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SARAH J. DiBOISE

June 29, 1995

Assistant Attorney General
Antitrust Division
United States Department of Justice
10th and Constitution Avenue, N.W.
Washington, D.C. 20530

Re: Expedited Business Review Approval Request
Marin Mental Health Services

Ladies and Gentlemen:

Pursuant to the Department of Justice's Expedited Business Review Procedure announced on December 1, 1992, (58 Fed. Reg. 6132 (1993)), our law firm is requesting the Department's review of the proposal of our client, Marin General Hospital, and Ross Hospital to form a California general partnership, Marin Mental Health Systems, which would direct and supervise the provision of adult inpatient and outpatient mental health services by Marin General Hospital. The adult mental health services presently offered by Marin General Hospital would be consolidated with certain adult mental health services currently offered by Ross Hospital, and the new combined program would be provided under Marin General Hospital's license, but would be managed under a management agreement by Ross Hospital.

The purpose of the consolidation of the programs and the creation of the partnership is discussed in detail in the answers to the eleven questions which are Attachment 1 to this letter. In short, the parties wish to create a larger, more cost effective mental health network which will be a stronger competitor in the regional market for mental health services. As is discussed in detail in the answer to Question 6 in Attachment 1, there has been a dramatic increase in the percentage of mental health patients whose mental health services are covered by managed care plans and an equally dramatic increase in competition among those plans. Managed care plans are responding to these pressures by contracting with fewer mental health providers at steeply discounted rates. Increasingly, mental health patients are required to travel significant distances to

receive mental health services from providers who service a large area.

As a result of these changes in the marketplace for mental health services, both Ross Hospital and Marin General Hospital are competing with other mental health providers located throughout the Bay Area. Many of these other providers have significantly larger programs than Marin General Hospital or Ross Hospital, and are therefore able to spread the fixed costs of providing services over a larger, more consistent patient base, thereby presumably lowering their per patient costs. As the data on Table 6-6 shows, the Marin General Hospital and Ross Hospital programs are both small. The Ross program has an occupancy rate which is one of the lowest of any mental health provider in the Bay Area (20.4% in 1993). Clearly, Ross Hospital is unable to operate its program at the most cost efficient level as a result of this low occupancy rate. Ross Hospital and Marin General Hospital have been able to identify significant cost savings which would result from consolidating their programs and spreading costs over a larger, more consistent patient census.

In addition to the cost savings which would result from the consolidation, Marin General Hospital and Ross Hospital believe that the partnership oversight will allow coordination of clinical protocol development, quality initiatives, utilization control mechanisms and claims payment and billing systems between the consolidated adult program, and the separate chemical dependency and adolescent services provided by Ross Hospital. This will enhance the attractiveness of the mental health delivery system in Marin to payers and patients. The County of Marin, which is in a payer relationship to both Marin General Hospital and Ross Hospital because it contracts with them to provide services to County eligible patients, strongly supports the proposed venture. Attached as Exhibit A is a letter from the County evidencing its support.

The Department should be aware that approximately one month ago, after this request was substantially completed, Marin General Hospital was informed by the County of Marin that its rates for MediCal patients for the period commencing July 1, 1995 would be reduced dramatically. As is shown in Table 9 - 1, MediCal is the second largest mental health payer to Marin General Hospital. In light of this dramatic reduction in payment rates, Marin General Hospital management will have to re-evaluate the financial feasibility of continuing to provide mental health services, absent a joint venture management agreement with Ross Hospital that significantly reduces the financial loss that Marin

General Hospital will otherwise incur in continuing to provide mental health services.

This request is made pursuant to the Expedited Business Review Procedure and 28 CFR 50.6. Our request is made upon the basis of the best information known to date and upon reasonable estimates of future activity. Where possible, Marin General Hospital, Ross Hospital and the proposed joint venture entity will implement any suggested modifications which address any antitrust concerns of the Department.

We verify that this Expedited Business Review procedure has been invoked in good faith and we have made a diligent search for documents and information required to be submitted pursuant to CFR 50.6 and, where possible, have provided complete disclosure of all responsive material. The items disclosed are listed on Attachment B hereto.

In the event that you have questions or wish to discuss this request, please contact the undersigned at (415) 342-9600. We very much appreciate your attention to this matter.

Very truly yours,

Sarah J. DiBoise

Sarah J. DiBoise

SJD:sjd

Enclosures

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