SENATE BILL REPORT
SB 5976

As Reported by Senate Committee On:
Ways & Means, February 26, 2015

Title: An act relating to establishing a consolidating purchasing system for public school employees.

Brief Description: Establishing a consolidating purchasing system for public school employees. [**Revised for 1st Substitute:** Establishing a consolidated purchasing system for public school employees.]

Sponsors: Senators Litzow, Keiser, Becker, Rivers, Hobbs, Hill, Hatfield, Fain, Baumgartner, McAuliffe and Dammeier.

Brief History:
Committee Activity: Ways & Means: 2/24/15, 2/26/15 [DPS, DNP, w/oRec].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5976 be substituted therefor, and the substitute bill do pass.
Signed by Senators Hill, Chair; Braun, Vice Chair; Dammeier, Vice Chair; Honeyford, Vice Chair, Capital Budget Chair; Hargrove, Ranking Member; Keiser, Assistant Ranking Member on the Capital Budget; Bailey, Becker, Billig, Brown, Hatfield, Hewitt, O'Ban, Parlette, Schoesler and Warnick.

Minority Report: Do not pass.
Signed by Senators Conway and Hasegawa.

Minority Report: That it be referred without recommendation.
Signed by Senators Fraser, Kohl-Welles and Rolfes.

Staff: Pete Cutler (786-7474)

Background: Health benefits for K–12 school district employees are negotiated and purchased separately by each district. According to a 2014 Office of the Insurance Commissioner (OIC) report, insurance carriers provided health benefits coverage in 2013 through 764 health plans for 295 school districts, at a premium cost of $1.02 billion for 200,785 employees and dependents. One school district provided coverage through a self-insured health benefits plan.

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

Health benefits for state agency and higher education employees, state and K–12 retirees, and some local government and school district employees are provided through the Public Employees Benefits (PEB) program which is administered by the Health Care Authority (HCA). The Public Employees Benefits Board (PEBB) adopts the benefit plans to be offered and establishes the premium rates. In 2013 the PEB program provided health benefits coverage to approximately 227,000 state agency and higher education employees and dependents through seven health plans, and to over 83,000 retirees through nine plans.

For the 2013-15 fiscal biennium, the state budget provides school districts $768 per month for insurance benefits for each full-time equivalent (FTE) certificated employee allocation and $884 per month for each FTE classified employee allocation. The higher classified funding rate reflects that the allocations are often used for two or more part-time employees. State agency and higher education institution budgets included $782 per month for each eligible position for fiscal year 2014 and $662 per month for fiscal year 2015. In the 2014-15 school year, districts send $66.64 each month for full-time employees and a pro-rated amount for part-time employees to HCA for funding the cost of PEB program coverage for school retirees.

At the school district level, the actual distribution of the state health benefit allocation is determined through collective bargaining. Employee contributions vary by district, and by bargaining units within districts, and there is substantial variation in the share of the costs paid by employees who insure only themselves versus those who also insure their family members.

In 2010 the State Auditor's Office conducted a performance review of K–12 school employee health benefits purchasing and made three main recommendations in its 2011 report: (1) streamline the system to improve efficiency, transparency, and stability; (2) standardize coverage levels for more affordable, quality medical benefits; and (3) reduce costs by restructuring the health benefits system. In 2011 the Legislature directed HCA to develop a plan to implement a consolidated health benefits system for K–12 employees. The HCA report was delivered in December 2011.

In 2012 Engrossed Substitute Senate Bill 5940 (ESSB 5940) made changes to the requirements for school district employee health benefits to promote several goals, including (1) having all employees make at least a minimum premium contribution; (2) having employees pay higher premiums for richer benefit plans; (3) offering a high-deductible health plan and health savings account option in all districts; and (4) making progress toward achieving employee premiums for full family coverage that are not more than three times larger than the premiums for employee-only coverage.

ESSB 5940 also required school districts and their health insurers and other entities that help provide employee health plans to annually submit health benefit plan information to OIC, including plan enrollment for classified and certificated employees and for part-time and full-time employees; district and employee premium costs; claims and administrative expenses; health plan benefits and actuarial values; and other information. Beginning in 2013, OIC began submitting annual reports to the Legislature regarding the information reported by the school districts and their health insurers. The November 2014 OIC report provided data reported for health benefit plans offered in 2013.

ESSB 5940 also imposed analysis and reporting requirements on HCA and the Joint Legislative Audit and Review Committee (JLARC). By June 1, 2015, HCA must submit a report that analyzes the data in the OIC reports, and reviews the advantages and disadvantages of various approaches to consolidated purchasing of school employee health benefits, including the costs of the options, and a proposed timeline for any recommended actions.

By December 31, 2015, JLARC must submit a report to the Legislature indicating the progress by school districts and their benefit providers in achieving a list of established goals and performance expectations, and must make recommendations regarding affordability and equity goals. In the 2015-16 school year JLARC will: (1) review and rank school district progress in meeting statutory requirements for benefit offerings, premiums, and competitive contracting standards; (2) provide grants to the highest performing districts; and (3) provide a report and recommendations to the Legislature, including legislation necessary for implementation of the recommendations.

Summary of Bill (Recommended Substitute): Sections 1 and 2 contain legislative findings and legislative intent.

A 16-member School Employees' Benefits Board (SEBB) is established as part of a consolidated school district employees health benefits purchasing program in HCA. By September 30, 2015, the Governor must appoint 13 members to the board including two representing administrators; two representing school board directors; two representing certificated employees; two representing classified employees; one non-represented employee; two at-large active employees; and two with expertise in employee health benefits policy and administration. The other SEBB members include the director of HCA or a designee; one representative of the Office of Financial Management; and one representative of the Office of Superintendent of Public Instruction (OSPI). The board members must select a chair and vice chair.

The SEBB responsibilities include the following:

- developing school employee benefit plans that include comprehensive, evidence-based health care benefits;
- authorizing employee premium contributions that encourage the use of cost-efficient health care systems, that limit the percentage of the cost paid by full-time employees for covering dependents to no more than two and one-half times the percentage cost paid for employee-only coverage, and that allow for pro-ration of the employer contribution for part-time employees;
- determining the terms of employee and dependent eligibility criteria, enrollment policies, and scope of coverage, subject to the condition that employees must work at least one-half time to be eligible, other than employees who worked less than half-time and were covered prior to January 2014;
- determining the terms for participation in the SEBB plans, and the penalties for failing to comply with participation criteria;

- providing oversight and direction to HCA regarding program administration and the selection of carriers to provide health and dental plans; and
- Reporting to legislative policy and fiscal committees by November 30, 2020, regarding whether the provisions of the act resulted in cost savings to the state.

HCA duties are expanded to include administering health care benefit programs for school employees. Beginning January 1, 2017, all school districts must participate in the SEBB program including districts and employees currently participating in the PEB program, and health benefits for all school district and educational service district employees are merged into a single, community-rated risk pool separate from the risk pool for PEB health benefits. School retirees and state retirees continue to participate in PEB health plans. By December 15, 2015, HCA, in consultation with the PEBB and SEBB, must complete an analysis of the most appropriate risk pool for retired school employees. A non-voting position on the PEBB that represents school employees is eliminated effective December 31, 2016.

The current exemptions from public disclosure that are provided for proprietary data, actuarial formulas, and similar information solicited for the PEB program are extended also to information solicited for the SEBB program. Provisions requiring HCA to contract with PEB-managed care plans for chronic care management within health homes are extended to SEBB plans. Separate SEBB program accounts, similar to accounts currently used for the PEB program, are established in the custody of the State Treasurer.

Health insurers that provide medical and dental plans to school districts as of December 31, 2014, and districts that have self-funded plans must provide HCA with specified data by April 1, 2016, to support the initial procurement of plans for the SEBB program. The required data is similar to the data insurers' and districts' report to OIC through December 31, 2015. Thereafter the school districts must submit data required by the SEB program to administer the consolidated purchasing of health services.

The scope of the medical, dental, and other basic insurance benefits provided for school employees is removed from local bargaining. Current provisions dealing with school district pooling arrangements established by bargaining units are abolished. Beginning January 1, 2017, school district contributions to employee insurance purchased through HCA must conform to requirements established by HCA statutes and the SEBB.

All collective bargaining agreements entered into between school districts and organizations representing certificated or classified school district employees, must be consistent with the statutes governing school district authority to provide employee health insurance benefits. After January 1, 2016, bargaining over the dollar amount expended beginning January 1, 2017, for school employee health care benefits must be conducted between the Governor or Governor's designee and one coalition of all the exclusive bargaining representatives impacted by benefit purchasing with the Governor or Governor's designee. The coalition bargaining must follow the model initially established for state employees in RCW 41.80.020.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute):

- Collective bargaining over the dollar amount expended for school employee health care benefits is conducted between the coalition of school employee organizations and the Governor or Governor's designee, rather than with the SEBB. The collective bargaining process is described more completely.
- The HCA administration of school employees insurance benefits, including the contracting for health plans, is subject to oversight and direction by the SEBB.
- Technical and clarifying amendments are made.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony on Original Bill: PRO: The bill is an efficiency measure that will promote economies of scale and avoid the current costs involved with negotiating benefits not just at the district level, but also at the unit level within districts. Oregon used to have a similar situation and made a change similar to this bill eight years ago. When a structure has built up it is very hard and requires courage to make change. If my son were a state employee he would pay about $190 per month to cover his family; as a school district employee he pays about $600 per month. As the state looks at its school funding challenges it should look at all options for saving money. Having 295 school districts bargain for 295 health plans is very inefficient. Combining that into a single pool will save money.

CON: This is a solution in search of a problem. Seattle has very good, low-cost plans. The real problem is that there has not been an increase in health benefit allocations for five years. Independent locals would have no seat at the table under the statewide bargaining coalition in the bill. We don't want to be bound by decisions made by a coalition. We agree there are issues related to health insurance for K–12 employees but this bill does not address the underlying issues. Allocations have not kept track with costs. The board that is created is bureaucracy heavy. The coalition would be bargaining with its own members. The bill could prohibit bargaining for things outside the health care arena. Pro-ration is the real issue behind the affordability problem for classified employees. The Legislature should wait until HCA and JLARC issue their reports. The current structure for delivering health care coverage to school employees and their families provides choice, is cost-effective and innovative, and is extremely popular with school districts and their employees across the state. Premera's premium structure, through the Washington Education Association, in recent years has contributed to narrowing the delta between individual and family coverage. School districts have many options; Premera has worked on offering a wider range of less-expensive plans.

OTHER: This bill has some good parts, such as addressing the premium difference between full family and individual coverage. It would also reduce school district administrative burdens by relieving them from bargaining health benefits. However, the bill is premature and should wait for the HCA report and analysis of the risk pool options. School districts do not receive funding from the state for all of the persons they employ. The bill would replace local bargaining over benefits with a Governor-appointed board and the influence of local bargaining groups would be diluted. Premiums have gone up 25 percent over the past two years and will go up an additional 8 percent if the Governor's budget is adopted. We support consolidation and creation of a school employees benefits board. The bill should be amended to permit local bargaining over eligibility and the employee premium share.

Persons Testifying: PRO: Randy Dorn, State Superintendent of Public Instruction; Neil Strege, WA Roundtable.

CON: David Westberg, Operating Engineers #609; Shawn Lewis, WA Education Assn.; Len Sorrin, Premera Blue Cross.

OTHER: Lani Todd, Service Employees International Union 925; Fred Yancey, WASA, AWSP; Doug Nelson, PSE/SEIU 1948.