



October 23, 2012

VIA REGULAR MAIL AND ELECTRONIC MAIL

Ms. Patricia A. Young Brown
President and CEO
Central Health
1111 East Cesar Chavez Street
Austin, Texas 78702

Dear Trish:

Thank you for your letter dated October 19, 2012, in which you responded to the request we made regarding St. David's HealthCare's proposed participation in the Community Care Collaborative (CCC) being organized by Central Health and Seton to create an Integrated Delivery System (IDS) for the safety net population in Travis County. While we appreciate your response, we regret that it does not constitute the level of participation that we requested, and it is not reflective of the substantive role St. David's HealthCare plays in providing indigent care in the community.

We appreciate your enthusiasm at our requested participation, and we recognize there are, now, time constraints, but St. David's HealthCare first approached Central Health about our interest in this nearly a year ago. Since that time, St. David's has been diligent in its request for information and serious in its efforts to participate in improving the safety net care in Travis County. Unfortunately, Central Health has continued, for months, to move forward without St. David's HealthCare as a true partner.

We understand why Central Health and Seton were the initial partners in the discussion, but as a major safety net provider in the community, St. David's HealthCare should have been included, long before now, in the discussions that have taken place during the past year.

We believe there is still an opportunity between now and the end of the year for St. David's HealthCare to be incorporated into this structure, but it appears that Central Health has elected not to do this. As you well know, St. David's HealthCare carries a significant burden for indigent care in Travis County, and our hospitals lose millions of dollars each year providing that care, thereby further relieving Central Health of the community's indigent care burden. As we discussed last week, we want to participate in the CCC to enable St. David's HealthCare to invest and receive federal matching funds to alleviate some of the financial burden we incur in our provision of indigent care in Central Texas. Instead, St. David's is being excluded, and at the same time, Central Health is asking voters to authorize paying much higher taxes that will be used for unrelated purposes (GME and medical school), while using those funds to provide almost no incremental indigent care. As a result, St. David's HealthCare has an obligation to state our opposition to Proposition 1 because Central Health has chosen to prioritize other initiatives over direct patient care to the indigent and needy of Travis County.

As you may recall, contrary to your letter's statement that St. David's HealthCare first raised questions about participating in the CCC on October 15, 2012, St. David's HealthCare met with Central Health on November 4, 2011 – nearly one year ago – to discuss how private hospitals could expand their charitable care in the community in collaboration with Central Health, allowing Travis County to obtain additional Medicaid Waiver dollars for the community. On December 19, 2011, St. David's HealthCare submitted to Central Health previously established models, which were in operations for the past five years in Texas, to accomplish these goals. In February 2012, St. David's HealthCare leadership met with Central Health at Central Health's offices to discuss the plan for St. David's to participate in the Waiver. In follow up to that meeting, St. David's provided Central Health with draft Regional Healthcare Partnership (RHP) governance documents. Central Health provided no feedback to St. David's HealthCare, nor asked any questions regarding the models or the draft governance documents. Instead, Central Health and Seton developed a new model for public control of a public/private joint venture that will receive both public and private funds. This new entity was first revealed to the region, as a tentative concept, at a public meeting on June 29, 2012, during which St. David's HealthCare representatives, again, reiterated our desire to collaborate with Central Health and to participate in the Waiver under whatever model Central Health designed, so long as it complied with state and federal requirements. St. David's HealthCare also met separately with Central Health on August 24, 2012, to explain its desire to participate in a legally compliant model to receive Waiver funding to transform care in Travis County.

The new "IDS" entity developed by Central Health and Seton is not recognized either in the Waiver rules or the Waiver funding protocol as a "performing provider" entitled to receive Delivery System Reform Incentive Payments (DSRIP). We understand that Central Health has been pursuing special approval by the Centers for Medicare and Medicaid Services (CMS) for the IDS to obtain "performing provider" status so it can receive direct DSRIP funding. As we suggested during our meeting on October 15, 2012, rather than pursuing special approval for IDS from CMS, Central Health can designate Seton and St. David's hospitals as the "performing providers" of the DSRIP projects. Seton and St. David's can then select the IDS as the subcontractor to perform the transformative care projects, itself and through community resources. By flowing the DSRIP funding directly to St. David's and Seton hospitals as the "performing providers," Central Health avoids the need for special CMS approval, but retains the desired financing and integration offered by the IDS.

Your letter states that Central Health, as the public entity, wants to have majority and controlling interest of the new CCC because the CCC will be funded by public dollars. At the same time, your letter states that Central Health wants to require private entities to participate in the CCC and commit resources to the delivery system. By joining the public and private entities together under one publicly controlled entity to which the private entities make contributions, Central Health is potentially jeopardizing all of the new federal matching funds the new tax revenues are intended to secure under the Waiver.

You also stated that all of the CCC participants must commit significant resources to improve the delivery system, and you emphasize the significance of Seton's \$250-million investment in the construction of the new safety net hospital. However, your letter fails to note that Seton will

receive \$480 million–\$500 million over the four years of the Waiver in return for its \$250-million investment due to the new \$50-million-a-year tax revenue and the \$70 million–\$75 million in federal Medicaid matching funds you plan to draw down with the tax. As we discussed last week, given the potential return available from the Waiver (\$2.46 return for every \$1 invested), St. David's HealthCare is very willing to make similar investments that would enable us to offset the cost of the indigent care losses we incur for the District. Instead, St. David's is being excluded, and Seton's inclusion will enable them to easily pay for the cost of a new teaching hospital (for which they have financial responsibility), largely with public funds.

Finally, your letter indicates that it is too late for St. David's HealthCare to participate in Pass One DSRIP because the projects are due to HHSC November 15, and Seton and Central Health have already determined which projects they want to submit. This rationale based on timing is disingenuous, given that St. David's HealthCare timely submitted for Central Health's consideration eligible DSRIP waiver projects that were valuable to the safety net population; asked Central Health for a special meeting to request that St. David's HealthCare be included; and followed all of Central Health's instructions for inclusion in the HHSC submission in a timely manner, up until the point that Central Health instructed St. David's HealthCare on August 24, 2012, that all of St. David's Healthcare projects would be denied for DSRIP. Further, the Commissioner of HHSC has made it clear that CMS is prepared to extend deadlines around the DSRIP program, if necessary.

Your letter also incorrectly states that St. David's will have an opportunity to participate in Pass Two DSRIP. Central Health is fully aware that there will be no significant Pass Two DSRIP funds remaining for St. David's HealthCare after Central Health and Seton direct to themselves all of the DSRIP allocated to hospitals in the entire region. Specifically, Region 7 hospitals are allocated slightly more than \$494 million for the four-year Waiver period. The new tax revenue Central Health is raising (approximately \$50 million per year) plus the federal match of \$70 million–\$75 million equals annual payment amounts of \$120 million–\$125 million, or \$480 million–\$500 million for the entire Waiver period. Consequently, the DSRIP projects Central Health and Seton already plan to undertake will largely absorb the DSRIP allocation to the region, leaving *virtually no* DSRIP funding remaining for St. David's HealthCare under the Waiver in Pass Two.

HHSC allocated to St. David's HealthCare 30% of the hospital DSRIP in Travis County, based on St. David's HealthCare's historical contributions to the safety net population in the community. In spite of that, Central Health decided it was better to direct 100% of the hospital DSRIP funding to Seton, rather than allow St. David's to participate at all in the Waiver. St. David's HealthCare is the only major safety net provider (as defined by CMS and HHSC) and the only Medicaid Disproportionate Share Hospital (DSH) in Travis County that is being prohibited from participating in the Waiver. Central Health cannot effectively reform healthcare in Travis County by doing this. By directing the entire DSRIP pool (\$494 million) to Seton, Central Health is paying Seton 143% of the DSRIP amount HHSC allocated to Seton, while paying St. David's HealthCare none of the \$142 million DSRIP HHSC allocated to St. David's HealthCare.

In summary, I want to reiterate our concerns with your proposal:

1. Creating a publicly controlled entity that receives private entity funding potentially jeopardizes federal matching funds, when there is another proven mechanism to draw down these funds.
2. Seton's investment is obtaining a significant return, while St. David's HealthCare is being excluded.
3. Travis County will have virtually no DSRIP funding remaining for St. David's HealthCare to participate in Pass Two because the DSRIP projects Central Health and Seton plan to undertake in Pass One will absorb most of the DSRIP allocation to the region.
4. St. David's HealthCare wants to implement Waiver projects and should not be the only major safety net provider excluded from the Travis County collaboration.

We want to work with Central Health to achieve the unparalleled collaboration that you refer to in your October 19 letter, assuming that it is both fair and balanced. We would be pleased to initiate the series of meetings necessary to make it work, with the understanding that the intended purpose would be to incorporate St. David's HealthCare as an equal partner in the initial stage of this program.

Sincerely,



C. David Huffstutler
President
Chief Executive Officer

cc: H. David Hughes
C.W. Hetherly
Rosie Mendoza
Clarke Heidrick