



Press Release  
October 24, 2012

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### **Central Health Response to St. David's Letter**

Central Health Executives and Board of Managers were surprised and disappointed yesterday to receive a letter from St. David's HealthCare President & CEO David Huffstutler declaring an end to a discussion about their involvement in the development of a new healthcare delivery system to serve the uninsured in Travis County. The letter and the position stated by St. David's HealthCare are based on a misunderstanding of the complex and far reaching efforts to improve the health of Travis County.

To fulfill its mission of creating access to care for those who need it most, Central Health is asking Travis County voters to raise additional tax revenues that are essential to expand healthcare services and improve the long-term health of Travis County residents.

"We thank St. David's for bringing attention to the fact that the issue is about more than just a new medical school and a new teaching hospital," Central Health President & CEO Patricia A. Young Brown said. "We urge everyone to consider that our local support for the services a medical school can provide is only one component, albeit highly visible, of a full range of projects and programs aimed at improving the health of those who do not have access to care, and ultimately of our entire community. Our plans address the expansion of healthcare services to low income uninsured residents."

The letter includes many statements with which Central Health disagrees. Central Health perceives that there has been a significant misunderstanding on the part of St. David's. For example, St. David's CEO says there are no opportunities available to participate in the 1115 Medicaid Waiver under the same or similar conditions as Seton. That is not true. Central Health and other partners have attempted to work with St. David's for many months to bring them into the discussion regarding the development of the integrated delivery system, Community Care Collaborative (CCC), and the Medicaid Waiver. St. David's participation in this unprecedented community effort is needed. However, true partnership is not possible without commitment, and this includes bringing financial resources to the table.

Because Central Health is investing significant public tax dollars, the agency must maintain a majority interest in the CCC in order to protect the interests of the taxpayers. A basic premise established at the beginning of the discussions regarding development of the CCC was that all participating partners contribute resources to its development. St. David's maintains that their indigent care services meet this requirement, thus entitling them to additional funding from this effort. However, Central Health and Seton are both contributing significant resources: tax dollars from Central Health and \$250 million from Seton to build a new teaching hospital to replace the current University Medical Center Brackenridge, as well as funding of graduate medical education. Seton provides valued indigent care services and is adding to that

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commitment with funding of new assets for the benefit of the community.

“The expectation of true partners is full commitment to the program and the change it will bring,” Brown said.

These initiatives under development are all reliant upon funds derived from what's known as the Section 1115 Medicaid Transformation Waiver. In brief, under the 1115 Waiver the federal government will match \$1.46 for every \$1 raised locally, which will fund approved projects after they meet measurable objectives to transform the healthcare delivery system. The passage of Proposition 1 will allow our community to bring the maximum amount of federal funds available back to our own community.

St. David's opposition is difficult to understand, because without the passage of an increase in Central Health's tax rate, there are little to no local funds available to participate in the 1115 waiver. The additional tax revenue is necessary to draw down the significant federal funds available for our community. Otherwise, money is left on the table.

The 15 Travis County projects submitted in the first round 1115 Waiver funding include healthcare service delivery expansion and improvements in primary care, specialty care, and behavioral health services---all for low-income un- and underinsured residents of Travis County. These are not projects that will fund either graduate medical education or the medical school. Descriptions of these projects are available to the public at [www.texasregion7rhp.net](http://www.texasregion7rhp.net).

It is the wish and intent of Central Health to encourage St. David's to rejoin the discussion in order to fulfill our vision to plan and deliver more cost effective and comprehensive health care for those most in need in our community.

*Copies of Central Health's letter to St. David's HealthCare as well as St. David's response follow.*

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October 19, 2012

***VIA REGULAR AND ELECTRONIC MAIL***David Huffstutler  
President & CEO  
St. David's Medical Center  
98 San Jacinto Blvd, Suite 1800  
Austin, Texas 78701

Dear David:

Thank you very much for your presentation to Central Health on Monday regarding St. David's proposed participation in the Community Care Collaborative being organized by Central Health and Seton to create an Integrated Delivery System for the safety net population in Travis County. Central Health and Seton are delighted that St. David's has recently decided that it would like to participate in the CCC. There is no question that the participation of the three major providers of health care to the safety net in Travis County will be in the best interests of Travis County residents. Central Health is excited about arriving at a structure that will achieve this goal.

As you are aware, Central Health and Seton have been in almost weekly negotiations since April to organize the CCC, develop the Integrated Delivery System, and meet the requirements of the 1115 waiver. We very much appreciated your comment in the *American-Statesman* that it does make sense for Central Health to initially work with Seton because of Seton's charitable mission and obligations regarding the safety net population. As a consequence of those long standing discussions, Seton and Central Health have arrived at certain agreements regarding the structure of the CCC and the requirements and obligations of participation. We will be glad to share these preliminary understandings, but some of the principal ones are:

1. Because of the public dollars being utilized to fund the CCC and Integrated Delivery System, Central Health will have a majority ownership interest of 51% in the CCC.
2. All of the CCC participants must commit significant resources to improve the delivery system. Central Health is committing its tax dollars and Seton is contributing \$250 million dollars for construction of the new safety net hospital.

Notwithstanding these substantial pre-existing efforts to reach an agreement as to the CCC's structure, both Central Health and Seton have always contemplated that St. David's would eventually decide to participate. Therefore, our discussions have included the option to add participants.

Rosie Mendoza, C.P.A.  
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*Vice-Chairperson*Brenda Coleman-Bearlie, M.A.  
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Katrina Daniel, R.N.

Rebecca Lightsey

Lynne Hudson, R.N.-C, M.P.H.

Patricia Young Brown, C.P.A.  
*President & CEO*

David Huffstutler

October 19, 2012

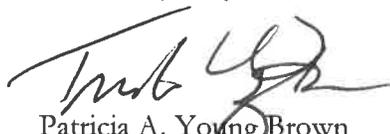
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In addition to observing the preliminary tenets of participation in the IDS as described above, there are certain time factors that limit our ability to quickly reach agreement on St. David's participation by October 31, 2012 as you suggested in our meeting on October 15. For example, the Pass One DSRIP projects are due to HHSC on or before November 15. Seton and Central Health have already arrived at the projects it will submit for Pass One and have substantially completed the application to submit those projects. However, there is still an opportunity to develop projects for Pass Two and we look forward to working with St. David's to determine which projects it might perform.

We mention these tentative agreements and time limiting factors so that we can be realistic about what can be accomplished and how long it may take. Central Health and Seton are prepared to meet on a weekly or even more regular basis with St. David's to reach agreement on a methodology for St. David's participation in the CCC. We will be glad to bring you up to speed on our discussions and vision for the creation and development of the transformational delivery system for the safety net population of Travis County. We also will be excited to have St. David's as a participant in the projects that will fit into this vision of an Integrated Delivery System. Your perspectives, ideas and resources will be extremely helpful to our goal of developing the best possible system that can be created within the resources available to us.

Please contact me as soon as possible so that we may set up a calendar for achieving this unparalleled collaboration among the three largest caregivers in Travis County.

Yours very truly,



Patricia A. Young Brown  
President and CEO

c: H. David Hughes, Chair, St. David's Foundation Board of Directors  
St. David's Foundation  
811 Barton Springs Road, Suite 600  
Austin, Texas 78704  
**VIA REGULAR AND ELECTRONIC MAIL**

C. W. Hetherly, St. David's Foundation Board of Directors  
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Rosie Mendoza, Chair, Central Health  
Clarke Heidrick, Board of Managers, Central Health



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