

BILL ANALYSIS

| SENATE RULES COMMITTEE | AB 881 |
| Office of Senate Floor Analyses |
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THIRD READING

Bill No: AB 881
Author: Emmerson (R)
Amended: 4/20/06 in Senate
Vote: 21

SENATE BUSINESS, PROF. & ECON. DEV. COMMITTEE : 6-0,
6/27/05

AYES: Figueroa, Aanestad, Florez, Morrow, Murray, Simitian
NO VOTE RECORDED: Campbell

SENATE APPROPRIATIONS COMMITTEE : Senate Rule 28.8

ASSEMBLY FLOOR : 78-0, 5/26/05 (Passed on Consent) - See
last page for vote

SUBJECT : Workers compensation: roofers

SOURCE : Roofing Contractors Association of California

DIGEST : This bill requires all licensed roofers to have workers compensation insurance, authorizes the registrar of contractors to remove the roofing classification from a contractor license for failure to maintain workers' compensation insurance, and requires insurers who issue workers compensation policies to roofing contractors to perform annual audits of these policyholders, as specified, and allows the insurers to recoup the cost of these audits through a policy surcharge.

Senate Floor Amendments of 4/20/06 clarify the precise data
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to be reported by the Insurance Commissioner, or his/her designated rating organization, and to allow sufficient time to collect and analyze the data required in the bill.

ANALYSIS :

Existing law:

1. Provides for the licensing and regulation of contractors and home improvement salespersons by the Contractors State License Board (CSLB), and provides for CSLB to issue contractor licenses to individuals, co-partnerships and corporations.
2. Requires all licensees with employees to post a workers' compensation insurance policy with CSLB within 90 days of acquiring a license and subjects a contractor who violates the workers compensation provisions to suspension and criminal prosecution as a misdemeanor.
3. Allows all specialty and general contractors to claim exemption from the requirement to have workers' compensation insurance if the contractor certifies it does not have any employees or is otherwise exempt from having workers' compensation insurance.

This bill:

1. Deletes the current exemption from the California workers' compensation laws for C-39 licensed contractors who have no employees, until January 1, 2011 (unless deleted or extended by the Legislature).
2. Requires CSLB, as of January 1, 2007, to remove the C-39 roofing classification from a contractor's license if he/she also holds other classifications, instead of suspending the entire license, when a contractor fails to provide proof of valid workers' compensation insurance coverage.
3. Reinstates the exemption from California workers' compensations laws for C-39 licensed contractors who have no employees, effective January 1, 2011.

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4. Effective January 1, 2007 until January 1, 2011 (unless deleted or extended by the Legislature):
 - A. Requires a workers' compensation insurer who provides a policy to a contractor with a C-39 classification to perform an annual payroll audit for the contractor.
 - B. Allows the insurer to place a surcharge on the policy holder to recoup reasonable costs of the audit.
 - C. Requires the Insurance Commissioner, through the Workers' Compensation Insurance Rating Bureau, to annually compile pertinent statistical data on those holding C-39 licenses, as reported by the appropriate state entity. The data shall track the total annual payroll and loss data reported on those holding C-39 licenses in accordance with the standards workers' compensation insurance classifications applicable to roofing operations. The first report shall be filed no later than March 1, 2008, and shall cover the data compiled for the 2005 calendar year.

Background . A C-39 roofing contractor is certified to install products and repair surfaces that seal, waterproof and weatherproof structures. CSLB has 5,898 active C-39 licensees currently on file. The industry estimates as many as 50 percent of those claim exempt status from the workers' compensation requirement. There is widespread belief in the business community that high costs are making it increasingly difficult to do business in California. Often cited as a primary example of this is the state's workers' compensation system. Last year, the California Legislature undertook reform of policies and procedures in that system, hoping to curb the skyrocketing costs of workers' compensation premiums in the state. Although this produced some fundamental reforms, there is evidence that some industry-specific improvements, such as in the roofing industry, still need to be made.

Similar legislation . AB 1000 (S. Runner) provides, until January 1, 2011, that specified roofing contractors holding active licenses who are exempt from the workers'

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compensation insurance requirement shall not be exempt for a period of more than one year. It also requires that a licensee who does not satisfy this insurance requirement after one year be placed on inactive status. It, until January 1, 2011, prohibits an insurer from issuing a workers' compensation insurance policy to a roofing contractor holding a specified license unless the contractor has a minimum annual payroll of \$15,000. It requires insurers to perform annual audits of these policyholders, as specified, and allows them to recoup the cost of these audits through a policy surcharge. The bill also requires the Insurance Commissioner to direct the rating organization designated as his/her statistical agent to prepare an annual report on the roofing industry, as specified. The bill was introduced but not assigned to a committee.

FISCAL EFFECT : Appropriation: No Fiscal Com.: Yes
Local: No

SUPPORT : (Verified 4/20/06)

Roofing Contractors Association of California (source)
American Subcontractors Association California, Inc.
Associated Roofing Contractors
California Labor Federation AFL-CIO
CertainTeed Commercial Roofing Systems
Eberhard Complete Roofing & Waterproofing
Henris Roofing Company
Lumber Association of California & Nevada
Petersendean Roofing Systems
Pioneer Contractors, Inc.
Reinhardt Roofing
State Building and Construction Trades Council of California
The Lawson Roofing Company
United Union of Roofers, Waterproofers and Allied Workers
Union Roofing Contractors Association

ARGUMENTS IN SUPPORT : According to the author's office, this bill requires all roofing contractors to carry workers' compensation coverage for their employees. This bill also requires the Insurance Commissioner to gather additional data on coverage in this industry. This bill is

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intended to be a test program and sunsets on January 1, 2011.

According to the author's office, the roofing industry in California pays among the highest workers' compensation rates of all industries in the state. The nature of the work requires considerable investment in order to ensure the protection and safety of industry workers and contractors. However, a high incidence of payroll reporting fraud has also helped lead to these exorbitant costs, as many roofing contractors under-report their payroll in order to secure lower workers' compensation premiums. Further, when contractors engage in this fraud, their employees are put at even higher risk without appropriate insurance coverage in place. This bill brings all licensed roofing contractors under workers' compensation requirements, thereby eliminating the incentive to under-report employees and escape those requirements.

ASSEMBLY FLOOR :

AYES: Aghazarian, Arambula, Baca, Bass, Benoit, Berg, Bermudez, Blakeslee, Bogh, Calderon, Canciamilla, Chan, Chavez, Chu, Cogdill, Cohn, Coto, Daucher, De La Torre, DeVore, Dymally, Emmerson, Evans, Frommer, Garcia, Goldberg, Hancock, Harman, Haynes, Jerome Horton, Shirley Horton, Houston, Huff, Jones, Karnette, Keene, Klehs, Koretz, La Malfa, La Suer, Laird, Leno, Leslie, Levine, Lieber, Liu, Matthews, Maze, McCarthy, Montanez, Mountjoy, Mullin, Nation, Nava, Negrete McLeod, Niello, Oropeza, Parra, Pavley, Plescia, Richman, Ridley-Thomas, Sharon Runner, Ruskin, Saldana, Salinas, Spitzer, Strickland, Torrico, Tran, Umberg, Vargas, Villines, Walters, Wolk, Wyland, Yee, Nunez
NO VOTE RECORDED: Gordon, Nakanishi

JJA:mel 4/20/06 Senate Floor Analyses

SUPPORT/OPPOSITION: SEE ABOVE

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