
HOUSE BILL 1085

State of Washington 63rd Legislature 2013 Regular
Session

By Representative Appleton
Read first time 01/16/13. Referred to Committee on Health Care &
Wellness.

AN ACT Relating to the Washington health security trust; amending RCW 41.05.130, 66.24.290, 82.24.020, 82.26.020, 82.08.150, 43.79.480, and 41.05.220; reenacting and amending RCW 41.05.120; adding new sections to chapter 82.02 RCW; adding a new chapter to Title 43 RCW; creating new sections; repealing RCW 82.04.260, 82.04.260, and 48.14.0201; providing contingent effective dates; and providing an expiration date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1** (1) There is a crisis in health care accessibility, affordability, and choice in Washington state. Health care through insurance companies has failed to control costs, increase access, or preserve choice. More than six hundred thousand Washington residents have no health care coverage. Individual plans are unavailable or unaffordable in most counties. Many clinics, physician practices, and emergency departments, especially in rural areas, are failing. Employers, faced with fewer choices and more expensive premiums, are reducing employment-based health care coverage. Simplifying health care financing and eliminating administrative waste inherent in multiple insurance plans can create sufficient savings to extend health care coverage to all residents and enhance fairness in the system. (2) The people of the state of Washington declare their intention to create a single health financing entity called the Washington health security trust. Through public hearings, research, and consensus building, the trust will: (a) Provide fair, simple, and accountable health care financing for all Washington residents using a single health care financing entity; (b) cover a comprehensive package of effective and necessary personal health services;

(c) make health care coverage independent from employment; (d) eliminate excessive administrative costs resulting from the current fragmented system of multiple insurers; (e) generate savings sufficient to ensure coverage for all Washington residents; (f) integrate current publicly sponsored health programs into the health security trust; (g) preserve choice of providers for Washington residents; (h) protect patient rights; (i) keep clinical decisions in the hands of health professionals and patients, rather than administrative personnel; (j) promote health care quality; and (k) control excessive health care costs.

NEW SECTION. Sec. 2 The definitions in this section apply throughout this chapter unless the context clearly requires otherwise. (1) "Board" means the board of trustees of the Washington health security trust, created in section 3 of this act. (2) "Capitation" means a mechanism of payment in which a provider is paid a negotiated monthly sum and is obliged to provide all covered services for specific patients who enroll with that provider. (3) "Case rate" means a method of payment based on diagnosis. Case rate assumes that a given set of services shall be provided and the rate is based on the total compensation for those services. (4) "Chair" means the presiding officer of the board. (5) "Employer" means any person, partnership, corporation, association, joint venture, or public or private entity operating in Washington state and employing for wages, salary, or other compensation, one or more residents. (6) "Federal poverty level" means the federal poverty guidelines determined annually by the United States department of health and human services or its successor agency. (7) "Group practice" or "group" means a group of practitioners voluntarily joined into an organization for the purpose of sharing administrative costs, negotiating with payers and controlling the circumstances of their medical practice, and, in some cases, sharing revenues. The group may be of a single specialty or include more than one specialty. (8) "Health care facility" or "facility" includes any of the following appropriately accredited entities: Hospices licensed pursuant to chapter 70.127 RCW; hospitals licensed pursuant to chapter 70.41 RCW; rural health care facilities as defined in RCW 70.175.020; psychiatric hospitals licensed pursuant to chapter 71.12 RCW; nursing homes licensed pursuant to chapter 18.51 RCW; community mental health centers licensed pursuant to chapter 71.05 or 71.24 RCW; kidney disease treatment centers licensed pursuant to chapter 70.41 RCW; ambulatory diagnostic, treatment, or surgical facilities licensed pursuant to chapter 70.41 RCW; approved drug and alcohol treatment facilities certified by the department of social and health services; home health agencies licensed pursuant to chapter 70.127 RCW; and such facilities if owned and operated by a political subdivision or instrumentality of the state and such

other facilities as required by federal law and implementing regulations. (9) "Health care practitioner" or "practitioner" means a person licensed or certified under Title 18 RCW or chapter 70.127 RCW, and covered by the all categories of provider law, RCW 48.43.045, providing health care services in Washington state consistent with their lawful scope of practice. (10) "Health care provider" or "provider" means any health care facility, or health care practitioner or group practice licensed or certified under Washington state law to provide health or health-related services in Washington state. (11) "Income" means the adjusted gross household income for federal income tax purposes. (12) "Long-term care" means institutional, residential, outpatient, or community-based services that meet the individual needs of persons of all ages who are limited in their functional capacities or have disabilities and require assistance with performing two or more activities of daily living for an extended or indefinite period of time. These services include case management, protective supervision, in-home care, nursing services, convalescent, custodial, chronic, and terminally ill care. (13) "Native American" means an American Indian or Alaska native as defined under 25 U.S.C. Sec. 1603. (14) "Payroll" means any amount paid to Washington state residents and defined as "wages" under section 3121 of the internal revenue code. (15) "Resident" means an individual who presents evidence of established, permanent residency in the state of Washington, who did not enter the state for the primary purpose of obtaining health services. "Resident" also includes people and their accompanying family members who are residing in the state for the purpose of engaging in employment for at least one month. The confinement of a person in a nursing home, hospital, or other medical institution in the state may not by itself be sufficient to qualify such person as a resident. (16) "Trust" means the Washington health security trust created in section 3 of this act.

NEW SECTION. Sec. 3 An agency of state government known as the Washington health security trust is created. The purpose of the trust is to provide coverage for a set of health services for all residents.

NEW SECTION. Sec. 4 (1) The trust shall be governed by a board of trustees. The board consists of nine trustees selected for expertise in health care financing and delivery, and representing Washington citizens, business, labor, and health professions. The initial trustees shall be appointed by the governor, subject to confirmation by the senate. The governor shall appoint the initial board within ninety days of the effective date of this section. Of the initial trustees, three shall be appointed to terms of two years, three shall be appointed to terms of four years, and three shall be appointed to terms of six years. Thereafter, trustees shall be elected to six-year terms, one trustee from

each congressional district; the first class of trustees shall be elected from the first, second, and ninth congressional districts; the second class from the third, seventh, and eighth congressional districts; and the third class from the fourth, fifth, and sixth congressional districts. The governor shall appoint a trustee to serve the remaining term for a vacancy from any cause. The initial board shall convene no later than three months following the initial appointment. (2) Members of the board shall have no pecuniary interest in any business subject to regulation by the board. Members of the board are subject to chapter 42.52 RCW. (3) The initial, appointed members of the board shall occupy their positions on a full-time basis and are exempt from the provisions of chapter 41.06 RCW. The elected trustees shall occupy their positions according to the bylaws, rules, and relevant governing documents of the board. The board and its professional staff are subject to the public disclosure provisions of chapter 42.17 RCW. Trustees shall be paid a salary to be fixed by the governor in accordance with RCW 43.03.040. Five trustees constitute a quorum for the conduct of business. (4) One member of the board shall be designated by the governor as chair, subject to confirmation by a majority of the other trustees. The chair shall serve in this capacity, subject to continuing confidence of a majority of the board. (5) If convinced by a preponderance of the evidence in a due process hearing that a trustee has failed to perform required duties or has a conflict with the public interest, the governor may remove that trustee and appoint another to serve the unexpired term.

NEW SECTION. Sec. 5 (1) Subject to the approval of the board, the chair shall appoint three standing committees: (a) A financial advisory committee consisting of financial experts from the office of financial management, the office of the state treasurer, and the office of the insurance commissioner. The financial advisory committee shall recommend specific details for major budget decisions and for appropriations, taxes, and other funding legislation necessary to conduct the operations of the Washington health security trust; (b) A citizens' advisory committee consisting of balanced representation from health experts, business, labor, and consumers. The citizens' advisory committee shall hold public hearings on priorities for inclusion in the set of health services, survey public satisfaction, investigate complaints, and identify and report on health care access and other priority issues for residents; and (c) A technical advisory committee consisting of members with broad experience in and knowledge of health care delivery, research, and policy, as well as public and private funding of health care services. The technical advisory committee shall make recommendations to the board on technical issues related to covered benefits, quality assurance, utilization, and other issues as requested by the board. (2) The board shall

consult with the citizens' advisory committee at least quarterly, receive its reports and recommendations, and then report to the governor and legislature at least annually on board actions in response to citizens' advisory committee input. The board shall also seek financially sound recommendations from the financial advisory committee whenever the board requests funding legislation necessary to operate the Washington health security trust and whenever the board considers major budget decisions. (3) Subject to approval of the board, the chair may appoint other committees and task forces as needed. (4) Members of committees shall serve without compensation for their services but shall be reimbursed for their expenses while attending meetings on behalf of the board in accordance with RCW 43.03.050 and 43.03.060.

NEW SECTION. Sec. 6 The chair is the presiding officer of the board and has the following powers and duties: (1) Appoint an executive director with the approval of the board. The executive director, with approval of the board, shall employ staff in accordance with chapter 41.06 RCW necessary to execute the policies and decisions of the board; (2) Enter into contracts on behalf of the board. All contracts are subject to review and binding legal opinions by the attorney general's office if disputed in a due process hearing by a party to such a contract; (3) Subject to explicit approval of a majority of the board, accept and expend gifts, donations, grants, and other funds received by the board; and (4) Delegate administrative functions of the board to the executive director and staff of the trust as necessary to ensure efficient administration.

NEW SECTION. Sec. 7 (1) The board shall: (a) With advice from the citizens' advisory committee and the technical advisory committee, establish and keep current a set of health services to be financed by the trust, as provided in section 11 of this act; (b) seek all necessary waivers so that current federal and state payments for health services to residents will be paid directly to the trust; (c) request legislation authorizing the health security assessments and premiums necessary to operate the trust and make rules, policies, guidelines, and timetables needed for the trust to finance the set of health services for all residents starting the second May 15th following the effective date of this section; (d) develop or contract for development of a statewide, anonymous health care data system to use for quality assurance and cost containment; (e) with advice from the technical advisory committee, develop health care practice guidelines and quality standards; (f) develop policies to protect confidentiality of patient records throughout the health care delivery system and the claims payment system; (g) make eligibility rules, including eligibility for residents temporarily out-of-state; (h) develop or

contract for development of a streamlined uniform claims processing system that must pay providers in a timely manner for covered health services; (i) develop appeals procedures for residents and providers; (j) integrate functions with other state agencies; (k) work with the citizens' advisory committee and the technical advisory committee to balance benefits and provider payments with revenues, and develop effective measures to control excessive and unnecessary health care costs; (l) address nonfinancial barriers to health care access; (m) monitor population migration into Washington state to detect any trends related to availability of universal health care coverage; and (n) develop an annual budget for the trust. (2) To the extent that the exercise of any of the powers and duties specified in this section may be inconsistent with the powers and duties of other state agencies, offices, or commissions, the authority of the board supersedes that of such other state agency, office, or commission.

NEW SECTION. Sec. 8 Beginning the third May 15th following the effective date of this section, the board shall adopt, in consultation with the office of financial management, an annual Washington health security trust budget. Except by legislative approval, each annual budget shall not exceed the budget for the preceding year by more than the Washington state consumer price index. If operations expenses exceed revenues generated in two consecutive years, the board shall recommend adjustments in either benefits or revenues, or both, to the legislature.

NEW SECTION. Sec. 9 (1) The board shall report annual changes in total Washington health care costs, along with the financial position and the status of the trust, to the governor and legislature at least once a year. (2) The board shall seek audits annually from the state auditor. (3) The board shall contract with the state auditor for a performance audit every two years. (4) The board shall adopt bylaws, rules, and other appropriate governance documents to assure accountable, open, fair, effective operations of the trust, including methods for electing trustees and rules under which reserve funds may be prudently invested subject to advice of the state treasurer and the director of the department of financial management. (5) The board shall submit any internal rules or policies it adopts to the secretary of state. The internal rules or policies must be made available by the secretary of state for public inspection.

NEW SECTION. Sec. 10 (1) All residents are eligible for coverage through the trust. (2) If a resident has health insurance coverage for any health services provided in the state, the benefits provided in this act are secondary to that insurance. Nonresidents are covered for emergency services and

emergency transportation only. (3) Until federal waivers are accomplished, residents covered under federal health programs shall continue to use that coverage, and benefits provided by the trust shall extend only to costs not covered by the federal health programs unless: (a) The resident voluntarily elects to participate in the trust; (b) the resident's pay is considered in calculating the employer's health security assessment defined under section 16 of this act; and (c) either the employer or the employee pays the health security premium under section 17 of this act. (4) The board shall make provisions for determining eligibility for coverage for residents while they are temporarily out of the state. (5) Pending integration of federally qualified trusts into the health security trust, employees covered under the trusts are not eligible for coverage through the health security trust unless: (a) The employee's pay is considered in calculating the employer's health security assessment defined under section 16 of this act; and (b) either the employer or the employee pays the health security premium under section 17 of this act. (6) Pending integration of federally qualified trusts into the health security trust, residents who are retirees covered under the trusts are not eligible for coverage through the health security trust unless they pay the health security premium under section 17 of this act. (7) Pending integration into the health security trust of applicable federal programs described in section 21 of this act, Native American residents are not eligible for coverage through the health security trust unless: (a) The resident's pay is considered in calculating the employer's health security assessment under section 16 of this act; and (b) either the employer or the resident pays any health security premium due under section 17 of this act. (8) Nothing in this act shall be construed to limit a resident's right to seek health care from any provider he or she chooses, or from obtaining coverage for health care benefits in excess of those available under the trust.

NEW SECTION. Sec. 11 (1) With advice from the citizens' advisory committee and the technical advisory committee, the board shall establish a single benefits package covering health services that are effective and necessary for the good health of residents and that emphasize preventive and primary health care. The board shall ensure that the benefits package constitutes minimum essential coverage for purposes of the federal patient protection and affordable care act. (2) The benefits package shall include, but is not limited to: (a) Inpatient and outpatient hospital care, including twenty-four hour a day emergency services and emergency ambulance services; (b) outpatient, home-based, and office-based care; (c) rehabilitation services, including speech, occupational, and physical therapy; (d) inpatient and outpatient mental health services and substance abuse treatment; (e) hospice care; (f) prescription drugs and prescribed medical nutrition; (g)

vision and hearing care; (h) diagnostic tests; (i) durable medical equipment; (j) preventive care; and (k) any other benefits defined as "essential health benefits" under the federal patient protection and affordable care act. (3) Subject to a financial analysis demonstrating ongoing sufficient funds in the trust, long-term care shall be a covered benefit as of the third May 15th following the effective date of this section. Long-term care coverage shall include a uniform initial assessment and coordination between home health, adult day care, and nursing home services, and other treatment alternatives. The board shall establish a copayment for long-term nursing home care, to cover some costs of room and board, for residents with incomes above one hundred fifty percent of the federal poverty level. (4) The board, in coordination with the office of the insurance commissioner, shall examine by the third May 15th following the effective date of this section, possible remedies for residents who have made previous payments for long-term care insurance. (5) Except where otherwise prohibited by federal law, the board shall establish copayments for outpatient visits, emergency room visits, and prescription drugs for residents with incomes above one hundred fifty percent of the federal poverty level. There shall be an annual cap of five hundred dollars per family. (6) The board shall submit to the legislature by the third July 1st following the effective date of this section, a plan to incorporate dental care coverage in the benefits package, to be effective January 1, 2015. (7) The board shall submit to the governor and legislature by the first December 1st following the effective date of this section, and by December 1st of the following years: (a) The benefits package, and (b) an actuarial analysis of the cost of the package. (8) The board shall consider the extent to which medical research and health professions training activities should be included in the scope of covered activities set forth in this act. The board shall make a report to the governor and the legislature by the third July 1st following the effective date of this section.

NEW SECTION. Sec. 12 (1) When consistent with existing federal law, the board shall require pharmaceutical and durable medical equipment manufacturers to provide their products in Washington state at the lowest rate offered to federal and other government entities. (2) The board may seek other means of financing drugs and durable medical equipment at the lowest possible cost, including bulk purchasing agreements with Washington state tribes. (3) The board may enact drug formularies that do not interfere with treatments necessary for appropriate standards of care.

NEW SECTION. Sec. 13 (1) The board shall adopt rules permitting providers to collectively negotiate budgets, payment schedules, and other terms and conditions of trust participation. (2) The board shall annually

negotiate with each hospital and each facility a prospective global budget for operational and other costs to be covered by the trust. Group practices may also negotiate on a global budget basis. Hospitals and other facilities shall be paid on a fee-for-service or case rate basis, within the limits of their prospective annual budget. (3) Payment to individual practitioners shall be by fee-for-service or on a case rate basis or on a combination of bases. The board shall study the feasibility of paying by capitation to providers, and how resident enrollment would take place under capitation. (4) Individual practitioners who are employed by a group, facility, clinic, or hospital may be paid by salary. (5) The board shall adopt rules ensuring that payment schedules and procedures for mental health services are comparable to other health care services. (6) The board shall study and seek to develop provider payment methods that: (a) Encourage an integrated multispecialty approach to disease management; (b) reward education time spent with patients; and (c) include a medical risk adjustment formula for providers whose practices serve patients with higher than average health risks. (7) Nothing in this act shall be construed to limit a provider's right to receive payments from sources other than the trust. However, any provider who does accept payment from the trust for a service must accept that payment, along with applicable copayments, as payment in full.

NEW SECTION. Sec. 14 (1) The intent of this section is to exempt activities approved under this act from state antitrust laws and to provide immunity from federal antitrust laws through the state action doctrine. (2) Activities that might otherwise be constrained by antitrust laws, including: (a) Containing the aggregate cost of health care services; (b) promoting cooperative activities among health care providers to develop cost-effective health care delivery systems; and (c) any other lawful actions taken under this act by any person or entity created or regulated by this act, are declared to be pursuant to state statute and for the public purposes of the state of Washington.

NEW SECTION. Sec. 15 (1) Administrative expenses to operate and maintain the trust shall not exceed eleven percent of the trust's annual budget. The board shall not shift administrative costs or duties of the trust to providers or to resident beneficiaries. (2) The board shall work with providers to develop and apply scientifically based utilization standards, to use encounter and prescribing data to detect excessive utilization, to develop due processes for enforcing appropriate utilization standards, and to identify and prosecute fraud. (3) The board may institute other cost-containment measures in order to maintain a balanced budget. The board shall pursue due diligence to ensure that cost-containment measures do not limit access to

clinically necessary care, nor infringe upon legitimate clinical decision making by practitioners.

NEW SECTION. Sec. 16 A new section is added to chapter 82.02 RCW to read as follows: In addition to and not in lieu of taxes imposed at the rates established under chapter 82.04 RCW, all Washington state employers shall pay a health security assessment to the department of revenue to fund the Washington health security trust created in section 3 of this act. (1) Effective the second May 15th following the effective date of this section, all employers in Washington state shall pay in quarterly installments a health security assessment on aggregate gross payroll paid to Washington state residents. Except as provided in this section, the health security assessment shall be: (a) A first step percentage of aggregate gross quarterly payroll up to, and including, one hundred twenty-five thousand dollars; (b) a second step percentage of the amount of aggregate gross quarterly payroll above one hundred twenty-five thousand dollars; and (c) the first step percentage rate shall be one-tenth of the rate of the second step percentage. (2) The tax rates under subsection (1) of this section may be adjusted annually by the office of financial management to reflect changes in the Washington state consumer price index, or other cost-of-living index deemed appropriate by the office of financial management. (3) The department of revenue shall assess a penalty at the rate of two percent per month, or a fraction thereof, on any employer whose applicable health security payroll assessment is not postmarked by the last day of the month following the quarter in which it is due. (4) The federal government, when an employer of Washington state residents, is exempt from the health security assessment prior to the repeal, amendment, or waiver of existing state and federal laws delineated in section 21 of this act. (5) Beginning the second May 15th following the effective date of this section until the eighth May 15th following the effective date of this section, employers that face financial hardship in paying the health security assessment, may, upon application to the board of trustees created in section 4 of this act, be eligible for waivers or reductions in the health security assessment. The board shall establish rules and procedures governing all aspects of the business assistance program, including application procedures, thresholds regarding firm size, wages, profits, age of firm, and duration of assistance. (6) Pending integration of any federally qualified trusts, the payroll of employees covered under these trusts is exempt from the health security assessment, although the employer may pay it voluntarily. (7) Pending repeal, amendment, or waiver of applicable state and federal laws delineated in section 21 of this act, payroll of Native American residents who do not elect to participate in the health security trust is exempt from the health security assessment. (8) Eighty percent of the

revenue collected under this section must be deposited in the benefits account created in section 24 of this act. (9) For the purposes of this section, the terms "employer," "payroll," and "resident" have the same meaning as defined in section 2 of this act.

NEW SECTION. Sec. 17 A new section is added to chapter 82.02 RCW to read as follows: (1) Effective the second May 15th following the effective date of this section, all Washington residents eighteen years and older, except medicare and medicaid beneficiaries, with incomes over one hundred fifty percent of the federal poverty level shall pay a standard monthly flat rate health security premium. The board shall recommend the amount of this premium, and the legislature shall establish the exact amount in separate legislation. (2) Medicare and medicaid beneficiaries with incomes over one hundred fifty percent of the federal poverty level who elect to participate in the trust shall pay reduced, monthly, flat rate health security premium. The board shall recommend the amount of this premium, and the legislature shall establish the exact amount in separate legislation. (3) All premiums may be adjusted annually by the office of financial management to reflect changes in the Washington state consumer price index, or other cost-of-living index deemed appropriate by the office of financial management. (4) By the second May 15th following the effective date of this section, the board of trustees of the Washington health security trust, created in section 3 of this act, shall develop and implement specific rules and procedures to subsidize the health security premiums of residents, including medicare and medicaid eligible residents, whose household incomes are less than two hundred fifty percent of the federal poverty level. (5) Federal employees and retirees are exempt from the health security premium prior to the repeal, amendment, or waiver of existing federal laws delineated in section 21 of this act, although they may elect to participate in the trust and pay it voluntarily. (6) Pending integration of any federally qualified trusts, employees and retirees covered under these trusts are exempt from the health security premium, although they may elect to participate in the trust and the employee or the employer may pay it voluntarily. (7) Pending repeal, amendment, or waiver of applicable state and federal laws delineated in section 21 of this act, Native American residents are exempt from paying the health security premium, although they may elect to participate in the trust and they or their employer may pay it voluntarily. (8) Employers shall collect the health security premiums of their employees through payroll deduction. An employee may also make the premium payment for a nonworking spouse through payroll deduction. Self-employed and nonemployed individuals shall pay their health security premiums monthly to the department of revenue. The department shall assess a penalty at the rate of two percent per month, or fraction thereof,

on all self-employed and nonemployed individuals whose health security premium is not postmarked by the twentieth day following the month it is due. Employers reserve the right to provide private health care coverage to employees; notwithstanding, employers must pay the health security assessment as provided in section 16 of this act. (9) Retirees who receive retirement benefits from a former employer or a successor to the employer, other than in federally qualified trusts or through federal employment, may claim a credit against the health security premium otherwise due under this section, if all or a portion of the retirement benefits consists of health care benefits arising from a contract of health insurance entered into between the employer, or successor, and a health insurance provider. (10) For the purposes of this section, the terms "employer," "federal poverty level," "income," and "resident" have the same meaning as defined in section 2 of this act.

NEW SECTION. Sec. 18 Revenue derived from the health security assessment, created in section 16 of this act, and the health security premium, created in section 17 of this act, shall not be used to pay for medical assistance currently provided under chapter 74.09 RCW or other existing federal and state health care programs. If existing federal and state sources of payment for health services are reduced or terminated after the effective date of this section, the legislature shall replace these appropriations from the general fund.

NEW SECTION. Sec. 19 (1) The health care authority is hereby abolished and its powers, duties, and functions are hereby transferred to the Washington health security trust. All references to the administrator or the health care authority in the Revised Code of Washington shall be construed to mean the chair or the Washington health security trust. (2)(a) All reports, documents, surveys, books, records, files, papers, or written material in the possession of the health care authority shall be delivered to the custody of the Washington health security trust. All cabinets, furniture, office equipment, motor vehicles, and other tangible property employed by the health care authority shall be made available to the Washington health security trust. All funds, credits, or other assets held by the health care authority shall be assigned to the Washington health security trust. (b) Any appropriations made to the health care authority shall, on the effective date of this section, be transferred and credited to the Washington health security trust. (c) If any question arises as to the transfer of any personnel, funds, books, documents, records, papers, files, equipment, or other tangible property used or held in the exercise of the powers and the performance of the duties and functions transferred, the director of financial management shall make a determination as to the proper

allocation and certify the same to the state agencies concerned. (3) All employees of the health care authority are transferred to the jurisdiction of the Washington health security trust. All employees classified under chapter 41.06 RCW, the state civil service law, are assigned to the Washington health security trust to perform their usual duties upon the same terms as formerly, without any loss of rights, subject to any action that may be appropriate thereafter in accordance with the laws and rules governing state civil service. (4) All rules and all pending business before the health care authority shall be continued and acted upon by the Washington health security trust. All existing contracts and obligations shall remain in full force and shall be performed by the Washington health security trust. (5) The transfer of the powers, duties, functions, and personnel of the health care authority shall not affect the validity of any act performed before the effective date of this section. (6) If apportionments of budgeted funds are required because of the transfers directed by this section, the director of financial management shall certify the apportionments to the affected agencies, the state auditor, and the state treasurer. Each of these shall make the appropriate transfer and adjustments in funds and appropriation accounts and equipment records in accordance with the certification. (7) Nothing contained in this section may be construed to alter any existing collective bargaining unit or the provisions of any existing collective bargaining agreement until the agreement has expired or until the bargaining unit has been modified by action of the personnel board as provided by law.

NEW SECTION. Sec. 20 Effective the second January 1st following the effective date of this section until the second April 30th following the effective date of this section, all employers in Washington state shall pay reduced start-up health security assessments that are thirty percent of the standard monthly flat rate assessment amount to be established by separate legislation. The department of revenue will collect these moneys. Twenty percent of these revenues must be deposited in the reserve account, created in section 22 of this act. Eighty percent of these revenues must be deposited in the benefits account, created in section 24 of this act. Employers who pay this assessment may be eligible for partial or full rebates within two years, if there are sufficient surpluses in the trust.

NEW SECTION. Sec. 21 (1) The board, in consultation with sovereign tribal governments as called for by the centennial accord, shall determine the state and federal laws that need to be repealed, amended, or waived to implement this act, and report its recommendations, with proposed revisions to the Revised Code of Washington, to the governor and the appropriate committees of the legislature by the first October 1st following the effective

date of this section. (2) The governor, in consultation with the board and sovereign tribal governments as called for by the centennial accord, shall take the following steps in an effort to receive waivers or exemptions from federal statutes necessary to fully implement this act: (a) Negotiate with the federal department of health and human services, health care financing administration, to obtain a statutory or regulatory waiver of provisions of the medical assistance statute, Title XIX of the federal social security act and the children's health insurance program; (b) Negotiate with the federal department of health and human services to obtain a statutory or regulatory waiver of provisions of the medicare statute, Title XVIII of the federal social security act, that currently constitute barriers to full implementation of this act; (c) Negotiate with the federal department of health and human services to obtain any statutory or regulatory waivers of provisions of the United States public health services act necessary to ensure integration of federally funded community and migrant health clinics and other health services funded through the public health services act into the trust system under this act; (d) Negotiate with the federal office of personnel management for the inclusion of federal employee health benefits in the trust under this act; (e) Negotiate with the federal department of veterans' affairs for the inclusion of veterans' medical benefits in the trust under this act; (f) Negotiate with the federal department of defense and other federal agencies for the inclusion of the civilian health and medical program of the uniformed services (CHAMPUS) in the trust under this act; (g) Negotiate with the Indian health services and sovereign tribal governments for inclusion and adequate reimbursement of Indian health benefits under the trust created by this act; and (h) Request that the United States congress amend the internal revenue code to treat the employer health security assessment, created in section 16 of this act, and the individual health security premiums, created in section 17 of this act, as fully deductible from adjusted gross income.

NEW SECTION. Sec. 22 (1) The reserve account is created in the custody of the state treasurer. The reserve account will accumulate moneys until its value equals ten percent of the total annual budgeted expenditures of the trust and then will be considered fully funded, unless the legislature determines that a different level of reserve is necessary and prudent. Whenever the reserve account is fully funded, additional moneys shall be transferred to the benefits account created in section 24 of this act. (2) Receipts from the following sources must be deposited into the reserve account: (a) Twenty percent of the health security assessments paid by employers under section 20 of this act between the effective date of this section and the first April 30th following the effective date of this section; (b) effective the first May 15th following the effective date of this section, seven percent of receipts from the

health security assessment created under section 16 of this act and seven percent of the receipts from the health security premium created under section 17 of this act; and (c) ten percent of all moneys received pursuant to RCW 41.05.120, 41.05.130, 66.24.290, 82.24.020, 82.26.020, 82.08.150, 43.79.480, 41.05.220, and section 33 of this act. (3) Expenditures from the reserve account may be used only for the purposes of health care services and maintenance of the trust. Only the board or the board's designee may authorize expenditures from the account. The account is subject to allotment procedures under chapter 43.88 RCW, but an appropriation is not required for expenditures.

NEW SECTION. Sec. 23 (1) The displaced worker training account is created in the custody of the state treasurer. Between the first May 15th following the effective date of this section and the second January 1st following the effective date of this section, three percent of the receipts from the health security assessment created in section 16 of this act and three percent of the health security premium created in section 17 of this act must be deposited into the account. Expenditures from the account may be used only for retraining and job placement of workers displaced by the transition to the trust. Only the board or the board's designee may authorize expenditures from the account. The account is subject to allotment procedures under chapter 43.88 RCW, but an appropriation is not required for expenditures. (2) Any funds remaining in the account on the second December 31st following the effective date of this section must be deposited into the benefits account created in section 24 of this act. (3) This section expires the third January 1st following the effective date of this section.

NEW SECTION. Sec. 24 The benefits account is created in the custody of the state treasurer. All receipts from the health security assessment created under section 16 of this act and the health security premium created under section 17 of this act that are not dedicated to the reserve account created in section 22 of this act or the displaced worker training account created in section 23 of this act, as well as receipts from other sources, must be deposited into the account. Expenditures from the account may be used only for health care services and maintenance of the trust. Only the board or the board's designee may authorize expenditures from the account. The account is subject to allotment procedures under chapter 43.88 RCW, but an appropriation is not required for expenditures.

Sec. 25 RCW 41.05.120 and 2005 c 518 s 921 and 2005 c 143 s 3 are each reenacted and amended to read as follows: ~~((H))~~ Contributions from RCW 41.05.050, and reserves, dividends, and refunds currently in the public

employees' and retirees' insurance account (~~(is hereby established in the custody of the state treasurer, to be used by the administrator for the deposit of contributions, the remittance paid by school districts and educational service districts under RCW 28A.400.410, reserves, dividends, and refunds, for payment of premiums for employee and retiree insurance benefit contracts and subsidy amounts provided under RCW 41.05.085, and transfers from the medical flexible spending account as authorized in RCW 41.05.123. Moneys from the account shall be disbursed by the state treasurer by warrants on vouchers duly authorized by the administrator. Moneys from the account may be transferred to the medical flexible spending account to provide reserves and start-up costs for the operation of the medical flexible spending account program.~~ (2) The state treasurer and the state investment board may invest moneys in the public employees' and retirees' insurance account. All such investments shall be in accordance with RCW 43.84.080 or 43.84.150, whichever is applicable. The administrator shall determine whether the state treasurer or the state investment board or both shall invest moneys in the public employees' insurance account. (3) During the 2005-07 fiscal biennium, the legislature may transfer from the public employees' and retirees' insurance account such amounts as reflect the excess fund balance of the fund)) shall be deposited in the reserve account pursuant to section 22 of this act and the benefits account pursuant to section 24 of this act.

Sec. 26 RCW 41.05.130 and 1988 c 107 s 11 are each amended to read as follows: The state health care authority administrative account is (~~hereby created in the state treasury~~) transferred to the reserve account created in section 22 of this act and the benefits account created in section 24 of this act. Moneys in the account, including unanticipated revenues under RCW 43.79.270, (~~may be spent only after appropriation by statute, and may be used only for operating expenses of the authority~~) are transferred to the reserve account created in section 22 of this act and the benefits account created in section 24 of this act.

Sec. 27 RCW 66.24.290 and 2010 1st sp.s. c 23 s 1301 are each amended to read as follows: (1) Any microbrewer or domestic brewery or beer distributor licensed under this title may sell and deliver beer and strong beer to holders of authorized licenses direct, but to no other person, other than the board. Any certificate of approval holder authorized to act as a distributor under RCW 66.24.270 shall pay the taxes imposed by this section. (a) Every such brewery or beer distributor shall report all sales to the board monthly, pursuant to the regulations, and shall pay to the board as an added tax for the privilege of manufacturing and selling the beer and strong beer within the state a tax of one dollar and thirty cents per barrel of thirty-one

gallons on sales to licensees within the state and on sales to licensees within the state of bottled and canned beer, including strong beer, shall pay a tax computed in gallons at the rate of one dollar and thirty cents per barrel of thirty-one gallons. (b) Any brewery or beer distributor whose applicable tax payment is not postmarked by the twentieth day following the month of sale will be assessed a penalty at the rate of two percent per month or fraction thereof. Beer and strong beer shall be sold by breweries and distributors in sealed barrels or packages. (c) The moneys collected under this subsection shall be distributed as follows: (i) Three-tenths of a percent shall be distributed to border areas under RCW 66.08.195; and (ii) of the remaining moneys: (A) Twenty percent shall be distributed to counties in the same manner as under RCW 66.08.200; and (B) eighty percent shall be distributed to incorporated cities and towns in the same manner as under RCW 66.08.210. (d) Any licensed retailer authorized to purchase beer from a certificate of approval holder with a direct shipment endorsement or a brewery or microbrewery shall make monthly reports to the liquor control board on beer purchased during the preceding calendar month in the manner and upon such forms as may be prescribed by the board. (2) An additional tax is imposed on all beer and strong beer subject to tax under subsection (1) of this section. The additional tax is equal to two dollars per barrel of thirty-one gallons. All revenues collected during any month from this additional tax shall be deposited in the state general fund by the twenty-fifth day of the following month. (3)(a) An additional tax is imposed on all beer and strong beer subject to tax under subsection (1) of this section. The additional tax is equal to ninety-six cents per barrel of thirty-one gallons through June 30, 1995, two dollars and thirty-nine cents per barrel of thirty-one gallons for the period July 1, 1995, through June 30, 1997, and four dollars and seventy-eight cents per barrel of thirty-one gallons thereafter. (b) The additional tax imposed under this subsection does not apply to the sale of the first sixty thousand barrels of beer each year by breweries that are entitled to a reduced rate of tax under 26 U.S.C. Sec. 5051, as existing on July 1, 1993, or such subsequent date as may be provided by the board by rule consistent with the purposes of this exemption. (c) All revenues collected from the additional tax imposed under this subsection (3) shall be deposited in the ~~((state general fund))~~ reserve account created in section 22 of this act and the benefits account created in section 24 of this act. (4) An additional tax is imposed on all beer and strong beer that is subject to tax under subsection (1) of this section that is in the first sixty thousand barrels of beer and strong beer by breweries that are entitled to a reduced rate of tax under 26 U.S.C. Sec. 5051, as existing on July 1, 1993, or such subsequent date as may be provided by the board by rule consistent with the purposes of the exemption under subsection (3)(b) of this section. The additional tax is equal to one dollar and

forty-eight and two-tenths cents per barrel of thirty-one gallons. By the twenty-fifth day of the following month, three percent of the revenues collected from this additional tax shall be distributed to border areas under RCW 66.08.195 and the remaining moneys shall be transferred to the state general fund. (5)(a) From June 1, 2010, through June 30, 2013, an additional tax is imposed on all beer and strong beer subject to tax under subsection (1) of this section. The additional tax is equal to fifteen dollars and fifty cents per barrel of thirty-one gallons. (b) The additional tax imposed under this subsection does not apply to the sale of the first sixty thousand barrels of beer each year by breweries that are entitled to a reduced rate of tax under 26 U.S.C. Sec. 5051 of the federal internal revenue code, as existing on July 1, 1993, or such subsequent date as may be provided by the board by rule consistent with the purposes of this exemption. (c) All revenues collected from the additional tax imposed under this subsection shall be deposited in the state general fund. (6) The board may make refunds for all taxes paid on beer and strong beer exported from the state for use outside the state. (7) The board may require filing with the board of a bond to be approved by it, in such amount as the board may fix, securing the payment of the tax. If any licensee fails to pay the tax when due, the board may forthwith suspend or cancel his or her license until all taxes are paid.

Sec. 28 RCW 82.24.020 and 2010 1st sp.s. c 22 s 2 are each amended to read as follows: (1) There is levied and collected as provided in this chapter(;) a tax upon the sale, use, consumption, handling, possession, or distribution of all cigarettes, in an amount equal to 12.125 cents per cigarette. (2) Wholesalers subject to the payment of this tax may, if they wish, absorb five one-hundredths cents per cigarette of the tax and not pass it on to purchasers without being in violation of this section or any other act relating to the sale or taxation of cigarettes. (3) For purposes of this chapter, "possession" means both (a) physical possession by the purchaser, and(;) (b) when cigarettes are being transported to or held for the purchaser or his or her designee by a person other than the purchaser, constructive possession by the purchaser or his or her designee, which constructive possession is deemed to occur at the location of the cigarettes being so transported or held. (4) In accordance with federal law and rules prescribed by the department, an enrolled member of a federally recognized Indian tribe may purchase cigarettes from an Indian tribal organization under the jurisdiction of the member's tribe for the member's own use exempt from the applicable taxes imposed by this chapter. Except as provided in subsection (5) of this section, any person, who purchases cigarettes from an Indian tribal organization and who is not an enrolled member of the federally recognized Indian tribe within whose jurisdiction the sale takes place, is not exempt from

the applicable taxes imposed by this chapter. (5) If the state enters into a cigarette tax contract or agreement with a federally recognized Indian tribe under chapter 43.06 RCW, the terms of the contract or agreement take precedence over any conflicting provisions of this chapter while the contract or agreement is in effect. The revenue collected under this section must be deposited in the reserve account created in section 22 of this act and the benefits account created in section 24 of this act.

Sec. 29 RCW 82.26.020 and 2010 1st sp.s. c 22 s 5 are each amended to read as follows: (1) There is levied and collected a tax upon the sale, handling, or distribution of all tobacco products in this state at the following rate: (a) For cigars except little cigars, ninety-five percent of the taxable sales price of cigars, not to exceed sixty-five cents per cigar; (b) For all tobacco products except those covered under separate provisions of this subsection, ninety-five percent of the taxable sales price; (c) For moist snuff, as established in this subsection (1)(c) and computed on the net weight listed by the manufacturer: (i) On each single unit consumer-sized can or package whose net weight is one and two-tenths ounces or less, a rate per single unit that is equal to the greater of 2.526 dollars or eighty-three and one-half percent of the cigarette tax under chapter 82.24 RCW multiplied by twenty; or (ii) On each single unit consumer-sized can or package whose net weight is more than one and two-tenths ounces, a proportionate tax at the rate established in (c)(i) of this subsection (1) on each ounce or fractional part of an ounce; and (d) For little cigars, an amount per cigar equal to the cigarette tax under chapter 82.24 RCW. (2) Taxes under this section must be imposed at the time the distributor (a) brings, or causes to be brought, into this state from without the state tobacco products for sale, (b) makes, manufactures, fabricates, or stores tobacco products in this state for sale in this state, (c) ships or transports tobacco products to retailers in this state, to be sold by those retailers, or (d) handles for sale any tobacco products that are within this state but upon which tax has not been imposed. (3) The moneys collected under this section must be deposited into the ~~((state general fund))~~ reserve account created in section 22 of this act and the benefits account created in section 24 of this act.

Sec. 30 RCW 82.08.150 and 2012 c 2 s 106 (Initiative Measure No. 1183) are each amended to read as follows: (1) There is levied and collected a tax upon each retail sale of spirits in the original package at the rate of fifteen percent of the selling price. (2) There is levied and collected a tax upon each sale of spirits in the original package at the rate of ten percent of the selling price on sales by a spirits distributor licensee or other licensee acting as a spirits distributor pursuant to Title 66 RCW to restaurant spirits

retailers. (3) There is levied and collected an additional tax upon each sale of spirits in the original package by a spirits distributor licensee or other licensee acting as a spirits distributor pursuant to Title 66 RCW to a restaurant spirits retailer and upon each retail sale of spirits in the original package by a licensee of the board at the rate of one dollar and seventy-two cents per liter. (4) An additional tax is imposed equal to fourteen percent multiplied by the taxes payable under subsections (1), (2), and (3) of this section. (5) An additional tax is imposed upon each sale of spirits in the original package by a spirits distributor licensee or other licensee acting as a spirits distributor pursuant to Title 66 RCW to a restaurant spirits retailer and upon each retail sale of spirits in the original package by a licensee of the board at the rate of seven cents per liter. All revenues collected during any month from this additional tax must be deposited in the state general fund by the twenty-fifth day of the following month. (6)(a) An additional tax is imposed upon retail sale of spirits in the original package at the rate of three and four-tenths percent of the selling price. (b) An additional tax is imposed upon retail sale of spirits in the original package to a restaurant spirits retailer at the rate of two and three-tenths percent of the selling price. (c) An additional tax is imposed upon each sale of spirits in the original package by a spirits distributor licensee or other licensee acting as a spirits distributor pursuant to Title 66 RCW to a restaurant spirits retailer and upon each retail sale of spirits in the original package by a licensee of the board at the rate of forty-one cents per liter. (d) All revenues collected during any month from additional taxes under this subsection must be deposited in the ~~((state general fund))~~ reserve account created in section 22 of this act and the benefits account created in section 24 of this act by the twenty-fifth day of the following month. (7)(a) An additional tax is imposed upon each retail sale of spirits in the original package at the rate of one dollar and thirty-three cents per liter. (b) All revenues collected during any month from additional taxes under this subsection must be deposited by the twenty-fifth day of the following month into the ~~((general fund))~~ reserve account created in section 22 of this act and the benefits account created in section 24 of this act. (8) The tax imposed in RCW 82.08.020 does not apply to sales of spirits in the original package. (9) The taxes imposed in this section must be paid by the buyer to the seller, and each seller must collect from the buyer the full amount of the tax payable in respect to each taxable sale under this section. The taxes required by this section to be collected by the seller must be stated separately from the selling price, and for purposes of determining the tax due from the buyer to the seller, it is conclusively presumed that the selling price quoted in any price list does not include the taxes imposed by this section. Sellers must report and return all taxes imposed in this section in accordance with rules adopted by the

department. (10) As used in this section, the terms, "spirits" and "package" have the same meaning as provided in chapter 66.04 RCW.

Sec. 31 RCW 43.79.480 and 2011 1st sp.s. c 50 s 947 are each amended to read as follows: (1) Moneys received by the state of Washington in accordance with the settlement of the state's legal action against tobacco product manufacturers, exclusive of costs and attorneys' fees, shall be deposited in the tobacco settlement account created in this section except as these moneys are sold or assigned under chapter 43.340 RCW. (2) The tobacco settlement account is created in the state treasury. Moneys in the tobacco settlement account may only be transferred to the ~~((state general fund))~~ reserve account created in section 22 of this act and the benefits account created in section 24 of this act, and to the tobacco prevention and control account for purposes set forth in this section. ~~((The legislature shall transfer amounts received as strategic contribution payments as defined in RCW 43.350.010 to the life sciences discovery fund created in RCW 43.350.070. During the 2009-2011 and 2011-2013 fiscal biennia, the legislature may transfer less than the entire strategic contribution payments, and may transfer amounts attributable to strategic contribution payments into the basic health plan stabilization account.))~~ (3) The tobacco prevention and control account is created in the state treasury. The source of revenue for this account is moneys transferred to the account from the tobacco settlement account, investment earnings, donations to the account, and other revenues as directed by law. Expenditures from the account are subject to appropriation. During the 2009-2011 fiscal biennium, the legislature may transfer from the tobacco prevention and control account to the state general fund such amounts as represent the excess fund balance of the account.

Sec. 32 RCW 41.05.220 and 1998 c 245 s 38 are each amended to read as follows: ~~((+))~~ State general funds appropriated to the department of health for the purposes of funding community health centers to provide primary health and dental care services, migrant health services, and maternity health care services shall be transferred to the ~~((state health care authority))~~ reserve account created in section 22 of this act and the benefits account created in section 24 of this act. Any related administrative funds expended by the department of health for this purpose shall also be transferred to the ~~((health care authority))~~ reserve account created in section 22 of this act and the benefits account created in section 24 of this act. The Washington health ~~((care authority))~~ security trust shall exclusively expend these funds through contracts with community health centers to provide primary health and dental care services, migrant health services, and maternity health care services. The ~~((administrator))~~ chair of the Washington

health (~~(care authority)~~) security trust shall establish requirements necessary to assure community health centers provide quality health care services that are appropriate and effective and are delivered in a cost-efficient manner. The (~~(administrator)~~) chair of the Washington health security trust shall further assure that community health centers have appropriate referral arrangements for acute care and medical specialty services not provided by the community health centers. (~~((2) The authority, in consultation with the department of health, shall work with community and migrant health clinics and other providers of care to underserved populations, to ensure that the number of people of color and underserved people receiving access to managed care is expanded in proportion to need, based upon demographic data.))~~)

NEW SECTION. Sec. 33 Following the repeal, amendment, or waiver of existing state and federal laws delineated in section 21 of this act, all other revenues currently deposited in the health services account for personal health care services shall be deposited to the reserve account created in section 22 of this act and the benefits account created in section 24 of this act.

NEW SECTION. Sec. 34 Nothing in this act shall be construed to limit an employer's right to maintain employee benefit plans under the federal employee retirement income security act of 1974.

NEW SECTION. Sec. 35 No later than the third January 1st following the effective date of this section, the board shall submit to the legislature a proposal to integrate those current and future federally qualified trusts that choose to participate in the trust.

NEW SECTION. Sec. 36 On or before the third January 1st following the effective date of this section, the board, in coordination with the department of labor and industries, shall study and make a report to the governor and appropriate committees of the legislature on the provision of medical benefits for injured workers under the trust.

NEW SECTION. Sec. 37 An appropriation by separate act of the legislature may be necessary for the fiscal year ending June 30th in the second year following the effective date of this section, from the general fund to the benefits account of the Washington health security trust for start-up moneys for purposes of this act during the period of the first July 1st following the effective date of this section through the second June 30th following the effective date of this section.

NEW SECTION. Sec. 38 The following acts or parts of acts are each

repealed: (1) RCW 82.04.260 (Tax on manufacturers and processors of various foods and by-products -- Research and development organizations -- Travel agents -- Certain international activities -- Stevedoring and associated activities -- Low-level waste disposers -- Insurance producers, surplus line brokers, and title insurance agents--Hospitals -- Commercial airplane activities -- Timber product activities -- Canned salmon processors) and 2012 2nd sp.s. c 6 s 602, 2012 2nd sp.s. c 6 s 204, 2011 c 2 s 203 (Initiative Measure No. 1107), 2010 1st sp.s. c 23 s 506, & 2010 c 114 s 107; (2) RCW 82.04.260 (Tax on manufacturers and processors of various foods and by-products -- Research and development organizations -- Travel agents -- Certain international activities -- Stevedoring and associated activities -- Low-level waste disposers -- Insurance producers, surplus line brokers, and title insurance agents--Hospitals -- Commercial airplane activities -- Timber product activities -- Canned salmon processors) and 2012 2nd sp.s. c 6 s 204, 2011 c 2 s 203 (Initiative Measure No. 1107), 2010 1st sp.s. c 23 s 506, & 2010 c 114 s 107; and (3) RCW 48.14.0201 (Premiums and prepayments tax -- Health care services -- Exemptions -- State preemption) and 2011 c 47 s 8 & 2009 c 479 s 41.

NEW SECTION. Sec. 39 Sections 1 through 15, 18, 19, 21 through 24, and 33 through 35 of this act constitute a new chapter in Title 43 RCW.

NEW SECTION. Sec. 40 (1) No later than January 1, 2017, the Washington state health care authority shall apply for a waiver from the provisions of the federal patient protection and affordable care act, P.L. 111-148, as amended by the federal health care and education reconciliation act, P.L. 111-152, to: (a) Suspend the operation of the Washington health benefit exchange established in chapter 43.71 RCW; (b) Enable the state to receive appropriate federal funding in lieu of the federal premium tax credits, federal cost-sharing subsidies, and other federal payments and tax credits that will no longer be necessary due the suspension of the operations of the Washington health benefits exchange; and (c) Ensure the operation of the Washington health security trust consistent with this act. (2) The waiver application must be consistent with 42 U.S.C. § 18052. (3) Beginning November 15, 2013, the health care authority shall submit annual progress reports to the appropriate legislative committees regarding the development of the waiver application. The report submitted on November 15, 2015, must include a list of any statutory changes necessary to implement the waiver. (4) Upon receipt of the waiver, the health care authority shall promptly notify in writing the office of the code reviser and the appropriate committees of the legislature.

NEW SECTION. Sec. 41 (1) Sections 2 through 18, 20, 21, and 35 through 37 of this act take effect upon receipt of the waiver requested under section 40 of this act. (2) Sections 22 through 24 of this act take effect the second January 1st following receipt of the waiver requested under section 40 of this act. (3) Sections 19, 25 through 34, and 38 of this act take effect the second May 15th following receipt of the waiver requested under section 40 of this act.

NEW SECTION. Sec. 42 If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

NEW SECTION. Sec. 43 If any part of this act is found to be in conflict with federal requirements that are a prescribed condition to the allocation of federal funds to the state, the conflicting part of this act is inoperative solely to the extent of the conflict and with respect to the agencies directly affected, and this finding does not affect the operation of the remainder of this act in its application to the agencies concerned. Rules adopted under this act must meet federal requirements that are a necessary condition to the receipt of federal funds by the state.

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