



TITLE 9. HEALTH SERVICES

**CHAPTER 10. DEPARTMENT OF HEALTH SERVICES -
HEALTH CARE INSTITUTIONS: LICENSING**

ECONOMIC, SMALL BUSINESS, AND CONSUMER IMPACT STATEMENT

June 2025

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1. An identification of the rulemaking

Arizona Revised Statutes (A.R.S.) § 36-132(A)(1) and (17) require the Arizona Department of Health Services (Department) to protect the health of the people in Arizona, and license and regulate health care institutions (HCIs). In order to ensure public health, safety, and welfare. The Department has adopted rules to implement these statutes in the Arizona Administrative Code (A.A.C.) Title 9, Chapter 10. After receiving rulemaking approval pursuant to A.R.S. § 41-1039, the Department plans to revise the rules in 9 A.A.C. 10, Article 1 to increase the application and licensing fees for HCIs, as authorized by A.R.S. § 36-405(B)(5). The current fees went into effect on January 1, 2010, since then, the Department's expenses and costs have increased significantly. Current revenue generated from healthcare institution licensing fees does not cover current costs or needs to hire more surveyors to ensure health and safety. However, the Department believes that the benefits of the rules will far outweigh any potential cost. Any proposed changes will conform to the rulemaking format and style requirements of GRRC and the Office of the Secretary of State.

2. Cost/Benefit Analysis

Through the combination of base fee increases and bed fee increases, the Department will be able to ensure financial stability. The tiers within categories have multiple price points at different occupancy qualifiers when processing both licensing and bed fees after application. Base rates range from \$280 to \$1,875 for a HCI depending on the type of facility. A raising of the base fee by 39% for each applicable tier of HCI category will both simplify the application process and increase revenue for the Department and the State. The 39% base fee increase across 45 HCI class tiers will result in an increase of approximately \$1.29M in revenue collected, with \$1.17M being collected going to the Department and \$130k going to the State General Fund. Table 1 below is the HCI Class breakdown for current vs proposed base fees:

Table 1: Current vs. Proposed HCI Base Fees

HCI Class	Tier Capacity	Current Base Fee	Proposed Base Fee
Adult foster care home, according to Article 8	1-59 Beds	N/A	N/A

Abortion clinic, according to Article 15	N/A	\$365	\$507.35
Adult behavioral health therapeutic home, according to Article 18	N/A	\$375	\$521.25
Adult behavioral health therapeutic home, according to Article 18	1-59 Beds	\$375	\$521.25
Adult day health care facility, according to Article 11	N/A	\$280	\$389.20
Adult residential care institution, according to Article 8	N/A	\$375	\$521.25
Adult residential care institution, according to Article 8	1-59 Beds	\$375	\$521.25
Assisted living center, according to Article 8	N/A	\$280	\$389.20
Assisted living center, according to Article 8	1-59 Beds	\$280	\$389.20
Assisted living center, according to Article 8	60-99 Beds	\$560	\$778.40
Assisted living center, according to Article 8	100-149 Beds	\$840	\$1,167.60
Assisted living center, according to Article 8	150+ Beds	\$1,400	\$1,946.00
Assisted living home, according to Article 8	1-59 Beds	\$280	\$389.20
Behavioral health inpatient facility, according to Article 3	N/A	\$375	\$521.25
Behavioral health inpatient facility, according to Article 3	1-59 Beds	\$375	\$521.25
Behavioral health inpatient facility, according to Article 3	60-99 Beds	\$750	\$1,042.50

Behavioral health inpatient facility, according to Article 3	100-149 Beds	\$1,125	\$1,563.75
Behavioral health inpatient facility, according to Article 3	150+ Beds	\$1,875	\$2,606.25
Behavioral health residential facility, according to Article 7	N/A	\$375	\$521.25
Behavioral health residential facility, according to Article 7	1-59 Beds	\$375	\$521.25
Behavioral health residential facility, according to Article 7	60-99 Beds	\$750	\$1,042.50
Behavioral health residential facility, according to Article 7	100-149 Beds	\$1,125	\$1,563.75
Behavioral health residential facility, according to Article 7	150+ Beds	\$1,875	\$2,606.25
Behavioral health respite home, according to Article 16	N/A	\$375	\$521.25
Behavioral health respite home, according to Article 16	1-59 Beds	\$375	\$521.25
Behavioral health specialized transitional facility, according to Article 13	N/A	\$375	\$521.25
Behavioral health specialized transitional facility, according to Article 13	1-59 Beds	\$375	\$521.25
Counseling facility, according to Article 19	N/A	\$375	\$521.25
Home health agency, according to Article 12	N/A	\$365	\$507.35
Hospice inpatient facility, according to Article 6	1-59 Beds	\$365	\$507.35
Hospice service agency, according to Article 12	N/A	\$365	\$507.35

Hospital license according to Article 2, including a general hospital, a rural hospital, or a special hospital	1-59 Beds	\$365	\$507.35
Hospital license according to Article 2, including a general hospital, a rural hospital, or a special hospital	60-99 Beds	\$730	\$1,014.70
Hospital license according to Article 2, including a general hospital, a rural hospital, or a special hospital	100-149 Beds	\$1,095	\$1,522.05
Hospital license according to Article 2, including a general hospital, a rural hospital, or a special hospital	150+ Beds	\$1,825	\$2,536.75
Intermediate care facility for individuals with intellectual disabilities, according to Article 5	1-59 Beds	\$290	\$403.10
Intermediate care facility for individuals with intellectual disabilities, according to Article 5	60-99 Beds	\$580	\$806.20
Intermediate care facility for individuals with intellectual disabilities, according to Article 5	100-149 Beds	\$870	\$1,209.30
Intermediate care facility for individuals with intellectual disabilities, according to Article 5	150+ Beds	\$1,450	\$2,015.50
Nursing care institution, according to Article 4	1-59 Beds	\$290	\$403.10
Nursing care institution, according to Article 4	60-99 Beds	\$580	\$806.20
Nursing care institution, according to Article 4	100-149 Beds	\$870	\$1,209.30
Nursing care institution, according to Article 4	150+ Beds	\$1,450	\$2,015.50
Nursing-supported group home, according to Article 22	1-59 Beds	\$290	\$403.10

Outpatient surgical center, according to Article 9	N/A	\$365	\$507.35
Outpatient treatment center, according to Article 10	N/A	\$365	\$507.35
Pain management clinic, according to Article 20	N/A	\$365	\$507.35
Recovery care center, according to Article 21	N/A	\$365	\$507.35
Recovery care center, according to Article 21	1-59 Beds	\$365	\$507.35
Single Group Hospital License or Licensee w/ a Single Group License	N/A	\$365	\$507.35
Single Group Hospital License or Licensee w/ a Single Group License	1-59 Beds	\$365	\$507.35
Single Group Hospital License or Licensee w/ a Single Group License	60-99 Beds	\$730	\$1,014.70
Single Group Hospital License or Licensee w/ a Single Group License	100-149 Beds	\$1,095	\$1,522.05
Single Group Hospital License or Licensee w/ a Single Group License	150+ Beds	\$1,825	\$2,536.75
Substance abuse transitional facility, according to Article 14	N/A	\$375	\$521.25
Unclassified Health Care Institution	N/A	\$365	\$507.35

Bed fee increases of 52% for assisted living facilities, behavioral health facilities, hospitals and all other HCI facility types will see collected revenue increase by 3.8M total, with 3.4M being collected for the Department and 381k going to the State General Fund. Table 2 below shows the HCI class breakdown for current vs proposed bed fees:

Table 2: Current vs. Proposed HCI Bed Fees

HCI Class	Current Bed Fee	Proposed Bed Fee
Adult foster care home, according to Article 8	N/A	N/A
Abortion clinic, according to Article 15	N/A	N/A
Adult behavioral health therapeutic home, according to Article 18	\$94	\$142.88
Adult day health care facility, according to Article 11	N/A	N/A
Adult residential care institution, according to Article 8	\$94	\$142.88
Assisted living center, according to Article 8	\$70	\$106.40
Assisted living home, according to Article 8	\$70	\$106.40
Behavioral health inpatient facility, according to Article 3	\$94	\$142.88
Behavioral health residential facility, according to Article 7	\$94	\$142.88
Behavioral health respite home, according to Article 16	\$94	\$142.88
Behavioral health specialized transitional facility, according to Article 13	\$94	\$142.88
Counseling facility, according to Article 19	N/A	N/A
Home health agency, according to Article 12	N/A	N/A
Hospice inpatient facility, according to Article 6	\$91	\$138.32
Hospice service agency, according to Article 12	N/A	N/A
Hospital license according to Article 2, including a general hospital, a rural hospital, or a special hospital	\$91	\$138.32
Intermediate care facility for individuals with intellectual disabilities, according to Article 5	\$73	\$110.96
Nursing care institution, according to Article 4	\$73	\$110.96
Nursing-supported group home, according to Article 22	\$73	\$110.96
Outpatient surgical center, according to Article 9	N/A	N/A
Outpatient treatment center, according to Article 10	N/A	N/A

Pain management clinic, according to Article 20	N/A	N/A
Recovery care center, according to Article 21	\$91	\$138.32
Single Group Hospital License or Licensee with a Single Group License	\$91	\$138.32
Substance abuse transitional facility, according to Article 14	N/A	N/A
Unclassified health care institution, according to Article 17	N/A	N/A

Due largely to inflation factors, technology modernization costs, and increasing legal action, expenses over a 3-year running period have begun to outpace revenues from the HCIs, inhibiting their ability to fund their operating costs. The proposed base fee and bed fee increases will ensure operating solvency and continued service into the future.

In addition, with the projected increase in revenue due to HCI fee increases, the Department will be able to fund previously general funded Compliance Officer positions, expand IT support for better data reporting, rebuild efforts around community outreach and engagement activities, and enhance efforts to support both compliance and enforcement actions.

Licensing Surveyor and Compliance Officer Shift:

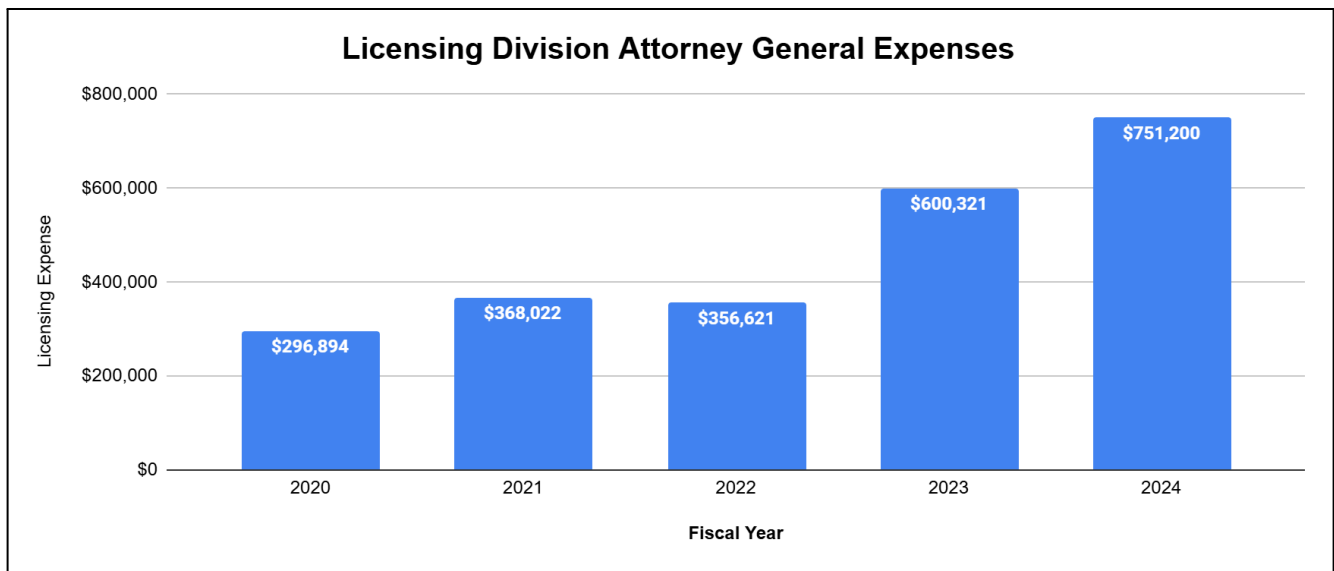
With the projected revenue increase in FY 2026 due to HCI licensing fee increases, the Department can afford to shift the appropriation received from FY 2022- FY 2025 from general fund to the licensing fund. The amount of positions currently directly funded by the state general fund is 31 positions for approximately 2.8M during FY 2025.

Ensuring these compliance officer and surveyor positions are appropriately funded, and filled, helps better protect the residents and patients in our licensed facilities, by conducting annual inspections, responding to complaints timely, and working through enforcement actions thoroughly and expediently. With these positions, ADHS will also be able to provide additional training and technical assistance to our providers to better address compliance in those licensed settings.

Increases to Attorney General Legal Fees:

The Department has seen an increase of over 100% in the cost of AG legal fees from FY20 to FY24 due to the increase in legal actions against DHS. The main drivers for this increase is due to both an increase in enforcement actions taken by the Department for deficient facilities, an increase in legal actions taken against the Department, and a general increase in the total number of licensed facilities.

Chart 1: Licensing AG Expenses



The current application fee of \$50 is not enough to cover administrative costs to process a new facility application, much less to survey a facility in a geographically large state. An average hourly rate after considering salary, employee-related expenses, and indirect costs is close to \$65 an hour for a compliance officer. Leaving out any additional consideration for travel or operating expenses, the basic application fee is not enough to cover an initial facility survey let alone any administrative or processing cost. Table 3 below shows the proposed fiscal impact of raising application fees for HCIs from \$50 to the proposed \$73.50. This fee increase does not impact current licensed facilities.

3. Identification of the persons who will be directly affected by, bear the costs of, or directly benefit from the rules

- a. The Department
- b. HCIs
- c. The general public

A. The Department

A.R.S. §§ 36-3201 and 36-405 require the Department to adopt rules that establish minimum standards and requirements for constructing, modifying, and licensing HCIs to ensure public health, safety, and welfare. An HCI is any place, institution, building, or agency that provides facilities with medical services, nursing services, behavioral health services, health screening services, other health-related services, supervisory care services,

personal care services, or directed care services and includes home health agencies, outdoor behavioral healthcare programs, and hospice service agencies. A.R.S. § 36-405(B)(5) authorizes the Department to establish an application fee and a licensing fee for HCIs.

Increasing and restructuring the current licensing fees across 45 HCI subclasses and unclassified HCIs will allow for sustained fiscal solvency for the Division of Licensing within the Department. Proposed rate increases would allow the Department to hire additional compliance officers needed, and also assist in enterprising modernization efforts in payment and license processing, content creation, data warehousing, and additional legal service costs. The proposed base and bed fee increases total \$5.1M annually, with 90% of that increase being allocated to the Department, and 10% going to the State General Fund will allow for the Department to maintain solvency and fiscal flexibility.

B. HCIs

Licensed HCIs including assisted living facilities, behavioral health facilities, long-term care groups, and medical facilities will see an increase of approximately \$5.1M annually in licensing fees, with \$4.6M being collected for Licensing and \$510k being collected for the state general fund. Table 3 below shows the total projected expense increase per type of HCI Class, assuming the current count of facilities and beds currently in the Licensing system remains the same after the proposed rate increase goes into effect:

Table 3: Total Projected HCI Fee Increase:

HCI Class	Current Fee Total	Proposed Fee Total
Abortion Clinic	\$1,460	\$2,029
Adult Day Health Care Facility	\$5,320	\$7,395
Adult Foster Care Home	\$0	\$0
Assisted Living Center	\$2,345,000	\$3,536,226
Assisted Living Home	\$1,615,110	\$2,383,041
Behavioral Health Facility - MED	\$228,898	\$343,732
Behavioral Health Facility - RES	\$1,720,846	\$2,528,033
Counseling Facility	\$242,250	\$336,728

Home Health Agency	\$29,565	\$41,095
Hospice Inpatient Facility	\$16,122	\$23,794
Hospice Service Agency	\$57,305	\$79,654
Hospital	\$556,527	\$838,661
Intermediate Care Facility for Individuals with Intellectual Disabilities	\$20,268	\$30,317
Nursing Care Institution	\$1,276,700	\$1,925,504
Nursing-Supported Group Home	\$46,292	\$67,800
Outpatient Surgical Center	\$104,390	\$145,102
Outpatient Treatment Center (Not a BH Facility)	\$1,051,200	\$1,461,168
Pain Management Clinic	\$33,580	\$46,676
Recovery Care Center	\$3,098	\$4,519
Single Group Hospital License or Licensee w/ a Single Group License	\$1,283,481	\$1,937,131
Unclassified Health Care Institution	\$21,900	\$30,441
Total:	\$10,659,312	\$15,769,048

Summary

Increases to base and bed fees for HCIs is expected to allow the Department to continue to function properly and allow uninterrupted operations to continue. The Division of Licensing will be able to maintain proper staffing levels and be able to accommodate challenges that may arise in future years, including inflationary factors, increased legal costs, and legislated expenses that may occur.

Current issuance and bed fees at the current fee price points are unsustainable and furthermore put the program at a disadvantage in being able to respond to future regular compliance activity and enforcement action. The most efficient solution for this would be to increase both base and bed fees for HCIs. Without establishing a new baseline for rates and fees, the Department will continue to see declining financial positions across the most significant revenue and cost centers in the Division of Licensing.

C. General Public

A statement of the probable impact of the rules on small businesses

a. Identification of the small businesses subject to the rules

Small businesses subject to the rule may include privately owned HCIs.

b. The administrative and other costs required for compliance with the rules

A summary of the administrative effects of the rulemaking is given in the cost and benefit analysis in Section 2. The fee change will impose an increased cost on all HCIs licensed by the Department and subject to the application and licensure fees. The fee change will impose an increased cost on certain HCIs as indicated.

c. A description of the methods that the agency may use to reduce the impact on small businesses

The Department knows of no other methods to further reduce the impact on small businesses.

d. The probable costs and benefits to private persons and consumers who are directly affected by the rules

A summary of the effects of the rulemaking on private persons and consumers is given in the cost and benefit analysis.

6. A statement of the probable effect on state revenues

Pursuant to A.R.S. § 36-405(D), 10% of the collected fees are deposited to the State General Fund, this would include the funds collected from an increase in fees.

7. A description of any less intrusive or less costly alternative methods of achieving the purpose of the proposed rulemaking

The Department has determined that there are no less intrusive or less costly alternatives for achieving the purpose of the rulemaking.

8. A description of any data on which the rule is based with a detailed explanation of how the data was obtained and why the data is acceptable data

Not applicable