

## DEPARTMENT OF FINANCE BILL ANALYSIS

**AMENDMENT DATE:** 08/06/2012  
**POSITION:** Neutral

**BILL NUMBER:** AB 1794  
**AUTHOR:** Williams, Das  
**RELATED BILLS:** AB 1845, Solorio

**BILL SUMMARY: Unemployment insurance: use of employer reports: reporting and payroll: enforcement.**

This bill would authorize the Employment Development Department (EDD) to provide specific new employee information to the Joint Enforcement Strike Force on the Underground Economy, the Contractors' State License Board (CSLB), and the State Compensation Insurance Fund (SCIF) for the purposes of auditing, investigating, prosecuting violations of tax and cash-pay reporting laws, and workers' compensation payroll reporting. Additionally, the bill would require the EDD, CSLB, and SCIF to execute a memorandum of understanding by July 1, 2013, to share information and coordinate enforcement actions on the failure to report new hires and accurate payroll information.

The provisions of this bill would sunset on January 1, 2019.

**FISCAL SUMMARY**

The EDD would incur costs to produce the data requested by entities but, as part of the memorandum of understanding, would be reimbursed by the requesting entities. The costs associated with this bill will likely range between \$13,000 and \$23,000 annually for each entity requesting information from the EDD. This estimate is based on similar agreements with other state departments.

**COMMENTS**

The Department of Finance is neutral on this bill because it permits information sharing among state entities to allow more efficient enforcement of workers' compensation requirements imposed upon contractors.

Existing law requires employers to report specified information regarding employees within the first 20 days of employment. Pursuant to licensing and regulations of contractors by the CSLB, contractors are required to file proof of maintaining workers' compensation coverage, or, if the contractor is a roofing contractor, file a declaration certifying that the contractor has no employees.

Chapter 38, Statutes of 2006 (AB 881, Emmerson) requires all roofers to have workers' compensation insurance, authorizes the Contractors State License Board's Registrar of Contractors to remove the roofing classification from a contractor license for failure to maintain workers' compensation insurance, and requires insurers to conduct annual audits of their roofing customers' payroll.

State labor laws require California employers to provide workers' compensation benefits to their employees. Employers must purchase workers' compensation insurance from either a licensed insurance company, or through SCIF, or employers may choose to self-insure, which means they use a pay-as-you-go model, paying benefits to and on behalf of workers as the costs are incurred. SCIF, a non-profit, independent organization with approximately 150,000 policyholders, more than \$1.2 billion in premiums, and nearly \$20 billion in assets, is the largest workers' compensation insurer in the country. SCIF is funded

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Governor's Office:	By:	Date:	Position Approved _____ Position Disapproved _____
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**COMMENTS** (continued)

by premiums paid by businesses purchasing workers' compensation insurance policies. According to SCIF, when employers under report the number of employees and payroll information, it places the burden of their cost of workers' compensation insurance on the other businesses.

This measure would allow the EDD to share new hire information provided by employers with the Joint Enforcement Strike Force on the Underground Economy, the CLSB, and the SCIF for auditing, investigating, and prosecuting violations of tax and cash-pay reporting laws, and for purposes of workers' compensation payroll reporting. This bill would also authorize a memorandum of understanding between the EDD, CSLB, and SCIF to share information and coordinate enforcement actions against contractors that fail to report new employees to the EDD and accurate payroll to the SCIF.

Finance notes that the SCIF interprets Section 2 of this bill to limit enforcement to only contractors who violate both new hire reporting requirements and accurate payroll reporting requirements. However, it appears that this section is intended to require coordination of these enforcement activities and does not prohibit enforcement actions against contractors violating only one of these requirements.

Finally, this bill incorporates changes made by AB 1845 (Solorio) to Section 1088.5 of the Unemployment Insurance Code that would become operative if both bills are enacted and become effective on or before January 1, 2013 and this bill is enacted after AB 1845. AB 1845 would amend state laws to conform to recently enacted federal legislation related to the Unemployment Insurance Program.

Code/Department Agency or Revenue Type	SO LA CO RV	(Fiscal Impact by Fiscal Year)						Fund Code
		PROP		(Dollars in Thousands)				
		98	FC	2012-2013	FC	2013-2014	FC	2014-2015
1110/ConAfr-ReqBd	SO	No	C	3-6	C	13-23	C	13-23 0735
8420/StCompInsrFd	SO	No	C	3-6	C	13-23	C	13-23 0512
7100/EDD	SO	No	C	9-18	C	39-69	C	39-69 0184
7100/EDD	SO	No	C	9-18	C	39-69	C	39-69 0995
<u>Fund Code</u>	<u>Title</u>							
0184	Employment Developmnt Dept Benefit Audit							
0512	State Compensation Insurance Fund							
0735	Contractors' License Fund							
0995	Reimbursements							