**Washington State**
**House of Representatives**
**Office of Program Research**

# BILL ANALYSIS

## Environment & Energy Committee

# HB 1842

**Brief Description:** Allowing public utility districts to form, own, or use captive insurers.

**Sponsors:** Representatives Steele and Barnard.

**Brief Summary of Bill**

- Authorizes local government entity authorities to become a captive insurance company and public utility districts to form, own, or use captive insurance companies.

**Hearing Date:** 2/13/25

**Staff:** Matt Sterling (786-7289).

**Background:**

Public Utility Districts.
A public utility district (PUD) is a type of special purpose district authorized for the purpose of generating and distributing electricity, providing water and sewer services, and providing telecommunications services. A PUD may operate on a countywide basis or may encompass a smaller jurisdiction. However, most PUDs have jurisdictional boundaries that are coextensive with a county and function as a regional governing body with respect to providing their statutorily authorized services to the public.

Local Government Self-Insurance Program.
State law authorizes various types of self-insurance programs for different types of entities, which are generally regulated by the State Risk Manager (Risk Manager). The Risk Manager charges participating state agencies an assessment to participate, which is an amount of money based on a formula considering the previous six years of incurred losses. There is a local

*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.*

government joint self-insurance program.

Through a local government joint self-insurance program, the governing body of a local government entity may individually self-insure, may join or form a self-insurance program together with other entities, and may jointly purchase insurance or reinsurance with other entities for property and liability risks, and health and welfare benefits. In addition, the entity or entities may contract for or hire personnel to provide risk management, claims, and administrative services.

The assets of a joint self-insurance program may be invested only in accordance with the general investment authority that participating local government entities possess as a governmental entity. A local government joint self-insurance program may contract indebtedness and sell revenue bonds evidencing the indebtedness and may accept loans of the proceeds of the bonds.

The Risk Manager has rulemaking authority pertaining to local government joint self-insurance programs and adopts rules governing the management and operation of both individual and joint local government self-insurance programs covering property or liability risks, as well as individual and joint local government self-insured health and welfare benefits programs. Prior approval of a program is required for joint local government self-insurance programs for property and liability risks.

The entities or entity proposing the program's creation must submit a plan of management and operation to the Risk Manager and the State Auditor that provides specific information, including information about the covered risks, the amount and methods of financing, proposed claim reserving practices, the form of a joint program and member agreement, proposed accounting, a professional analysis of the proposal's feasibility, and other information. Generally, every joint self-insurance program covering liability or property risks must provide for the contingent liability of participants in the program if assets of the program are insufficient to cover the program's liabilities.

<u>Captive Insurers</u>.
A captive insurance company (captive) is one created and wholly owned by one or more non-insurance companies to insure the risks of its owner or owners. A captive may be formed to supplement commercial insurance or to provide insurance for risk it is unable to cover with commercial insurance. Eligible captives must register with the Office of the Insurance Commissioner. Once established, a captive operates like any commercial insurer in that it issues policies, collects premiums, and pays claims, but it does not offer insurance to the public. An eligible captive is defined as an insurance company that:

- is wholly or partially owned by a corporation, company, nonprofit, or public institution of higher education;
- insures risk of its captive owner, the owner's affiliates, or both;
- has one or more insureds whose principal place of business is Washington;
- has assets that exceed its liabilities by $1 million and can pay its debts when they come due, as verified by audited financial statements and prepared by an independent certified

accountant; and
- is licensed as a captive insurer by the jurisdiction in which it is domiciled.

**Summary of Bill:**

Captive Insurers.
An eligible captive includes an insurance company that is wholly or partially owned by a captive or, by contract, the captive is a participant or member of the insurance company.

Local government entity authorities may become captives. Public utility districts may form, own, or use captives.

**Appropriation:** None.

**Fiscal Note:** Requested on February 10, 2025.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.