



Fee Analysis and Proposal
Psychiatric Hospitals – Substitute House Bill 2426
November 25, 2020

Overview

The Department of Health's (department) works to protect and improve the health of all people in Washington State. We accomplish this work, in part, through regulation of health care providers and facilities including private psychiatric hospitals (chapter 71.12 RCW).

Substitute House Bill (SHB) 2426 (Chapter 115, Laws of 2020) amended chapters 43.70 and 71.12 RCW to enhance the department's regulatory oversight for psychiatric hospitals to protect the health, safety, and well-being of patients seeking behavioral health care in these facilities. This fee narrative outlines new requirements imposed by the bill and any associated costs to the psychiatric hospital program. We estimate the total cost of the new requirements at \$330,000 annually.¹

State law, RCW 43.70.250 (License fees for professions, occupations, and businesses), requires that a business-licensing program be fully self-supporting, and that sufficient revenue be collected through fees to fund expenditures. The department requires a fee increase to recover the cost of implementing SHB 2426. One-time general-fund state funding was provided in fiscal year 2021 to cover costs until fees could be established effective July 1, 2021.

New work required by SHB 2426 that increases the department's costs includes:

- 1) Providing technical assistance to psychiatric hospitals licensed under chapter 71.12 RCW;
- 2) Performing additional unannounced inspections of new psychiatric hospitals during the first two years of licensure or change of ownership; and
- 3) Receiving, reviewing, and investigating reports of deaths and patient elopements.

How Proposed Fees Are Determined

In proposing fees, the department conducts an analysis that considers several factors: the program's anticipated growth rate; anticipated revenues and expenditures; and the fund balance needed to maintain the recommended level of reserves. The costs of regulating a health care facility include credentialing, such as issuing and renewing credentials; costs to adopt rules to implement legislation that affects a program; and costs to conduct inspections, investigations, and enforcement activities, which include inspecting facilities for regulatory compliance, investigating complaints, and taking enforcement action as needed.

¹ In some cases, costs are indeterminate and not reflected in this fee analysis.

The analysis completed for the psychiatric hospital fee increase used the best information available at the time to set rates that are expected to recover the cost of implementing Substitute House Bill 2426. Actual revenue and expenditures will vary depending on the number of facilities, inspections, and enforcement actions each year. Functions that resulted in either no cost or indeterminant cost were considered, but no associated costs for these functions were included in this analysis. The department conducts regular analysis of the fiscal health of each regulatory program to ensure fees keep pace with costs, while not allowing revenues to become excessive.

Cost Projections

Implementation of Substitute House Bill 2426 is projected to cost \$330,000 annually starting in fiscal year 2022. The bill primarily impacts inspection, investigation, and operational costs.

Enhanced Technical Assistance – Section 2

Under Section 2 of SHB 2426, the department may provide technical assistance to psychiatric hospitals regarding compliance with all categories of regulation, except during the time between when an investigation of a psychiatric hospital has been initiated and when such investigation is resolved.

For this analysis, the department will offer technical assistance and consultation in the following ways: 1) assist with new and ongoing licensing changes, amendments and processes (e.g. certificate of need, construction review services, credentialing, and inspection and complaint investigations); 2) develop a policy resource guidebook; 3) provide on-site technical assistance after the license is issued; and 4) hold group roundtable discussions to include policy updates, discuss trending compliance issues, and implementation tips.

The total cost of this work is \$63,000, which covers 0.40 FTE Health Services Consultant 4 and associated costs.

	FY22	FY23	FY24	FY25
FTE	0.40	0.40	0.40	0.40
Salaries & Benefits	\$43,000	\$45,000	\$47,000	\$48,000
Goods & Services	\$6,000	\$6,000	\$6,000	\$7,000
Travel	\$0	\$0	\$0	\$0
Indirect	\$14,000	\$15,000	\$15,000	\$16,000
Total	\$63,000	\$66,000	\$68,000	\$71,000

Enforcement – Section 3

Under Section 3 of SHB 2426, the department may take action when a psychiatric hospital has failed or refused to comply with applicable state laws or regulations. This section provides the department authority to impose conditions on a license; impose civil fines; suspend new admissions (stop placement) for all or certain categories of patients; or suspend, revoke, or refuse to renew a license.

Future enforcement costs are considered indeterminate at this time and not included in the proposed fee. We hope the focus on enhanced technical assistance to reduce the occurrence of enforcement actions. This enhanced technical assistance will help hospitals implement and navigate compliance with

WAC and RCW requirements. The department will continue to monitor enforcement activity for the psychiatric hospital program and propose fee adjustments as needed to ensure that the fees are sufficient to cover expenditures.

Inspections and Technical Assistance – Section 7

Section 7 of SHB 2426 requires that during the first two years of licensure for new psychiatric hospitals or existing psychiatric hospitals that change ownership, the department provide technical assistance, perform at least three unannounced inspections, and conduct additional inspections of the hospital as necessary to verify the hospital is in compliance with applicable laws.

Technical assistance provided by the department will include: (1) organizing and conducting an initial meeting between prospective providers and various department representatives to discuss facility vision and share the path to licensure (e.g. certificate of need, construction review services, credentialing, and inspection and complaint investigations) and (2) conducting a pre-licensure technical assistance visit (coordinated with other department on-site visits).

Inspection-related tasks include the examination of all phases of the hospital operations, drafting an inspection report, tracking responses from the facility, meeting with facility management, and coordinating with the Washington State Patrol (WSP) State Fire Marshal’s Office. To complete an onsite inspection, the department estimates an average of 89 hours including travel to the facility to complete the tasks related to onsite inspection: 1) inspection preparations; 2) travel; 3) onsite inspection; 4) coordination with the State Fire Marshal’s Office; 5) inspection report writing; 6) responding to the facility’s questions and reviewing a plan of correction, if necessary; and 7) management review and oversight.

The total cost for this work is \$142,000 annually for 0.50 FTE Nursing Consultant Institutional and 0.10 FTE Health Services Consultant 4.

The department will update the contract with the State Fire Marshal’s Office to conduct the fire and life safety portion of the unannounced inspections in the amount of \$2,000 per year to conduct the additional inspections.

	FY22	FY23	FY24	FY25
FTES	0.60	0.60	0.60	0.60
Salaries & Benefits	\$95,000	\$99,000	\$103,000	\$106,000
Contracts	\$2,000	\$2,000	\$3,000	\$3,000
Goods & Services	\$8,000	\$9,000	\$9,000	\$9,000
Travel	\$6,000	\$6,000	\$6,000	\$7,000
Indirect	\$31,000	\$32,000	\$33,000	\$35,000
Total	\$142,000	\$148,000	\$154,000	\$160,000

Elopement & Death Reports – Section 8

Section 8 of SHB 2426 requires all psychiatric hospitals to report to the department every patient elopement and every death that meets the following criteria:

- Patient death is associated with patient elopement;

- Patient suicide;
- Patient death associated with medication error;
- Patient death associated with a fall;
- Patient death associated with the use of physical restraints or bedrails; and
- Patient or staff member death resulting from a physical assault.

The department will begin reviewing and assessing reports of patient elopements and deaths in psychiatric hospitals. The department estimates 12 reports per year based on the number of deaths in psychiatric hospitals over the last four years. The total ongoing costs for this work are \$125,000 annually for 0.5 FTE Nursing Consultant Institutional.

	FY22	FY23	FY24	FY25
FTE	0.5	0.5	0.5	0.5
Salaries & Benefits	\$84,000	\$87,000	\$91,000	\$94,000
Goods & Services	\$7,000	\$8,000	\$8,000	\$8,000
Travel	\$6,000	\$6,000	\$7,000	\$7,000
Indirect	\$28,000	\$28,000	\$30,000	\$30,000
Total	\$125,000	\$129,000	\$136,000	\$139,000

Provider License Projections

The department generates revenue to recover the cost of regulating private psychiatric hospitals by assessing annual licensing application and renewal fees per hospital bed. In fiscal year 2020, the department licensed 11 psychiatric hospitals with 951 total beds.

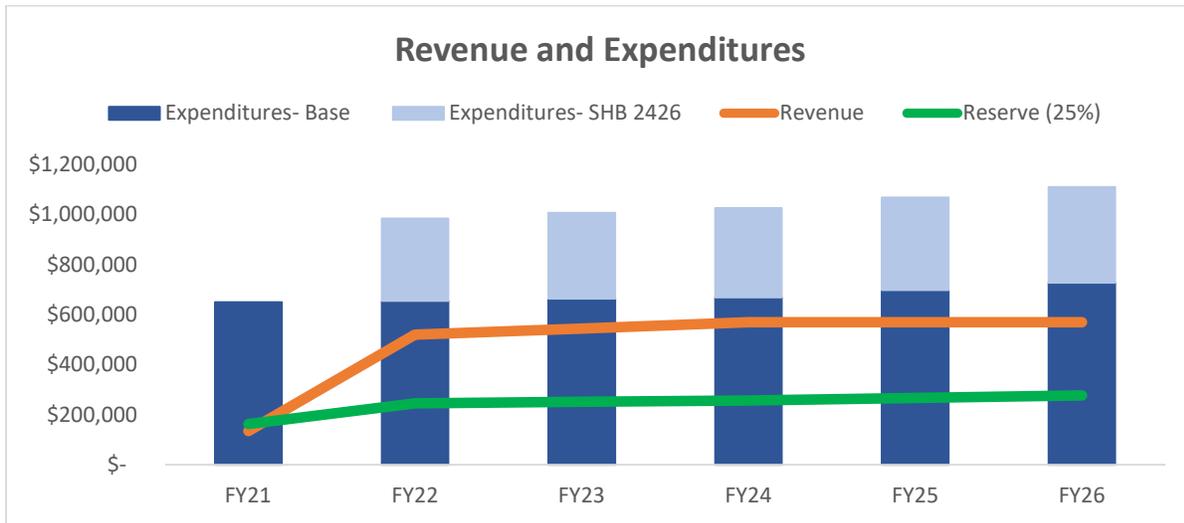
The department anticipates an increase in licensed psychiatric beds due to the planned construction of one new psychiatric hospital and the expansion of several currently licensed psychiatric hospitals. Total licensed beds are projected to increase by 50 beds per year through fiscal year 2024. Following the completion of these expansions, the department anticipates slower growth in psychiatric hospital beds.

		FY21	FY22	FY23	FY24	FY25
Psychiatric Hospitals	Application	50	50	50	50	-
	Renewal	951	1,001	1,051	1,101	1,151
Total Bed Count		1,001	1,051	1,101	1,151	1,151

Fee Proposal

Expenditures for the psychiatric hospital program consistently exceed incoming revenue. The department projects that this gap will continue as expenditures rise 4% per year due to potential cost of living adjustments for staff, increases in travel expenses, and general cost inflation.

The additional workload added by SHB 2426 exacerbates this funding gap, increasing spending by 50% in fiscal year 2022 and adding an average of \$57,000 annually to the program's expenditures over the next 5 years.



Psychiatric hospital license fees will need to be increased to support the added work of SHB 2426. The current initial application and renewal fee is \$135 per bed. This fee amount is determined by taking the total amount of new costs and dividing it by the number of projected licensed beds. The department estimates the fee necessary to recover the costs of this new work is \$360 per bed. This would increase fees for each facility type to \$495 per bed, effective July 1, 2021. The current fee proposal only addresses the new work associated with the bill and will not resolve the program’s pre-existent funding gap.

Fee Type	Current Rate Per Bed	Proposed Rate Per Bed
Application	\$135	\$495
Renewal	\$135	\$495

Revenue Projections

The fee increase is expected to generate \$378,000 in the first year following the increase and grow by 4% per year through fiscal year 2024 as a result of the projected increase in number of total licensed beds. This revenue is sufficient for covering the estimated costs of SHB 2426.

Fines will be assessed during the enforcement process. Fines collected will be used to support the technical assistance efforts at the department. The fines may not exceed \$10,000 per violation and the total fine may not exceed \$1,000,000. The value of revenue collected from civil fines is indeterminate, and therefore not included in this analysis.

The department will continue to monitor the psychiatric hospital program and propose fee adjustments as needed to ensure that the fees are sufficient to cover all expenditures without generating excess reserves within a six-year recovery period.