

# SENATE BILL REPORT

## SB 5581

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As of February 1, 2017

**Title:** An act relating to authorizing public hospital districts to participate in self-insurance risk pools with nonprofit hospitals.

**Brief Description:** Authorizing public hospital districts to participate in self-insurance risk pools with nonprofit hospitals.

**Sponsors:** Senators Angel and Mullet.

**Brief History:**

**Committee Activity:** Financial Institutions & Insurance: 2/02/17.

**Brief Summary of Bill**

- Authorizes two or more public benefit hospital entities, including public hospital districts, nonprofit hospitals, and certain hospital service companies to participate in a joint self-insurance program covering property and liability risks.
- Requires the State Risk Manager to adopt rules governing the management and operation of joint self-insurance programs for public benefit hospital entities.

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### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Staff:** Jeff Olsen (786-7428)

**Background:** Local government entities, nonprofit corporations, and affordable housing entities have the authority to self-insure against risks, jointly purchase insurance or reinsurance, and contract for risk management, claims, and administrative services. Public health districts are local government entities that may participate in a joint self-insurance program with other local government entities.

Joint self-insurance risk pools may create and delegate powers to a separate legal or administrative entity, and obligate the pool's participants to pledge revenues or contribute money to secure the obligations or pay the expenses of the pool. Risk pools are authorized to sell revenue bonds and short-term obligations and establish lines of credit. Subject to

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specified conditions, entities in a risk pool may enter into joint self-insurance risk pools with similar entities from other states. The Risk Management Division within the Department of Enterprise Services is responsible for the regulation of these self-insurance pools.

In 2015, the authority for nonprofit corporations to join a self-insurance program was removed from the local government self-insurance program and placed in its own risk pool to clarify that nonprofit corporations and local government risk pools are separate.

**Summary of Bill:** A public benefit hospital entity may form or join a self-insurance program covering property and liability risks with one or more other public benefit hospital entities. A public benefit hospital entity may include a public hospital district, a nonprofit corporation that operates a hospital in Washington or another state, or a company engaged in providing hospital services.

The public benefit hospital self-insurance program is similar to the local government, affordable housing, and nonprofit self-insurance programs, but is governed by a new separate chapter. Under the new program, a separate legal entity may be formed as a nonprofit, limited liability company, partnership, trust, or other entity under Washington law or another state's law. Entities must submit a plan and obtain approval from the State Risk Manager before creating a program. The State Risk Manager must establish and charge a fee for the initial review and approval of the program. The plan must include risks to be covered, funding, claim practices, proposed purchases of insurance or reinsurance, the legal form of the program, planned actuarial analysis, and an analysis of the feasibility of the self-insurance program. A public benefit hospital entity may also participate in a joint self-insurance program with entities from other states if it complies with certain specifications.

The State Risk Manager must either approve or disapprove the formation of the joint insurance program. The self-insurance program may contract for risk management and loss control services, contract for legal services, jointly purchase insurance and reinsurance coverage, obligate participants to contribute money to pay for the program, and possess other powers and duties to carry out the program. The State Risk Manager must adopt rules governing the management and operation of the joint self-insurance program. The rules must include standards that preclude public hospital districts or other public entities from subsidizing entities that are not public entities. The State Risk Manager may levy fines and serve cease and desist orders for program violations.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: Hospital districts have been using self-insurance risk pools as a tool to manage risk and control costs. Recent changes in law prohibited local governments from participating in risk pools with nongovernmental organizations. To clarify that governmental hospitals and nongovernmental hospitals could

jointly participate in a self-insurance risk pool, a new chapter of law is created to establish a process to participate in a joint risk pool. Public hospital districts and other nonpublic hospitals that share similar risks should be able to participate jointly in risk pools. This process has been successful for affordable housing entities, and groups worked with the State Risk Manager to develop an approach that has been tested and works.

**Persons Testifying:** PRO: Senator Jan Angel, Prime Sponsor; Beth Zborowski, Washington Hospital Services, The Washington State Hospital Association; Lisa Thatcher, Washington State Hospital Association.

**Persons Signed In To Testify But Not Testifying:** No one.