CENTRAL HEALTH

Attachment C

Fiscal Year 2014 Approved Budget
Executive Summary

Who We Are

The Travis County Healthcare District (doing business as "Central Health") was created by vote of the Travis County electorate in May 2004. Its purpose is the provision of medical and hospital care to indigent residents of Travis County, a responsibility that was previously shared by Travis County and the City of Austin prior to Central Health's creation. Its enabling legislation is Chapter 281 of the Texas Health and Safety Code, which provides most of the statutory framework within which Texas hospital districts operate.

From its inception in fiscal year 2005, Central Health has worked to fulfill its mission – *to create access to healthcare for those who need it most*. During that time, Central Health has steadily increased the provision of primary care services to its covered population and has worked with a variety of healthcare providers and stakeholders to augment and improve the healthcare safety net here in Travis County. Central Health has the statutory obligation to provide health care to residents who are at or below 21% of the federal poverty level (FPL – currently $4,946 for a family of four); however, Central Health also provides a Medical Access Program (MAP program) with a full benefit package to a population of eligible residents who are at or below 100% of the FPL.

1115 Medicaid Waiver and 10 in 10 Initiative

Central Health owns the University Medical Center Brackenridge (UMCB) facility, which is operated by the Seton Healthcare Family under a long-term lease arrangement, initially with the City of Austin in 1995 and now with Central Health. UMCB serves as the safety-net hospital in Travis County that provides acute and specialty care to our Medical Access Program population as well as trauma services to all residents in an 11-county region. .

Since Central Health began operations in 2004, Seton and Central Health have collaborated to provide a continuum of healthcare services, with Central Health focusing on primary, specialty and behavioral health care. While we have made some progress in our efforts to integrate the healthcare delivery system, there is still much to be done to ensure care is delivered at the right time and the right place.

In July 2011, the Texas Health and Human Services Commission (HHSC) announced the implementation of the Texas Healthcare Transformation and Quality Improvement Program, also called the 1115 Medicaid waiver. The waiver is intended to accomplish two things: one, to preserve the source of federal funding for the Upper Payment Limit program and two, to provide additional federal funds for transformative projects that enhance healthcare delivery through the Delivery System Reform and Incentive Payment (DSRIP) program.

Around the same time, in September 2011, a number of public and private sector entities began work on a "10 in 10" initiative to accomplish ten projects over ten years that will benefit Travis County and Central Texas, including: implementing an integrated delivery system to provide enhanced primary care, specialty care, behavioral health services, and women's health services;

building a medical school; and, building a modern teaching hospital. To take advantage of the momentum created by this initiative and to maximize the additional federal funding available through the waiver, the Central Health Board of Managers authorized a tax ratification election held on November 6, 2012, to increase Central Health's tax rate by five cents. The voters approved this increase, most of which will be used as a local match for the 1115 waiver, with the rest capitalizing the Community Care Collaborative (CCC), a 501(c)(3) corporation through which Central Health and Seton will jointly manage the safety net system. To that end, Central Health and Seton have entered into a Master Agreement to fund and operate the CCC.

For more information on Central Health, the 1115 waiver, the Community Care Collaborative, or the Master Agreement with Seton, please go to the Central Health website at www.centralhealth.net or call (512) 978-8000.

Fiscal Year 2014 Operating Budget

Central Health's current tax rate (fiscal year 2013) is 7.8946 cents per $100 of assessed value. This 2014 budget includes a total tax rate of 12.9 cents per $100 of assessed value, as required under State law pursuant to the tax ratification election held on November 6, 2012. The total rate includes an operating tax rate of 12.77 cents and a debt service rate of .13 cents. The debt service tax rate will provide debt service funds for Certificates of Obligation that funded the purchase and partial renovation of the Southeast Health and Wellness Center and a portion of the construction cost of Central Health's North Central Community Health Center, the remainder of which was funded with Federal grant dollars.

Central Health's operating budget has several sources of funds, with property tax being by far the largest ($139 million – 80% of total revenue of $173.8 million). The second largest revenue source is Seton lease revenue for UMCB.

Central Health budgets its expenditures in two programs, the larger one being Healthcare Delivery (96% of total appropriations) and a smaller program of Administration (4% of total appropriations). The Travis County Commissioners Court approves Central Health's budget appropriations at the program level. See the attached budget summary (Attachment A) for a full list of sources and of uses by program, as well as expected reserve balances at the end of the 2014 fiscal year.

Following is a more detailed discussion of Central Health's 2014 expenditure budget, shown by program and activity, which can be seen on Attachment B.

Healthcare Delivery Program

This program consists of the following sub-programs or activities:

CENTRAL HEALTH

Attachment C
Fiscal Year 2014 Approved Budget
Executive Summary

Intergovernmental Transfers (IGTs)

This activity funds the local match for three types of federal supplemental hospital payment programs:

1. Uncompensated Care ("UC") – reimburses public and private hospitals that treat significant numbers of Medicaid or uninsured patients. Central Health makes uncompensated care IGTs for St. David's and Seton private hospitals and for UMCB.

2. Disproportionate Share ("DSH") – similar to Uncompensated Care, this program reimburses public and private hospitals that treat a disproportionate share of Medicaid or uninsured patients. Most of the local match for all Texas hospitals, both public and private, that participate in this program is made by seven hospital districts across the state, including Central Health.

3. Delivery System Reform Incentive Payment ("DSRIP") – provides federal funding for projects that transform the healthcare delivery system by making it more accessible, more integrated, and less costly. This funding is through the 1115 Medicaid waiver, the Texas Health Care Transformation and Quality Improvement Program that began on September 1, 2011. Central Health makes an IGT for the hospital-based DSRIP programs carried out by Seton and also for the remaining delivery system DSRIP programs carried out by the CCC

Appropriations at the program level can be moved from one activity to another administratively, through the authority delegated by the Board of Managers to the Central Health President and CEO. In educating the Travis County voters for the November 2012 tax ratification election, Central Health committed to using its healthcare delivery funds first to make IGTs that will leverage additional federal funds and opportunities to enhance service delivery. To that end, Central Health may use funds in other healthcare delivery activities for IGT if there are additional opportunities to do so.

Payment to the Community Care Collaborative (CCC)

This Central Health activity funds primary, specialty, and other services for the MAP program, primarily through contracts with a number of safety-net providers. These contracts were previously administered by Central Health, but in 2014 Central Health and Seton will jointly manage most of them in the CCC. Funding and administering these contracts in the CCC will provide for an integrated delivery system through which all providers can be better coordinated.

Other Healthcare Delivery Activities

Other activities in the 2014 Healthcare Delivery Program are as follows:

- Payments to Austin Travis County Integral Care and Planned Parenthood;

- Seton charity care payment;
- Payments to the Integrated Care Collaboration;
- Eligibility and medical management staff and operating costs;
- Funding risk-based capital needs for Central Health's Medicaid HMO, Sendero;
- Debt service; and
- A transfer to the capital reserve for renovations of the Southeast Health and Wellness Center.

The final activity in the 2014 Healthcare Delivery Program is an appropriation of Central Health's estimated 2014 contingency reserve of $43.8 million. This appropriation provides flexibility for Central Health to handle the uncertain timing of IGTs in the 1115 waiver program without a mid-year budget amendment. It is unlikely that this entire amount will be needed and whatever is not spent in 2014 will fall to the contingency reserve ending balance. Amounts that are spent in 2014 will be replenished in future years.

Administration Program

This program funds the activities that allow Central Health to function as a governmental entity and a healthcare financing entity, e.g. financial, legal, human resource, facility management, and planning and communications activities. Personnel expense has increased about $700,000 from 2013 to 2014 due to the addition of three full-time and two part-time positions for administration of the CCC and the 1115 waiver. Also included in the change in personnel costs are projected increases for employee health insurance and a one and ½ percent pay-for-performance increase. Operating expenses remain the same in 2014 as in 2013.

Reserve Policies

Central Health maintains four separate reserves, with a policy for each: an emergency reserve, a contingency reserve, a capital reserve, and a reserve for HMO risk-based capital.

There are two changes to Central Health's reserve policies in this 2014 budget. One change is to the contingency reserve – to allow for appropriation of this reserve to deal with IGT timing issues, as discussed above in the Healthcare Delivery Program section.

The second change is to the emergency reserve. Given that Central Health's most stable revenue source, property tax, is also by far its largest now (80% of total revenues), management recommends reducing the emergency reserve from 33% to 15% of budgeted expenditures. At this level, Central Health still has relatively higher reserves than most local governments.

Attachment D more fully describes each of the four reserve policies.

CENTRAL HEALTH

Attachment A

Approved Fiscal Year 2014 Budget and Amended Fiscal Year 2013 Budget

Revenue and Expense Summary

DESCRIPTION	FY 2014 APPROVED BUDGET	FY 2013 AMENDED BUDGET
TAX RATE	**0.129**	**0.078946**
SOURCES OF FUNDS		
Property tax revenue	139,000,000	79,944,069
Seton lease revenue	32,321,472	30,926,640
Interest revenue	400,000	200,000
Tobacco settlement revenue	1,200,000	1,900,000
Contribution from reserves	-	29,695,551
Contribution from HMO risk-based capital	2,200,000	-
Contingency appropriation	44,657,687	-
TOTAL SOURCES	219,779,159	142,666,260
USES OF FUNDS		
Healthcare delivery program	210,610,705	134,204,886
Administration program	9,168,454	8,461,374
TOTAL USES	219,779,159	142,666,260
FISCAL YEAR END RESERVE BALANCES		
Capital reserve	2,930,811	-
HMO risk-based capital reserve	12,883,000	15,083,000
Contingency reserve	-	13,344,255
Emergency reserve	25,975,721	37,289,153
TOTAL RESERVES	41,789,532	65,716,408

CENTRAL HEALTH

Attachment B

Approved Fiscal Year 2014 Budget and Amended Fiscal Year 2013 Budget
Expense Detail

DESCRIPTION	FY 2014 APPROVED BUDGET	FY 2013 AMENDED BUDGET
HEALTHCARE DELIVERY		
Intergovernmental transfer - private UC	27,900,000	27,900,000
Intergovernmental transfer - UMCB UC	30,000,000	25,000,000
Intergovernmental transfer - Disproportionate Share	20,000,000	-
Intergovernmental transfer - Seton DSRIP	20,200,000	-
Intergovernmental transfer - CCC DSRIP	24,200,000	-
Total intergovernmental transfers	122,300,000	52,900,000
ATCIC	7,925,319	7,925,319
Planned Parenthood	400,000	400,000
Seton charity care	4,251,733	4,018,605
ICC - membership and Medicaider	806,035	
Other provider contracts	-	61,701,640
Eigibility and medical management personnel	1,985,585	1,780,512
Eligibility and medical management operating	820,432	1,022,432
Sendero risk-based capital	2,200,000	-
Debt service	1,369,949	1,456,378
Service expansion	5,000,000	3,000,000
Transfer to capital	4,500,000	-
Indigent care payment to CCC	15,200,000	-
Contingency appropriation	43,851,652	-
Total healthcare delivery	210,610,705	134,204,886
ADMINISTRATION		
Personnel expenses	4,010,396	3,298,751
Operating expenses	4,236,336	4,236,336
Tax collection	921,722	926,287
Total administration	9,168,454	8,461,374
TOTAL EXPENSE	219,779,159	142,666,260

CENTRAL HEALTH

Attachment D
Fiscal Year 2014 Approved Budget
Reserve Policies

Emergency Reserve Policy

Central Health's emergency reserve will serve as a funding source for dire necessities that arise from unusual circumstances, e.g. natural disasters, pandemics, or severe business disruptions. The emergency reserve will normally be set at 55 days of working capital, equal to approximately 15% of budgeted ongoing expenses. The amount of the emergency reserve will be set annually through adoption of the budget.

Contingency Reserve Policy

The contingency reserve will serve as a funding source for one-time expenditures or for ongoing expenditures when needed for cyclical or temporary structural deficits. Cyclical deficits are caused by temporary decreases in revenue or by one-time, nonrecurring expenses that cannot be funded through current revenue. Structural deficits are caused by an excess of projected annual expense over projected annual revenue over periods of several fiscal years. Contingency reserves may be used as part of a plan for correcting structural deficits; however, the plan should also include structural fixes such as permanent increases to revenue and/or permanent reductions to expense.

The contingency reserve may also serve as a source of supplemental appropriation that can be used for Intergovernmental Transfers, depending on circumstances and amounts available. The Intergovernmental Transfers are unpredictable and are often misaligned with Central Health's fiscal year.

Capital Reserve Policy

A capital reserve will be established to fund capital assets or projects that will not be funded through the issuance of debt or through a grant. The capital reserve will be established in October, the first month of the fiscal year, by moving investment balances from current assets to noncurrent assets in the amount needed to fund the capital reserve. Changes may be made to the capital reserve during the year if, for example, other funding is obtained for a portion of the capital budget: in this case, the capital reserve would be decreased by moving the amount of the grant from noncurrent assets (investments) back to current assets.

HMO Risk-Based Capital Reserve Policy

Central Health will set up a risk-based capital reserve to be used for paid-in capital payments to Sendero Health Plans, Inc., the Medicaid managed care nonprofit corporation established in 2011. This reserve will be shown in the noncurrent asset section of Central Health's balance sheet and will not be part of working capital or fund balance. This fund will be used to provide risk-based capital to Sendero. Payments will be made based on the level of enrollment and on claims experience, as recommended by the Sendero actuary.