



Acute Care Hospital Fee Narrative

The Department of Health (department) is charged with licensing and regulating acute care hospitals in Washington state under [chapter 70.41 RCW](#). State law requires fees to fully fund the work of licensing and regulating health care facilities ([RCW 70.41.100](#) and [43.70.250](#)).

Current revenue is not sufficient to fund the program's operating expenditures. The program ended fiscal year (FY) 2023 with a revenue shortfall of \$177,000, reducing the fund balance to \$519,000. The department anticipates the current funding gap to widen as costs continue to increase in upcoming years, leading to a projected funding gap of -\$4.71 million in fiscal year 2025.

The program requires a fee increase to bring revenue into alignment with the cost of regulating acute care hospitals. This document summarizes data on revenue and cost drivers for the licensing program, the financial forecast, and the proposed fees.

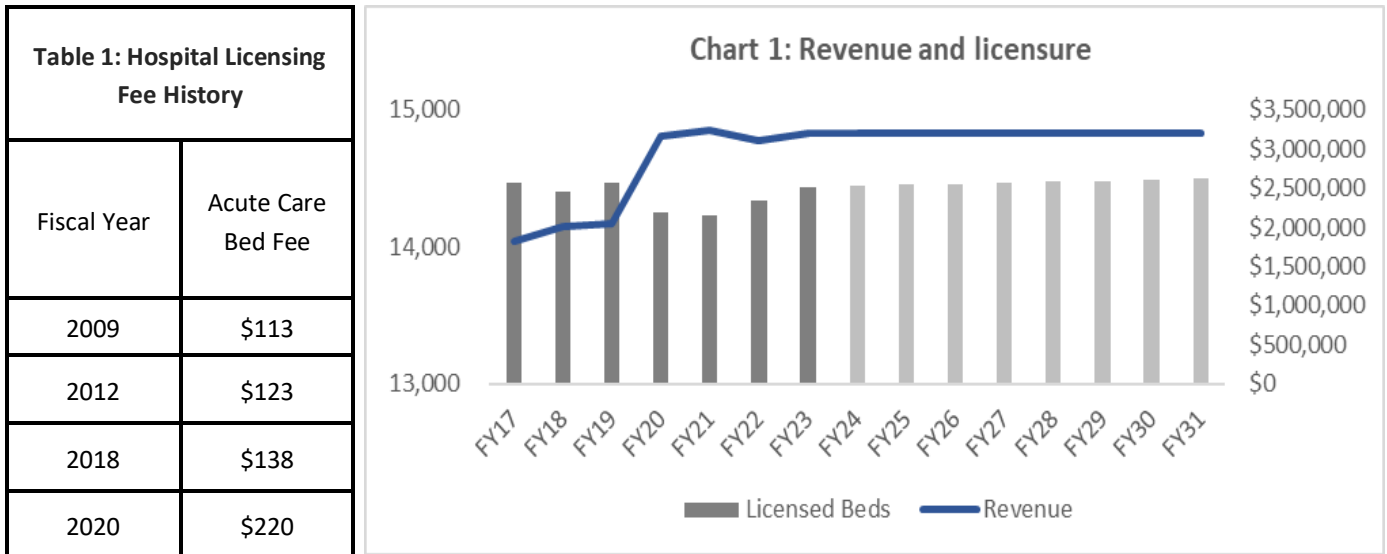
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Revenue

The acute care hospital program assesses a licensing fee on a per bed basis ([WAC 246-320-199](#)) on November 30th of each year. The current fee per bed is \$220.

The program currently licenses 93 acute care hospitals in Washington. In FY 2023, there were 14,332 licensed acute care hospital beds in the state. This number has increased since 2020 and is anticipated to remain stable with a slight growth rate of 0.5%. Chart 1 displays actual license counts and revenue through FY 2023, and projections from FY 2024 through FY 2031.



The FY 2020 fee change resulted in a 59 percent increase in revenue, bringing annual revenue from \$1.99 million to \$3.24 million in FY 2021. In subsequent years, revenue slightly declined to \$3.11 million in FY 2022 and \$3.19 million in FY 2023. In years without a fee change, program revenue typically grew an average of 2 percent due to the addition of licensed beds.

Expenditures

The acute care hospital program has an annual operating budget of approximately \$3.37 million and ended FY 2023 with a positive fund balance of \$519,000.

The primary cost of the licensing program is routine inspections and complaint investigations of issues that pose risk(s) to patient safety. These activities account for 71% of program cost (Chart 2). Other costs include enforcement, program administration (e.g., policy analysis and development), indirect costs (departmental overhead), and license issuance.

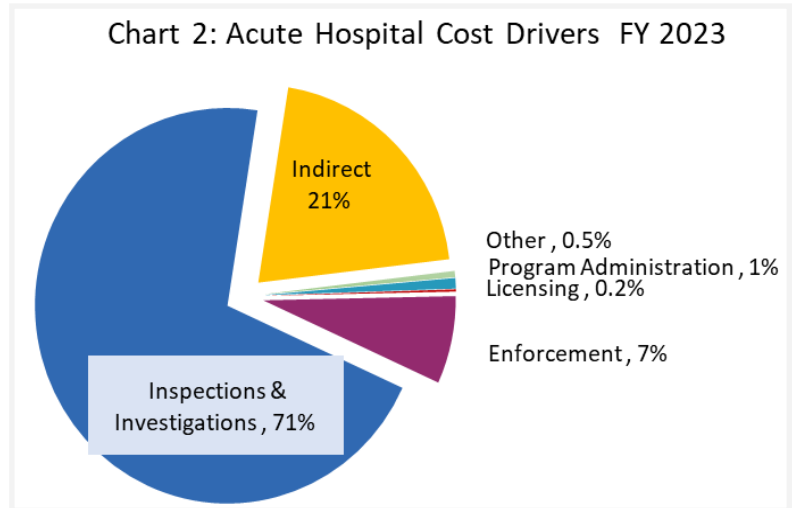


Table 2 lists total expenditures for each of these categories over the past five (5) years.

Cost Categories	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Inspections & Investigations	2,239,000	1,959,000	1,737,000	2,033,000	2,383,000
Enforcement	107,000	38,000	41,000	84,000	242,000
Indirect	580,000	515,000	420,000	519,000	695,000
Program Administration	67,000	46,000	37,000	27,000	29,000
Licensing	12,000	4,000	7,000	5,000	6,000
Other			2,000	31,000	17,000
Total	3,005,000	2,562,000	2,244,000	2,699,000	3,372,000

In October 2019 (FY 2020), the department implemented a fee increase to address growing inspection and investigation costs due to the expanding cost of labor as well as changes made by the Centers for Medicare and Medicaid Services (CMS) that reduced the department’s ability to conduct dual purpose investigations (state and CMS) and split associated costs with the federal government.

During the COVID-19 pandemic, costs surrounding inspections, investigations, and enforcement dropped as the department shifted focus and resources to the public health emergency response. The department temporarily suspended routine hospital inspections and lower-priority complaint investigations. When these activities resumed in 2022 and 2023, the program returned to prior spending levels for these activities, with additional staffing requirements to address the backlog created during the pandemic. Additionally, in connection to the department’s increased attention to post-pandemic investigations and inspections, the program spent \$156,000 in FY 2023 for public disclosure requests (categorized under Enforcement costs). In prior years, the cost for this service was significantly lower (\$33,000 in FY 2022).

Financial Forecast

In the 2023-2025 biennium, the department anticipates the acute hospital program will begin operating at an annual deficit due to significant cost increases related to recent legislation and the department’s need to increase operational levels of staffing starting in FY 2024. These additional requirements were not anticipated when fee levels were set in October 2019.

Incoming revenue is projected to remain stable, around \$3.20 million annually, while expenditures are expected to grow from \$3.37 million to \$8.10 million in FY 2025, with ongoing costs of \$6.47 million in subsequent years. Increased costs are expected to create a negative fund balance of -\$4.71 million by the end of FY 2025. Table 3 details drivers for anticipated changes in projected expenditures.

	Table 3: Detailed Financial Forecast				
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Baseline Operating Budget	2,671,000	3,357,000	2,997,000	3,075,000	3,049,000
Hospital Staffing Legislation	28,000	15,000	0*	2,663,000	2,588,000
Hospital at Home Legislation				161,000	170,000
Hospital Complaint Backlog Resolution			0*	1,620,000	
Increasing Operational Investigation and Inspection Staff			472,000	472,000	472,000
Inspection & Investigation Document Coordinator			43,000	30,000	30,000
Cross Office Facilities Licensing Coordinator			8,000	8,000	8,000
Enforcement and Quality Assurance Coordinator				71,000	71,000
Epidemiologist 3					82,000
	2,699,000	3,372,000	3,520,000	8,100,000	6,470,000

*The department expects hospital staffing standards implementation to cost \$1,892,000 in FY 2024. Spending to resolve the hospital complaint backlog is estimated at \$2,350,000 in FY 2024. These costs are not included in Table 3 because they are covered with GF-S appropriated by the legislature for these purposes and thus will not negatively impact the program fund balance.

Baseline Operating Budget

The baseline operating budget accounts for the program's current spending commitments and the costs of its routine, ongoing work. This baseline spending is anticipated to remain around \$3 million in FY 2024 and subsequent years. After FY 2026, costs are projected to gradually increase at the standard 3% growth rate to account for cost-of-living wage increases. The department estimates that the program will utilize 11.3 FTEs in the 2023-2025 biennium.

Hospital Staffing Legislation

In 2023, the legislature passed Engrossed Second Substitute Senate Bill (E2SSB) 5236 (chapter 114, Laws of 2023) expanding hospital staffing law. The bill requires the department to establish a hospital staffing advisory committee, develop a uniform hospital staffing form, investigate certain types of complaints, and take enforcement action where appropriate. The legislature appropriated GF-S to fund the department's FY 2024 expenditures, but the cost of implementing the bill must be covered by acute care hospital fees for FY 2025 and ongoing. The fiscal impact of this legislation is an estimated \$2.66 million per year.

Hospital at Home Legislation

In 2024, the legislature passed Substitute House Bill (SHB) 2295 allowing acute care hospitals to care for patients in the home or other settings outside the facility. The bill requires the department to establish standards for the operation of hospital at home programs. The bill gives the department authority to set a one-time application fee for adding the hospital at home service to a license. The ongoing cost of program administration must be covered by acute care hospital licensing fees. Expenditures are projected to be \$161,000 in the 2023-25 biennium and \$281,000 in the 2025-27 biennium.

Eliminate Hospital Complaint Backlog Decision Package (Priority C DP)

The department submitted a decision package for the FY 2023 legislative session to request two years of funding to eliminate the hospital complaint backlog resulting from the COVID-19 public health emergency .

In March 2020, as COVID-19 cases were rising rapidly and there were broad concerns about hospitals being overwhelmed with patients, the department temporarily suspended routine hospital inspections and certain complaint investigations. The decision enabled hospitals to focus their energy, resources, and staff on the COVID-19 response and patient care. It also allowed the department to focus its resources and staff on the public health emergency response. Staff normally engaged in inspections and complaint investigations were redeployed to assist with the response, providing onsite technical assistance on infection control practices, consulting on the development of COVID-19 guidance, conducting contact tracing, and, later, supporting the COVID-19 vaccination effort.

During this period, the department only investigated complaints that posed the greatest risk to patients. Other complaints that were authorized for investigation but did not meet this threshold were placed on hold during the suspension period of about 12 months. This created a backlog of 320 acute hospital investigations.

The legislature provided one year of funding starting in FY 2024. Fee-generated revenue in the amount of \$1.6 million will be needed to continue the work for FY 2025.

Increasing Operational Investigation Staff

The program has experienced continual growth in complaints received, resulting in the need to increase staffing for investigations.

The department receives an average of 130 complaints against acute hospitals per month. Of those, an average of 30 complaints are authorized for investigation (about 370 per year). The volume of complaints authorized for investigation is increasing, growing 9% annually between FY 2018 and 2023. More specifically, in recent years, the number of acute care hospital complaints authorized for investigation has grown from 266 in FY 2019 to over 370 in FY 2023.

The temporary suspension of Priority C investigations significantly affected the time it takes the department to start an investigation after it has been authorized. Prior to the pandemic, the department initiated hospital investigations within an average of 50 days of authorization. After the pandemic, the average timeframe to initiate an investigation grew to 247 days. In 2023, the department brought the average timeframe down to 67 days, however 30% of authorized investigations were not initiated within timelines. The department aims to bring authorized investigations to the pre-pandemic average of 50 days, or sooner, by end of FY 2025.

The department will need to hire 1.0 Nursing Consultant Institutional FTE and 1.0 Health Services Consultant FTE to stay current with demand, meet departmental timelines, and remain in compliance with the state mandate to investigate complaints that concern patient well-being. The fiscal impact for this operational increase is estimated at \$472,000 per year.

Required Funding for New and Established Positions

Inspection & Investigation Document Coordinator - Forms & Records Analyst 2

The department has hired an analyst to comply with RCW 43.70.790 (Health Care Facility Inspection and Investigation Availability) requiring the department to make deficiencies, plans of correction, notice(s) of acceptance for plans of correction, enforcement actions, and notices of resolution available on the department's website. This position will utilize 0.22 FTE from acute hospital funding starting FY 2024 which has a monetary impact of approximately \$30,000 per year.

Cross Office Facilities Licensing Coordinator – Health Services Consultant 4

The department aims to transition this grant funded position to fee funding to continue licensing coordination work. This position identifies and implements facility licensing process improvements as well as tracks and coordinates licensure steps across multiple offices. This work increases the efficiency and timeliness of hospital licensing processes. This position is also available to provide direct technical assistance and consultation to hospitals with licensing process questions and complex credentialing needs. This position will utilize 0.05 FTE from acute hospital funding starting in FY 2024 and has a monetary impact of approximately \$8,000 per year.

Enforcement and Quality Assurance Coordinator – Management Analyst 5

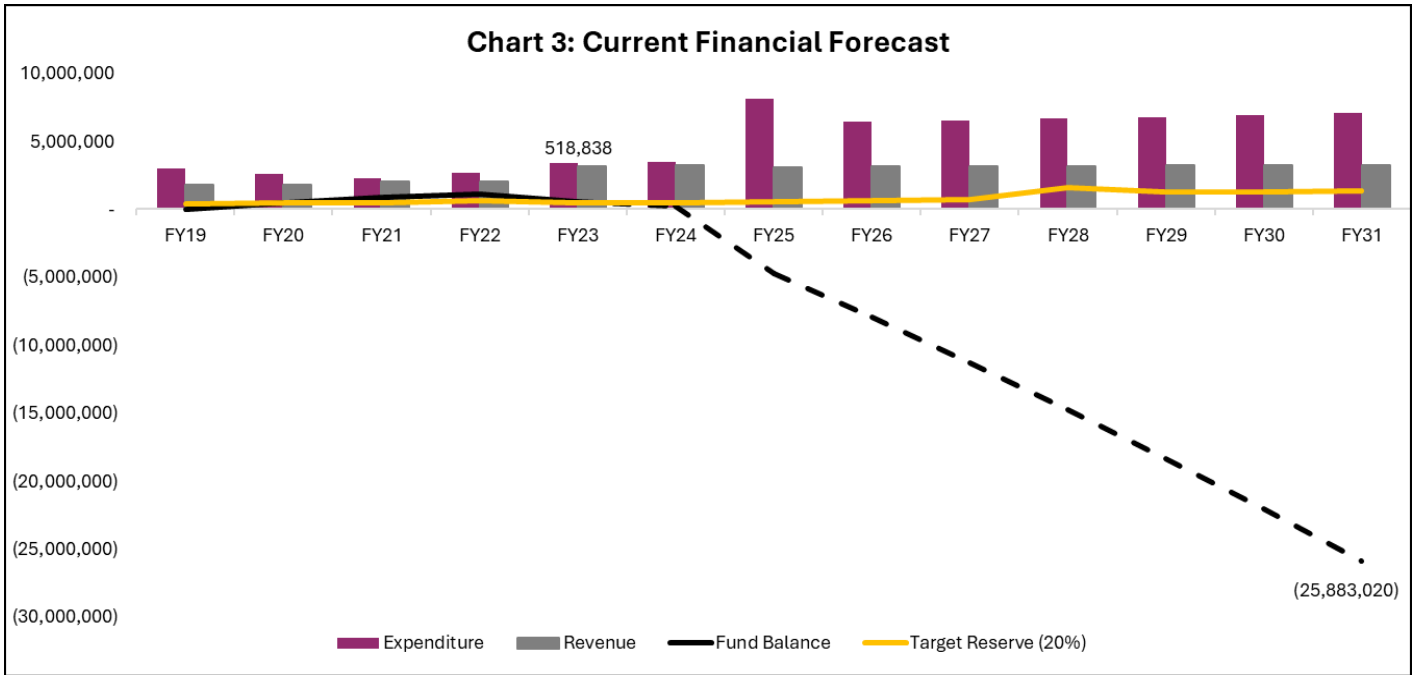
The department aims to transition this proviso funded position to fee funding to continue enforcement and quality assurance coordination. This position identifies and implements improvements related to the enforcement process and tracks and coordinates enforcement steps across multiple offices and agencies. This work increases the efficiency and timeliness of hospital enforcement activities minimizing risk to patients and assisting hospitals with quickly coming back into compliance. This position also uses regulatory data to inform policy work and decisions, and to identify compliance gaps and develop resources for hospitals, such as trainings, guidance documents, and data trends, to assist hospitals in proactively improving compliance and decreasing citations and enforcement actions. Additionally, this position is available to coordinate technical assistance and consultation for hospitals needing assistance with compliance. This position would utilize 0.4 FTE from acute hospital funding ongoing from FY 2025, which is a monetary increase of approximately \$71,000 annually.

Facilities Program Epidemiologist – Epidemiologist 3

Alongside the enforcement and quality assurance coordinator, the department intends to hire an epidemiologist to help lead efforts in developing data-management systems and analysis. This position will assist hospitals and interested parties in accessing and interpreting data to support quality improvement activities at both the local and regional level. In addition, this position will develop data visualizations and interactive mapping tools to support the public in better understanding the types and locations of services provided within Washington. This new position would utilize 0.4 FTE from acute hospital funding starting in FY 2026 which has a monetary impact of approximately \$82,000 per year.

Forecast and Projections

The costs required to maintain adequate staffing, implement E2SSB 5236 and SHB 2295, eliminate the hospital complaint backlog, increase operational staff, and fund necessary positions will result in a significant funding shortfall for the acute care hospital program in FY 2024 and subsequent years. The current fund balance is not sufficient to sustain the program and fund anticipated spending. Chart 3 depicts the impact of these expenditures on the program’s fund balance through FY 2031.



Fee Proposal

To address the rising costs of the acute care hospital licensing program and build the recommended reserve, the department proposes raising licensing and renewal fees effective November 1, 2024.

Due to the cost of addressing the remaining hospital complaint backlog, the projected expenditures for the program are higher in FY 2025 than in FY 2026 and beyond. To address the short-term funding requirement, the department proposes to set one fee for FY 2025 and a lower fee effective in FY 2026 and beyond.

The department is considering two options for structuring the fee increase. The first option raises the per bed licensing fee the same amount across all licensed hospitals. In this scenario, the fee would be \$575 per bed in FY 2025 and \$495 per bed starting in FY 2026.

The department is considering a second option for structuring the fee increase that reduces the financial impact on critical access hospitals (CAH) with fewer than 25 beds. Under this model, CAHs would pay \$455 per bed in FY 2025 and \$380 per bed starting in FY 2026. Non-CAHs would pay \$605 per bed in FY 2025 and \$505 per bed starting in FY 2026. Table 4 shows proposed fees for both options the department is considering.

Table 4: Current and Proposed Fees				
		Licensed Bed Fee		
		Current Fee	Effective FY 2025	Effective FY 2026
Scenario 1	Acute Hospitals- All	\$220	\$575	\$495
Scenario 2	Acute Hospitals- (Above 25 beds)	-	\$605	\$505
	Acute Hospitals- Critical Access	-	\$455	\$380

The department will continue to monitor the finances for the acute hospital licensing program and propose fee adjustments as needed.

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