



# Berkshire Health Systems, Inc.

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Dear BHS Colleague:

As you know, we are currently in negotiations with the Massachusetts Nurses Association (MNA), the Boston-based union that represents the registered nurses of Berkshire Medical Center.

Although our bargaining committee has met with the MNA group 19 times, we have yet to see signs that the union is making any meaningful movement toward a fair and reasonable contract. We continue to hold out hope that we will reach a fair settlement with the MNA as we have with all other unions representing BHS-affiliate employees.

Meanwhile, we wanted to take this opportunity to clarify an important matter regarding the financial challenges that we and all other healthcare providers face during these uncertain times. The MNA all too often offers the public confusing or incomplete financial information to advance its own agenda. As an example, shortly after the closure of North Adams Regional Hospital (NARH), the MNA repeatedly described NARH as a “cash cow”. In fact, NARH closed abruptly when it ran out of the cash necessary to meet its obligations to its employees, including its nurses, as well as to vendors essential to the operation of a medical facility.

The MNA now contends that Berkshire Medical Center is so financially successful that it should agree to any demand the union makes, no matter how unreasonable. The outstanding demands by the MNA include large RN salary increases, numerous benefit enhancements for nurses and significant staffing increases. Judging by its demands, the Boston-based MNA has little understanding of the hospital’s current financial realities, and even less interest in the long term viability of Berkshire Medical Center or its central role in the lives and well-being of its employees and community.

The MNA happens to be correct that, as of March 2017, Berkshire Medical Center is more financially successful than many hospitals across the state and around the country. We should all be proud of the financial foundation we have built over the past twenty years. Our financial success has made it possible for us to invest millions of dollars in our facilities, our technology and, of most significance, our people, especially our nursing staff. Because of our collective efforts and good stewardship, today we enjoy an S&P credit rating of “A” and BMC is a well-staffed hospital providing safe, high quality care to our community. Our success and consistent achievements are well documented by independent third parties whose job it is to provide comprehensive, objective and unbiased information to consumers, insurers and other interested parties.

However, past success is not a guarantee of future performance. The combination of the challenging demographics of our county with its shrinking population that is also getting older, sicker, and poorer, and the payment restrictions being introduced by federal and state governments and private insurers (including all of the uncertainty surrounding the effort to repeal and replace Obamacare), guarantee unprecedented financial hurdles in the years ahead. Even a glimpse at our actual financial performance

in FY 2016 compared to our year-to-date and projected performance of 2017 offers a demonstration of how rapidly the financial landscape is changing and how little control we have over it.

As we have advised the MNA bargaining team numerous times during these negotiations, we completed 2016 with a surplus of almost \$32 million. That number includes earnings on our endowment funds, special governmental payment programs like the rural floor adjustment and our net operating income. But as we began to budget for 2017, several things happened - all out of our control. In August, changes to Medicaid payments were announced which resulted in an annual reduction of nearly \$8 million in state reimbursement. Anticipated payments to us were further reduced when the Medicare program announced that the value of the rural floor adjustment was being cut in half, creating an annual loss to us of approximately \$7 million. Lastly, Northern Berkshire Orthopedics that had been supported by us since the closure of NARH announced that it was affiliating with Southwestern Vermont Medical Center, resulting in a loss of orthopedic procedures and increase in cost for orthopedic services, together costing the hospital \$5 million. These three changes alone represent a \$20 million swing in the hospital's 2017 revenue projection occurring in the space of just six weeks.

Even without these unexpected and dramatic revenue shortfalls, our annual revenue increases at a rate of about 2% while our annual expenses continue to rise at the rate of 5 to 6%, a gap of \$40 million each and every year. These expense increases are driven by employee wages and benefits and the rapidly growing cost of medical equipment and pharmaceuticals. Our collective and continuing challenge is to cover the widening gap between the yearly growth in our revenue and the yearly growth in our expenses.

The challenge of diminishing revenue and increasing costs will continue without interruption into the foreseeable future. The Medicare program has introduced a variety of mechanisms that shift to hospitals and other health care providers an increasing amount of the cost of patient care and risks of community health status. At the same time, Massachusetts has announced changes to its Medicaid program that will require hospitals and other providers to absorb the cost of care of Medicaid patients above certain fixed amounts. In addition, there are plans in Massachusetts to sharply limit rates paid by state and private insurers for medical services, without regard to increases in the cost of providing those same services.

Navigating these shifting, treacherous waters while still providing the high quality of care that our community deserves requires that every member of the Berkshire Health Systems family redouble his and her efforts to work effectively, efficiently and collaboratively.

We are hopeful that, one day soon, we will achieve our goal of coming to a new, fair agreement with the MNA, as we have with other bargaining units both at Berkshire Medical Center and Fairview Hospital. Doing so will allow us all to return our attention to our common purpose and commitment to our patients and our community. Because an appropriate resolution of the MNA demands will have such a broad effect on all of us, we intend to keep you informed about any progress in our negotiations with that union.

Respectfully,



David E. Phelps  
President & CEO



Darlene M. Rodowicz  
Chief Financial Officer