

## CHAPTER 302

[Substitute House Bill No. 1972]

## SELF-INSURANCE FOR LOCAL GOVERNMENTS

AN ACT Relating to self-insurance; and amending RCW 48.62.040 and 48.01.050.

Be it enacted by the Legislature of the State of Washington:

Sec. 1. Section 4, chapter 256, Laws of 1979 ex. sess. as amended by section 1, chapter 278, Laws of 1985 and RCW 48.62.040 are each amended to read as follows:

(1) Except as provided in subsection (2) of this section, the governing body of any one or more local governmental entities may, as an alternative or in addition to exercising any one or more of the powers granted in RCW 48.62.030 and 36.16.138, as now or hereafter amended, or any other provision of law, form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services.

(2)(a) No organization of local governmental entities, other than local school districts and educational service districts, that is organized under this section for the purpose of self-insuring shall provide any self-insurance other than liability and property insurance. For purposes of this section, liability insurance shall include but not be limited to coverage for claims arising from the tortious or negligent conduct of the local government entity, its officers, employees, or agents thereof, or any error or omission on the part of said local government entity, its officers, employees or agents thereof as a result of which a claim may be made against the local government entity.

(b) Local school districts and educational service districts may not organize under this section for the purpose of providing joint self-insured life, health, health care, accident, disability and salary protection or insurance, or any combination thereof, to the district employees, students, directors, or any of their dependents.

(3) The agreement to form such a pooling arrangement shall be made under chapter 39.34 RCW. Any pool or organization authorized to be formed by this section shall be subject to audit by the state auditor.

**\*Sec. 2. Section .01.05, chapter 79, Laws of 1947 as last amended by section 9, chapter 277, Laws of 1985 and RCW 48.01.050 are each amended to read as follows:**

**"Insurer" as used in this code includes every person engaged in the business of making contracts of insurance, other than a fraternal benefit society. A reciprocal or interinsurance exchange is an "insurer" as used in this**

**code. Two or more hospitals, as defined in RCW 70.39.020(3), which join and organize as a mutual corporation pursuant to chapter 24.06 RCW for the purpose of insuring or self-insuring against liability claims, including medical liability, through a contributing trust fund shall not be deemed an "insurer" under this code. Two or more local governmental entities, as defined in RCW 48.62.020, which pursuant to RCW 48.62.040, 48.62.035, or any other provision of law join together and organize to form an organization for the purpose of jointly self-insuring or self-funding shall not be deemed an "insurer" under this code. Two or more fraternal benefit societies subject to chapter 24.20 RCW which join together and organize to form an organization for the purposes of self-insuring for damage to property and against liability claims shall not be deemed an "insurer" under this code. Two or more cooperatives operated as cooperatives under chapters 23.86, 24.06, and 24.32 RCW, or Title 23A RCW, which join and organize as a mutual corporation pursuant to chapter 24.06 RCW for the purpose of insuring or self-insuring their directors and officers against liability claims through a contributing trust fund shall not be deemed an "insurer" under this code.**

\*Sec. 2 was vetoed, see message at end of chapter.

Passed the House March 9, 1986.

Passed the Senate March 5, 1986.

Approved by the Governor April 4, 1986, with the exception of certain items which were vetoed.

Filed in Office of Secretary of State April 4, 1986.

Note: Governor's explanation of partial veto is as follows:

"I am returning herewith, without my approval as to section 2, Substitute House Bill No. 1972, entitled:

"AN ACT Relating to self-insurance."

Groups of local governments are presently authorized to pool for self-insurance, or purchase insurance, for liability coverage. Section 1 of Substitute House Bill No. 1972 extends that authority to include property replacement insurance, which I strongly support.

Property insurance lines are stable and profitable. Inclusion of property coverage as a part of local government pools should help them to attract commercial insurance packages that include the more volatile liability insurance coverages as well. The state's insurance code provides for the effective regulation of local government insurance pools by the Office of the Insurance Commissioner.

However, section 2 of Substitute House Bill No. 1972 seeks to exempt from the state insurance code both "fraternal benefit societies" that organize to self-insure against property and liability claims, as well as "cooperatives" which organize to self-insure against officer and director liability claims. I strongly oppose these two proposed exemptions. Unlike the local government insurance pools referenced in section 1 of the bill, the proposed exemption of "fraternal benefit societies" and "cooperatives" would effectively authorize a class of self-insurers operating totally outside the purview of the insurance code. The insurance code contains safeguards such as requirements for capital reserves, reinsurance and guaranty association protection. These safeguards protect both the self-insurer and those members of the general public who deal with the self-insurer. Exempting groups from these requirements is unwarranted.

In contrast to the approach proposed in section 2 of Substitute House Bill No. 1972, the state insurance code already provides the means by which such groups may form conventional insurance organizations with the appropriate financial and procedural safeguards.

With the exception of section 2, Substitute House Bill No. 1972 is approved.\*

CHAPTER 303

[Engrossed Substitute House Bill No. 2021]  
MANAGED HEALTH CARE SYSTEMS

AN ACT Relating to managed health care; adding a new section to chapter 74.09 RCW; adding a new section to chapter 43.41 RCW; adding a new chapter to Title 70 RCW; creating new sections; making appropriations; and declaring an emergency.

Be it enacted by the Legislature of the State of Washington:

NEW SECTION. Sec. 1. (1) The legislature finds that:

- (a) Good health care for indigent persons is of importance to the state;
- (b) To ensure the availability of a good level of health care, efforts must be made to encourage cost consciousness on the part of providers and consumers, while maintaining medical assistance recipients within the mainstream of health care delivery;
- (c) Managed health care systems have been found to be effective in controlling costs while providing good health care services;
- (d) By enrolling medical assistance recipients within managed health care systems, the state's goal is to ensure that medical assistance recipients receive at least the same quality of care they currently receive.

(2) It is the intent of the legislature to develop and implement new strategies that promote the use of managed health care systems for medical assistance recipients by establishing prepaid capitated programs for both in-patient and out-patient services.

NEW SECTION. Sec. 2. A new section is added to chapter 74.09 RCW to read as follows:

(1) For the purposes of this section, "managed health care system" means any health care organization, including health care providers, insurers, health care service contractors, health maintenance organizations, health insuring organizations, or any combination thereof, that provides directly or by contract health care services covered under RCW 74.09.520 and rendered by licensed providers, on a prepaid capitated case management basis.

(2) No later than July 1, 1991, the department of social and health services shall enter into agreements with managed health care systems to provide health care services to recipients of aid to families with dependent children under the following conditions:

- (a) Agreements shall be made within one class A county in the eastern part of the state for at least ten thousand recipients; and one class AA county for at least fifteen thousand recipients in the western part of the