



Psychiatric Hospital Fee Narrative

The Department of Health (department) is charged with licensing and regulating psychiatric hospitals in Washington state under [chapter 71.12 RCW](#). State law requires fees to fully fund the work of licensing and regulating health care facilities ([RCW 71.12.470](#) 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 -\$96,000. The department anticipates the current funding gap to widen as costs continue to increase in upcoming years, leading to a projected funding gap of -\$956,000 in fiscal year 2025.

The program requires a fee increase to bring revenue into alignment with the growing costs of regulating psychiatric 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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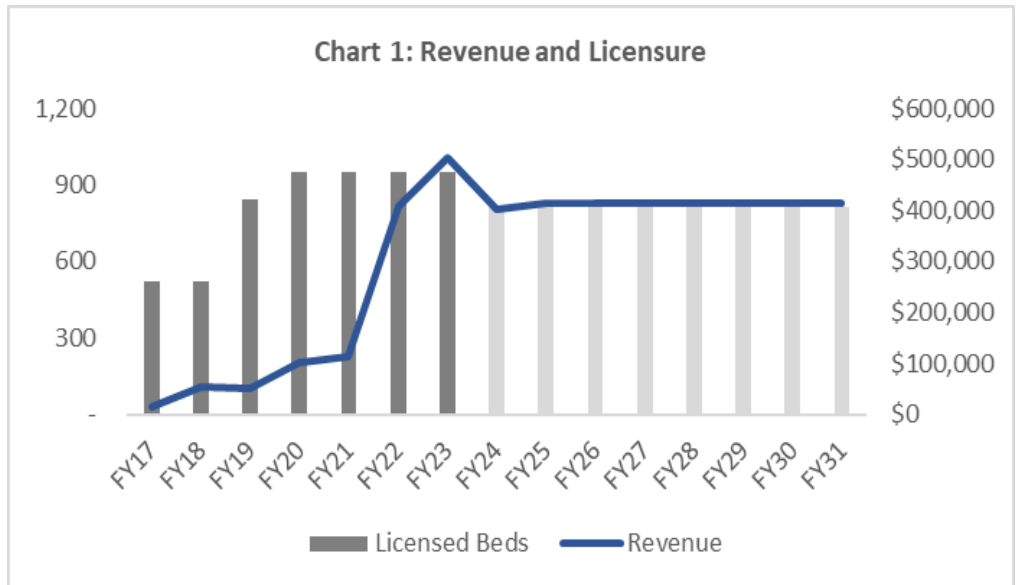
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Revenue

The psychiatric hospital program assesses an annual licensing fee on a per bed basis ([WAC 246-322-990](#)). The current fee per bed is \$495.

The program currently licenses ten (10) psychiatric hospitals with 814 beds in Washington state. The number of licensed beds decreased in July 2023, but are anticipated to remain stable in coming years. Chart 1 displays actual license counts and revenue through FY 2023, and projections from FY 2024 through FY 2031.

Fiscal Year	Psychiatric Bed Fee
2008	\$70
2018	\$85
2020	\$135
2022	\$495



In July 2021 (FY 2022), the department raised fees to implement Substitute House Bill (SHB) 2426 (Chapter 115, Laws of 2020). This bill 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.

The FY 2022 fee increase specifically targeted the known costs stemming from SHB 2426. Fund balance requirements unrelated to SHB 2426 were not included in the fee analysis. The department also anticipated SHB 2426 would generate additional costs relating to discipline and investigations that were not factored into the FY 2022 fee increase.

Revenue grew as a result of the fee increase, rising from \$112,000 in FY 2021 to \$408,000 in FY 2022 and \$505,000 in FY 2023.

Expenditures

The psychiatric hospital program had an annual operating budget of approximately \$618,000 in FY 2023.

The primary cost for the licensing program is routine inspections and complaint investigations of issues that pose risk to patient safety. These activities account for 53% of program cost (Chart 2). Other costs include program administration (e.g., policy analysis and development), indirect costs (departmental overhead), license issuance, and enforcement.

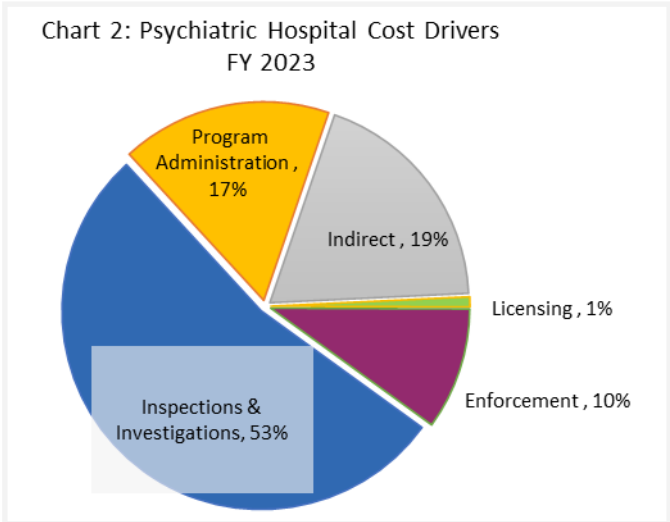


Table 2 details expenditures for each of these categories over the past four (4) years.

Cost Categories	FY 2020	FY 2021	FY 2022	FY 2023
Inspections & Investigations	53,000	271,000	304,000	320,000
Enforcement	2,000	3,000	28,000	60,000
Indirect	25,000	59,000	113,000	114,000
Program Administration	37,000	45,000	113,000	103,000
Licensing	1,000	1,000	4,000	5,000
Other		66,000		
Total	118,000	445,000	562,000	602,000

Expenditure History

The FY 2022 fee increase was implemented to address anticipated cost increases impacting the inspections and investigations unit due to new work requirements established in SHB 2426. New work required by SHB 2426 included: 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.

In FY 2021, the department hired the 1.5 FTE necessary to fulfill inspections and technical assistance requirements. This staffing increase accounts for the \$330,000 increase in costs shown between FY 2020 to FY 2021 in Table 2.

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 and 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 to address the backlog created during the pandemic and allow the program to resume timely inspections and investigations of complaints.

The department increased staffing for the psychiatric hospital program between FY 2022 and FY 2023 in order to meet the statutory requirement of inspecting these facilities on an annual basis. Prior staffing levels only allowed the department to inspect 40% of psychiatric hospitals each year. As a result of this change, staffing costs rose from \$271,000 in FY 2021 to \$320,000 in FY 2023.

In 2022 and 2023, investigation costs increased as the department resumed inspection and investigation activities, filled vacancies, and became fully staffed. Complaints received grew from 93 in FY 2019 to 184 in FY 2023, with a peak of 244 complaints in FY 2022. In addition, the complaints received in the past two years were of increased complexity and required 30% more investigation hours. This increased activity also impacted the department's general enforcement costs. Total enforcement spending reached \$60,000 in FY 2023 due to higher usage from units such as public disclosure, the Office of the Attorney General., and complaint intake.

Financial Forecast

In the 2023-2025 biennium, the department anticipates the psychiatric hospital program will continue operating at an annual deficit. Incoming revenue is projected to remain stable, around \$414,000 annually, while expenditures are expected to grow to \$1.37 million by FY 2025, with ongoing costs of \$1.08 to \$1.20 million in subsequent years. The department projects a minimum ongoing annual deficit of -\$700,000.

Table 3 details drivers for anticipated changes in the operating budget and growth in projected expenditures.

Table 3: Detailed Financial Forecast					
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Baseline Operating Budget	562,000	602,000	796,000	872,000	890,000
Hospital Complaint Backlog Resolution			0*	308,000	0
Increased Operational Staff			56,000	56,000	56,000
Inspection & Investigation Document Coordinator			5,000	5,000	5,000
Cross Office Facilities Licensing Coordinator			16,000	16,000	16,000
Enforcement and Quality Assurance Coordinator				53,000	53,000
Epidemiologist 3				61,000	61,000
	562,000	602,000	873,000	1,371,000	1,081,000

*The department anticipates spending \$202,000 in FY 2024 to resolve the hospital complaint backlog. 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 increase to \$796,000 in FY 2024 and \$872,000 in FY 2025 due to approved salary increases. Costs are projected to increase 45% in biennium 2023-25, before returning to a standard 3% growth rate in subsequent years. The department estimates that the program will utilize 6.12 FTEs in the 2023-2025 biennium, with 4.55 of those FTEs supporting the work of meeting departmental inspection mandates and handling growing enforcement workloads.

In addition to increasing FTEs, high enforcement workloads lead to increased spending in the department's complaint intake, public disclosure, and other disciplinary support units. It also increases the department's costs from the Office of the Attorney General. In FY 2023, the program spent \$60,000 for these services. The department estimates this work to cost the program approximately \$80,000 annually, starting in FY 2024.

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 pandemic.

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 86 psychiatric hospital investigations.

The legislature provided one year of funding starting FY 2024. Fee generated revenue in the amount of \$308,000 will be needed to continue the work for FY 2025.

Increasing Operational Staff

In recent years, the department has shifted resources to address the psychiatric hospital program's growing inspection and investigation timelines and general workload. This increase in staff has resulted in the need to increase support staffing for investigations and program administration.

The department will need 0.35 FTE from psychiatric hospital funding to provide the necessary administrative and managerial support. The monetary impact of these FTEs are approximately \$56,000 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 0.05 FTE from psychiatric hospital funding starting FY 2024, which has a monetary impact of approximately \$5,000 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 0.1 FTE starting in FY 2024 and has a monetary impact of approximately \$16,000 per year.

Enforcement and Quality Assurance Coordinator – Management Analyst 5

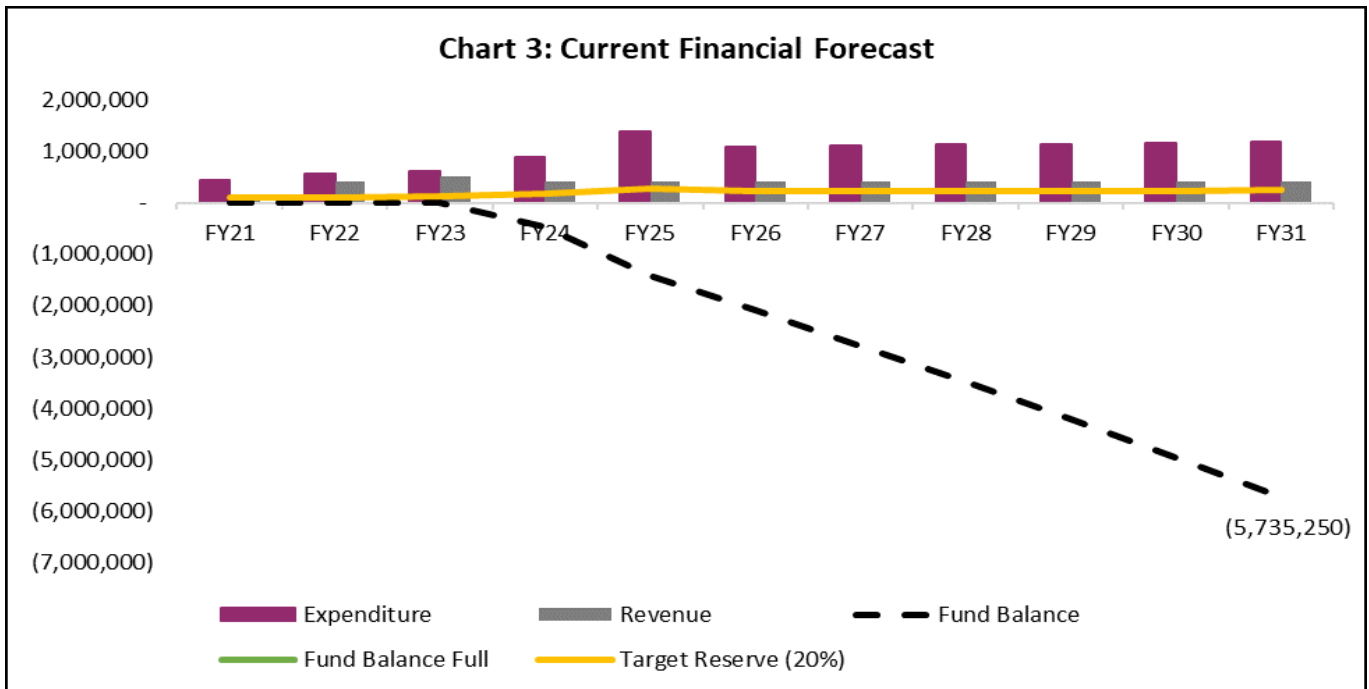
The department aims to transition this proviso funded position to fee funding to continue enforcement and quality assurance coordination. This position identifies and implements improvements related to the enforcement process and tracks and coordinates enforcement steps across multiple offices and agencies. 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 will utilize 0.3 FTE from psychiatric hospital funding ongoing from FY 2025, which is an approximately \$53,000 increase 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 0.3 FTE from psychiatric hospital funding starting FY 2026 and has a monetary impact of approximately \$61,000 per year.

Forecast and Projections

The costs required to maintain adequate staffing, meet the department’s inspection and investigation timeline mandates, eliminate the hospital complaint backlog, increase operational staff, and fund necessary positions will result in a significant shortfall for the psychiatric 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 projected impact of these anticipated expenditures on the program’s fund balance through FY 2031.



Fee Proposal

To address the rising costs of the psychiatric 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 (\$1,700 per bed) and a lower fee (\$1,450 per bed) effective in FY 2026 and beyond.

	Licensed Bed Fee		
	Current Fee	Effective FY 2025	Effective FY 2026
Psychiatric Hospitals	\$495	\$1,700	\$1,450

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

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