillor Triantafillou asked whether this was going to lead to an annual debate over what services and what cost; with micromanagement by the city. Mr. O'Brien said that this was a reason for using a projected dollar amount.

Councillor Triantafillou asked what the purpose was for having a number. Mr. O'Brien said that the purpose was to give planning predictability for the City and the hospital.

Councillor Triantafillou asked how the $1 million cut off for conveyance of assets was established. Mr. O'Brien said that it was just a rough number to support the principle of a point past which City approval is needed.

Councillor Triantafillou asked whether it would be a problem to lease the real estate to the hospital for a fee. Mr. O'Brien said it would have a devastating financial impact on the hospital.

Vice Mayor Born asked what other assets could there could be besides real estate. Mr. O'Brien said fixtures and equipment con also be assets.

Councillor Sullivan emphasized the benefits that Cambridge has received from the hospital. He raised the issue of the treatment of outside management in the current proposal and the level of outside management needed to trigger City Manager approval. Mr. O'Brien said it would be possible to look at revisions.

Councillor Duehay thanked the panelists for their presentations.

The meeting was recessed subject to the call of the chair at 1:00 p.m.

For the Committee,

Councillor Timothy J. Toomey, Jr., Chair

City of Cambridge

The Health and Hospital Committee held a public hearing on April 10, 1996, beginning at 10:35 a.m. in the Sullivan Chamber for the purpose of continuing to consider a proposal to reorganize the Cambridge Hospital as an 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, 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 Hospitals; Ellen Semonoff, Deputy Director of Human Services; James Lindstrom, Auditor; Lorlynn Allan, Consultant to the City Council.

Councillor Toomey convened the hearing and explained the purpose. He requested that John O'Brien begin the presentation. Mr. O'Brien provided brief updates and distributed financial statements for July 1, 1994 through June 30, 1995 and FY87-FY95 historical financial statements.

Councillor Duehay requested that the committee reports be in the book along with any other material produced by the City Auditor and Ms. Allen, the City Council's Consultant. Mr. O'Brien agreed. He stated that he was also submitting financial information for the Professional Services Corporation, the settlement summary for Cambridge Hospital and the due diligence memo regarding Somerville Hospital.

John O'Brien introduced the panel of experts who will address the committee: Bob Fallon, Senior Manager, healthcare group, Deloitte and Touche Consulting Group; Larry Nieterman, Deloitte and Touche; Kevin Smith, Boston Bay Consulting; and Larry Gage, President, National Association of Public Hospitals.

Larry Neiterman began the presentation. He described his background in health care issues, but cautioned that neither he nor his partner are accountants and they received their information on this proposal last week, so they are not yet experts on this particular proposal.

Kevin Smith provided his assessment of the health care environment. Massachusetts has a 25-30 year history of a heavy regulatory model. That changed five years ago. M.G.L. Ch. 495 deregulated hospitals. At the same time businesses became very active in healthcare reform and managed care. Massachusetts is tied with California for having the largest percentage of the state's population enrolled in managed care programs thirty seven percent. There is also a shift in the type of managed care from fee-for-services to assumptions of entire insurance risk in return for a single up-front payment, an up-front capitation payment. These shifts are the driving motivator for the enormous structural charges. Providers need the ability to consolidate overhead; there is also a need for providers to consolidate to appropriately manage the degree of risk that comes with the capitation payment system.

Committee Report #1 5-241

Report from Councillor Timothy J. Toomey, Jr., Chair, Health and Hospital Committee for a public hearing held on Tuesday, April 10, 1996 for the purpose of continuing to consider a proposal to reorganize the Cambridge Hospital as an authority.

Committee Rpt. #3 included

In City Council April 29, 1996

Report Accepted 9-0-0.
Placed on file.