

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Subject

The Department of Health Services (Department) licenses and regulates more than 7,200 healthcare and child care facilities and agencies in Arizona. These licensees include hospitals, nursing care institutions, outpatient surgical centers, home healthcare agencies, and child care centers.

Our Conclusion

Licensing fees could be modified to cover the State's regulatory costs. The Department should develop a cost-based method for calculating fees, including direct and indirect licensing and monitoring costs, and propose new fees based on this method. The Legislature should then consider modifying fees through revising the statutory caps, authorizing the Department to set fees in rule, or establishing a mechanism in statute for determining fees.



2009

Licensing fees could cover more regulatory costs

The State General Fund subsidizes the cost of licensing and monitoring healthcare and child care facilities. Although the facilities are charged licensing fees, fee revenue covers less than 10 percent of the regulatory costs. In fiscal year 2008, the State spent over \$10.9 million to license and regulate these facilities, but collected less than \$1.1 million in fees.

Despite recent changes, costs will continue to exceed revenues—In 2008, the Legislature authorized the Department to increase fees to generate \$600,000 in additional revenue in fiscal year 2009. Although the Department increased licensing fees for healthcare facilities to generate that amount, this increase will have little impact on the state subsidy. Further, growth in the Department's workload may increase the need for General Fund money.

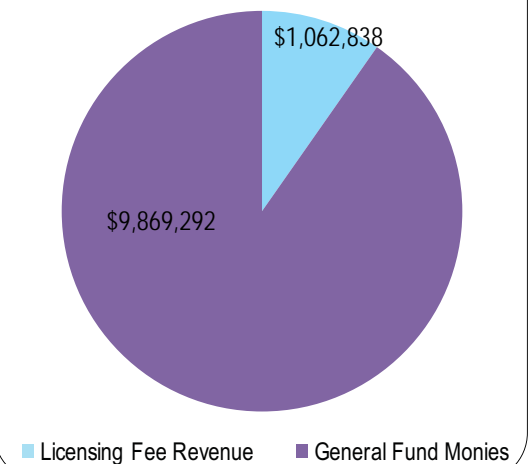
The Department's regulatory workload is increasing, both in quantity and complexity. The average number of licensed healthcare and child care facilities has increased more than 19 percent between fiscal years 2003 and 2008, from 5,857 to 6,978. Further, disciplinary actions, which can often be complex, result in increased regulatory costs due to the time required for investigations and hearings. These actions have increased by 158 percent—from 212 in fiscal year 2003 to 547 in fiscal year 2008.



Licensing fees outdated and not based on relevant cost factors—Licensing fees for child care facilities have not increased in at least 20 years, and, prior to the 2008 legislation, fees for healthcare facilities had not increased since 1989.

Further, licensing fees are not adequately based on factors that impact costs. For example, fees for child care facility licenses do not account for different capacities. Consequently, a child care center with several hundred spaces pays the same licensing fee as a center with 20 spaces, even though the survey takes longer for the larger facility.

Portion of State Regulatory Costs Covered by Licensing Fee Revenue Fiscal Year 2008



Healthcare facility licensing fees are based on the number of beds, but they do not consider the type of facility being licensed, which is important. The time to conduct a survey (or inspection) of a healthcare facility can differ greatly by type of facility because of such things as different regulatory requirements the facility must meet. For example, a renewal survey for an assisted living center, which has a typical licensed capacity of 70 beds, can take approximately 21 person-hours, while the survey for a home health agency, which has no licensed capacity, can take 33 person-hours.

Other states have higher licensing fees—Arizona’s fees are often considerably lower than fees in two states—California and Nevada—that have established fees that cover the costs of regulating different types of healthcare facilities, such as hospitals. Colorado is in the process of implementing legislation to do the same for its healthcare facilities. The table below compares Arizona’s fees with eight other states’ fees using example fees for seven types of facilities.

Department should propose raising fees to cover costs—Examples of regulatory fees covering regulatory costs already exist. In Arizona, 90/10 licensing boards, such as the Arizona Medical Board, are entirely funded by licensing fees. The Department’s licensure of environmental laboratories and hearing and speech professionals is also fully funded by fee revenue.

The Department should develop a method of calculating fees based on direct and indirect costs to license and regulate healthcare and child care facilities, and propose new fees based on this method. To make the fees equitable, the Department should consider the facility’s type and size, as well as the relative costs of conducting surveys and other monitoring activities, and investigating complaints.

The Legislature should consider the Department’s proposed fees. If it adopts any fee increases, the Legislature would need to pass legislation to revise statutory fee caps. Alternatively, the Legislature could consider removing the fee amounts from statute and giving the Department the authority to set fees by rule, or prescribing in statute a method for setting fees.

Comparison of Renewal Licensing Fees in Arizona and Eight Western States for Various Facility Types at Specified Capacity Levels^{1,2}
Fiscal Year 2009

Hospital (100 beds)		Inpatient Hospice (10 beds)		Psychiatric Hospital (45 beds)		Nursing Home (120 beds)		Home Health Agency ³		Assisted Living Center (70 beds)		Child Care Center (100 spaces)	
California	\$25,776	California	\$1,875	California	\$11,599	California	\$34,440	California	\$4,159	Nevada	\$7,622	California	\$800
Washington	11,300	Nevada	1,702	Nevada	6,350	Washington	33,000	Nevada	1,517	Washington	5,530	Washington	400
Nevada	8,000	Texas	875	Texas	4,510	Nevada	4,700	Washington	1,081	Arizona	2,000	Oregon	200
Oregon	2,900	Oregon	750	Washington	3,150	Arizona	3,350	Texas	875	Colorado	1,760	Utah	175
Arizona	2,850	Washington	721	Colorado	2,155	Utah	1,640	Utah	755	California	1,126	Colorado	160
Colorado	2,615	Arizona	400	Arizona	1,275	Texas	725	Oregon	600	Utah	900	Nevada	150
Texas	1,960	Colorado	360	Oregon	1,000	New Mexico	720	Arizona	150	Texas	450	Texas	135
Utah	1,700	Utah	320	Utah	875	Oregon	450	New Mexico	100	New Mexico	150	New Mexico	55
New Mexico	600	New Mexico	100	New Mexico	270	Colorado	360			Oregon	30	Arizona	50

- 1 The table compares renewal licensing fees for the following states: Arizona, California, Colorado, Nevada, New Mexico, Oregon, Texas, Utah, and Washington. Auditors selected at least one facility type from each of Arizona’s facility licensing programs. Auditors selected the bed capacities based on typical capacities for Arizona’s facilities. See Table 6 in Appendix A of the report for a comparison of the renewal fee schedules for all nine states.
- 2 The fees include all application, capacity, and other fees charged for renewal licenses in these states. In addition, auditors have adjusted the fees to account for differences in licensure periods. The table compares the annual portion of each state’s fees.
- 3 Home health agencies have no bed capacity. In 2008, Colorado passed legislation to begin licensing home care agencies by June 2009.

Source: Auditor General staff analysis of data on licensed capacities for the selected facilities provided by the Division of Licensing Services and information obtained from the selected states’ statutes, Web sites, administrative codes, and officials and staff in these states.

Recommendations

The Legislature should consider:

- Taking action to allow the Department to raise fees sufficiently to pay for the full cost of regulating healthcare and child care facilities.

The Department should:

- Evaluate its fees using a cost-based approach, and propose new fees to the Legislature.

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**Department of
Health Services**

Division of Licensing Services—
Healthcare and Child Care Facility Licensing Fees

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