



Hospital Licensing Fees

The Department of Health (department) is charged with licensing and regulating acute care, psychiatric, and chemical dependency hospitals in Washington state. The department's hospital licensing program is projected to have an annual funding gap of just over -\$1 million by the end of fiscal year 2019. This funding gap is forecasted to worsen over time, reaching -\$1.5 million annually by 2025.

State law requires the work of regulating health care facilities to be fully funded by licensing fees (RCW 43.70.250).

In light of the annual funding gap, a licensing fee increase is needed to bring revenue into alignment with the cost of regulating hospitals. This document summarizes data on earnings and cost drivers for the hospital licensing program.

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Revenue

The hospital program currently licenses 96 acute care, 9 psychiatric, and 2 chemical dependency hospitals in Washington. Revenue from the hospital licensing program is generated from fees charged per hospital bed at initial licensing and at renewal. There are 15,272 licensed patient beds in the state. 14,465 of the beds are in acute care hospitals, 723 beds are in psychiatric hospitals, and 84 beds are in chemical dependency hospitals.

Hospital Licensing Fee History		
Year	Acute Care	Psychiatric & Chemical Dependency
2005	\$96	\$60
2007	\$96	\$70
2009	\$113	\$70
2012	\$123	\$70
2017	\$138	\$85

The current fee per bed is \$138 for acute care hospitals and \$85 for psychiatric and chemical dependency hospitals. The last fee increase occurred in 2017, adding \$15 for all hospital types to pay exclusively for fire life safety code inspections. The last fee increase that supported licensing program activities was in 2012 for acute care hospitals and 2007 for psychiatric and chemical dependency hospitals. The table to the left shows the recent fee history.

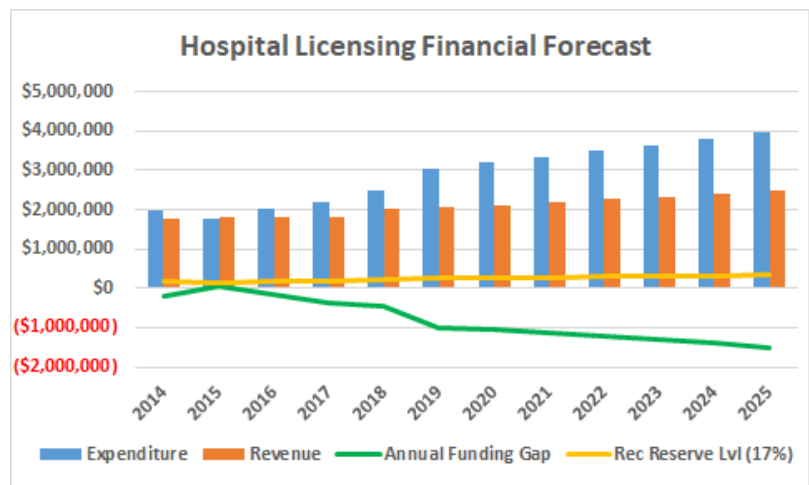
The chart below shows actual revenue and expenditures from 2014 to 2018, and projected revenue and expenditures from 2019 through 2025. Hospital licensing fee revenue grew at an average of 3% per year between 2014 and 2018. We project that revenue growth will continue at the same pace through 2025.

Expenditures

Expenditures for the hospital licensing program have exceeded revenue since 2016 and grown faster than revenue at an average annual rate of 12% over the last five years. As a result, the annual funding gap increased to -\$1 million in 2019 and will increase further to -1.5 million annually by 2025.

This projection assumes revenue will continue to grow at the current rate and expenditures will rise 4.5% per year due to potential cost of living adjustments for staff, increases in travel expenses, and general cost inflation.

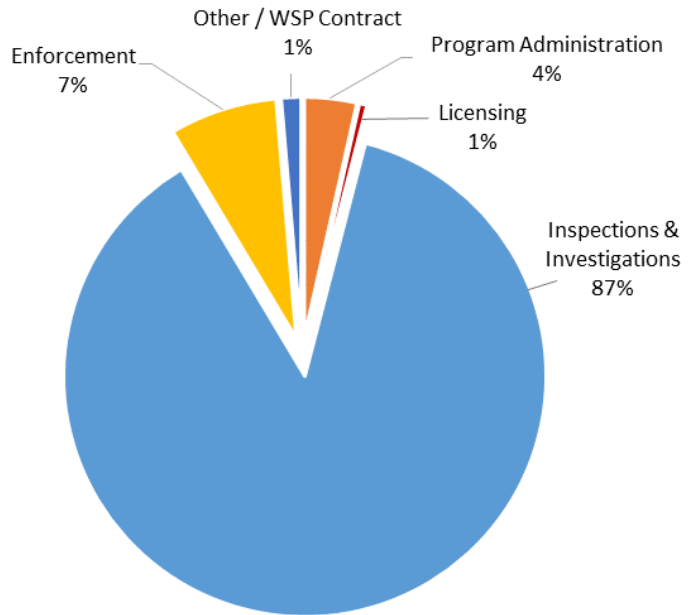
In addition to not covering current expenses, the current revenue level provides no reserves for unexpected program costs. The Office of Financial Management recommends a reserve level of two months of expenditures, equivalent to 17% an annual expenditures. The hospital licensing program will not be able to build the reserve as long as expenditures continue to exceed revenue.



Cost Drivers

The primary cost driver for the hospital licensing program is the work of conducting routine inspections and investigating complaints of issues that pose risk to patient safety. As shown in the adjacent chart, these activities account for 87% of the cost. Other costs include enforcement, program administration (e.g., policy analysis and development), a contract with Washington State Patrol for fire life safety code inspections, and issuing licenses.

Hospital Program Cost Drivers (2014-2018)



The table below shows expenditures for each of these categories over the past 5 year. Spending for inspections and investigations rose 31% between 2014 and 2018.

Hospital Program Spending by Category					
Cost Categories	2014	2015	2016	2017	2018
Inspection & Investigation	\$1,697,258	\$1,516,926	\$1,727,725	\$1,965,040	\$2,223,537
Enforcement	\$145,964	\$162,152	\$164,607	\$152,047	\$128,934
Other/WSP Contract	\$39,670	\$25,815	\$10,672	\$2,629	\$61,052
Administrative	\$88,762	\$62,882	\$88,760	\$72,920	\$53,249
Licensing	\$10,394	\$9,696	\$10,061	\$11,002	\$13,570
Total	\$1,982,048	\$1,777,471	\$2,001,825	\$2,203,637	\$2,480,342

Factors that are driving up the cost of investigations and inspections include growth in labor costs as well as changes made by the Centers for Medicare and Medicaid Services (CMS) that reduced our ability to do dual purpose investigations (state and CMS) and split the cost with the federal government.

Labor Costs

Salaries and benefits for program staff have been rising over the last five years, increasing 31% since 2014. This is the result of wage and benefit increases; no new FTE were added to the program during this timeframe. In addition to wage increases, some positions were reclassified to better reflect the work being performed.

Hospital Program Labor Costs					
Cost Categories	2014	2015	2016	2017	2018
Salaries	1,181,054	1,045,191	1,163,865	1,331,282	1,506,548
Benefits	341,863	294,147	379,201	425,813	486,694
Total	1,522,917	1,339,338	1,543,066	1,757,095	1,993,242
Increase from previous FY		-12%	15%	14%	13%
Increase in labor costs from 2014 to 2018					31%

CMS Changes

A change made by CMS in 2014 also increased the cost of investigations. CMS revised the State Operation Manual regarding how complaints are triaged by state agencies performing investigations on behalf of CMS. This revision created a higher threshold for the authorization of federal investigations, resulting in fewer federal investigations. Financially, this change by CMS resulted in the state having to bear the full cost of investigations that would formerly have been split between the state and federal fund sources.

Fee Proposal

To address the rising costs of the hospital licensing program, address the annual funding gap, and build the recommended reserve, the department proposes raising hospital licensing and renewal fees in 2019. We propose increasing the acute care hospital fee from \$138 to \$220 per bed and increasing the psychiatric and chemical dependency hospital fee from \$85 to \$135. The department will monitor the finances for the hospital licensing program over the next 6 years and propose fee adjustments as needed.