Unemployment Fund Deficit Means Higher Employer Tax

The federal tax that California employers pay to support the unemployment insurance (UI) program increased again January 1 due to the continuing insolvency of the UI Trust Fund, and will continue to increase every year until the debt is paid.

The state administration projects that without corrective action, the federal loan will not be fully repaid until sometime after 2020.

California employers have been paying higher taxes since the beginning of 2011 because the state has not repaid money it borrowed from the federal government to pay UI benefits. California’s outstanding federal loan was $10.3 billion at the start of this year, more than $6.5 billion greater than the next highest state loan, New York.

California has the third highest unemployment rate in the nation, behind Rhode Island and Nevada, according to the U.S. Bureau of Labor Statistics.

Stakeholder Meetings

The Governor has acknowledged the need for action to deal with the plight of the UI fund and has directed the Labor and Workforce Development Agency to...

See Unemployment Fund: Page 6

Federal Court Rules
NLRB Recess Appointments Invalid

A federal appeals court recently ruled that President Barack Obama’s “recess” appointments to the National Labor Relations Board (NLRB) were “constitutionally invalid” because the U.S. Senate was not actually in recess at the time. The President made the appointments more than one year ago. The decision is Noel Canning v. NLRB.

Because the appointments were invalid, the court overturned an unfair labor practice decision that was made by the NLRB.

Recess Appointments

Under the Constitution, the President must send nominees for agency posts to the Senate for its “advice and consent.” If the Senate is in recess, however, the President has the power to fill vacancies temporarily.

President Obama has made approximately 32 such appointments, including three appointments to the NLRB.

The U.S. Court of Appeals for the District of Columbia Circuit ruled that the Senate was still in session when President Obama made the three appointments to the NLRB because they were made before the Senate was actually in recess.

See Federal Court Rules: Page 3

State of the State
Governor Recaps Budget Progress, Reforms

Take Care to Avoid Discriminating Against Employee on Workers’ Comp

Our employee went out on a workers’ compensation claim more than a year ago. His doctor keeps extending his disability. How long do we have to keep his job open before terminating the working relationship?

In general, once employees go out on disability, they must be protected and they can come back to that job once they recover.

No Discrimination

California Labor Code Section 132a holds there can be no discrimination against employees who are injured in the course and scope of their employment, and termination is considered to be the ultimate form of discrimination.

If an employer is found liable for Section 132a, the remedies available for the employee include reinstatement, restoration of lost back pay and benefits, and a penalty of the lesser of 50% of the compensation given to the employee or $10,000.

There may be reasonable accommodation issues under state law when someone is ready to come back, but hasn’t recovered completely from his/her injury. Both state and federal anti-discrimination laws require employers to consider options for the employee. It is wise to consult with legal counsel before taking any negative action against someone on workers’ compensation.

Discipline Promptly

Employers frequently complain they were just on the verge of terminating an employee with performance issues when the employee got hurt. If there is a lack of documentation as to the performance issues/lack of warnings, the employer’s subsequent decision to terminate would be viewed quite skeptically by the Workers’ Compensation Appeals Board, the entity that would hear a claim that 132a had been violated. This supports the reasoning that if an employee is not performing well, promptly discipline him/her and don’t delay an obvious need to terminate the employment.

Once an employee on workers’ compensation becomes “permanent and stationary” (P&S), that means the injury is permanent and shouldn’t get any worse. At that point, if it is clear that the employee can never come back to his/her original job, then the employer can terminate the employment.

Seek Legal Counsel

When faced with a 132a claim, employers can assert a “business necessities” defense. This defense requires that the employer prove that the termination was necessary and directly related to business realities. It can be a difficult assessment, and again—employers should seek legal counsel before making any decision to terminate.

This article covers only a very basic overview of this topic; it is a complicated area of the law going far beyond the scope of this article.

Post Log 300A
Beginning February 1

Reminder: The Log 300A must be completed and posted beginning February 1. This form contains a summary of the total number of job-related injuries and illnesses that occurred during the previous year. Employers are required to post only the summary (Form 300A)—not the Form 300 (Log)—from February 1 to April 30. The summary must list the total number of job-related injuries and illnesses that occurred in the previous year and were logged on the Form 300 (Log).

A free Log 300 wizard is available at www.calchamberstore.com/log300wizard to help a business determine whether it is subject to recordkeeping requirements.

For more information on Form 300 filing and posting requirements, or copies of the OSHA Forms 300, 300A and 301, visit www.hrcalifornia.com.
California Passes New Construction Regulations to Enhance Accessibility

California Chamber of Commerce-supported construction regulations that will enhance accessibility have been adopted for the 2013 California Building Code. The result is a single set of requirements that meet both state and federal accessibility requirements for the first time ever and enhance accessibility for all Californians.

The new regulations were developed by the Division of the State Architect. Significant input came from interested parties across the state, including a coalition involving the CalChamber and representatives from a variety of industries, including construction, restaurant, engineering, manufacturing, property management, real estate, local cities and counties, and litigation reform groups.

The regulations also received strong support from numerous legislators, including Senate President Pro Tempore Darrell Steinberg (D-Sacramento).

For more than two decades, California has developed and maintained its own set of accessibility regulations. While mirroring the federal standards in many instances, the state regulations have been an ever-growing source of costly civil rights litigation that in many instances focused on minute technical differences between the federal and state regulations.

Bipartisan Legislation

This problem became so damaging to California business that CalChamber-supported, bipartisan legislation, SB 1186 (Steinberg; D-Sacramento/Dutton; R-Rancho Cucamonga), was approved in 2012 to help address the issue.

Among other things, SB 1186 established a much-needed prohibition on pre-litigation “demand for money” letters. More important, SB 1186 requires plaintiffs to specify what provisions of code have been allegedly violated and to specify how the alleged violation(s) infringed on the individual’s ability to access the facility or its services.

During the development of the 2013 state building code, the state Department of General Services reports, more than 2,500 items from the 2010 state and federal codes were analyzed to determine which provisions provided greater accessibility.

Items studied varied from parking spaces, handrails, drinking fountains and signs, to transportation facilities, housing and correctional facilities. Also incorporated in the 2013 state building code are provisions for recreational facilities, including amusement rides, playgrounds, golf courses and fishing piers.

Federal Court Rules NLRB Recess Appointments Invalid

From Page 1

were not made during the official recess that takes place in between sessions. The court summarily rejected the argument that the President has the discretion to decide when the Senate is in recess: “An interpretation . . . that permits the President to decide when the Senate is in recess would demolish the checks and balances inherent in the advise-and-consent requirement, giving the President free rein to appoint his desired nominees at any time he pleases, whether that time be a weekend, lunch, or even when the Senate is in session and he is merely displeased with its inaction. This cannot be the law.”

The court also found that the appointments were invalid because the President’s recess appointment authority applies only to vacancies that “happen” or “arise” during a Senate recess. In this case, the NLRB vacancies did not open up during a recess, and the appointments were unconstitutional on that ground as well.

NLRB Decision Invalid

This decision means that the NLRB had only one properly confirmed member when it issued the unfair labor practice decision that was up on review before the federal court. The NLRB did not have a proper “quorum” when it issued the decision, and the court vacated it. (The NLRB must have a quorum of three members to take action.)

The lawsuit was brought by a soda bottler and distributor. The NLRB had found that the company’s refusal to execute a written collective bargaining agreement was an unfair labor practice and ordered the company to sign the agreement with the labor union.

The company challenged the NLRB’s authority to issue the decision because of the improper recess appointments. The court agreed with the company’s argument.

Other Decisions in Question

The decision calls into question the legitimacy of a number of precedent-making decisions issued by the NLRB since January 2012, including decisions regarding the use of social media and the rights of employees in all workforces to discuss the terms and conditions of their work.

In a statement issued in response to the decision, NLRB Chairman Mark G. Pearce said the NLRB disagrees with the court’s decision and the NLRB will continue to “perform its statutory duties and issue decisions.”

It is likely that this issue will be appealed to, and ultimately resolved by, the U.S. Supreme Court.

The HR Watchdog blog will cover this issue as it develops.

Staff Contact: Gail Cecchettini Whaley
In his State of the State address on January 24, Governor Edmund G. Brown Jr. reviewed the progress made toward resolving California’s budget woes and outlined more actions he would like to pursue in the state’s “rendezvous with destiny.”

The Governor cited stories from the Bible to 16th century writer Montaigne to the “Little Engine That Could” in calling upon legislators to do what is necessary “to keep faith with our courageous forebears.”

“We commend Governor Brown for the principles laid out today in his State of the State address,” said California Chamber of Commerce President and CEO Allan Zaremberg following the talk.

“Governor Brown’s speech focused on his highest priority which is to put the state on sound fiscal footing and to continue to live within our means,” Zaremberg said.

The Governor highlighted education, economic development, international trade, California Environmental Quality Act reform, and transportation financing, Zaremberg noted, “all of which, along with a balanced budget, will help create needed certainty for California employers and should be an incentive for growing companies to look to California as a place to expand.”

“California’s businesses look forward to working together with Governor Brown to move our state forward.”

Education

The Governor asked lawmakers, when reviewing new education laws, to consider the “principle of subsidiarity...the idea that a central authority should only perform those tasks that cannot be performed at a more immediate or local level.”

As part of putting “maximum authority and discretion back at the local level—with school boards,” the Governor is proposing a new “Local Control Funding Formula.” He described the formula as recognizing that children from a low-income or non-English-speaking family require more help.

He reiterated his call for “thoughtful change,” not tuition increases, at the University of California, California State University and community college systems.

Health Care

The Governor called for a special session to deal with “those issues that must be decided quickly if California is to get the Affordable Care Act started by next January.”

Those issues include the broader expansion of Medi-Cal and “working out the right relationship with the counties,” the Governor said, acknowledging that the changes won’t happen overnight.

Jobs

The Governor said his new Office of Business and Economic Development (GoBiz) directly helped more than 5,000 companies in the past year, including Samsung Semiconductor Inc. of Korea locating its only research-and-development facility in California; plus new Amazon distribution centers in Patterson, San Bernardino and Tracy.

He called for changing both the enterprise zone program and the jobs hiring credit. The state needs to “rethink and streamline our regulatory procedures, particularly the California Environmental Quality Act,” the Governor said. “Our approach needs to be based more on consistent standards that provide greater certainty and cut needless delays.”

In April, the Governor plans to lead a trade and investment mission to China to officially open California’s new trade and investment office in Shanghai.

Water

Water is central to the state’s life and one-sixth of that water flows through the San Joaquin Delta, the Governor said. If an earthquake, hundred-year storm or sea level rise causes the Delta to fail, he said, the disaster would be comparable to Hurricane Katrina or Superstorm Sandy, with losses of “at least $100 billion and 40,000 jobs.”

The Governor has proposed two tunnels 30 miles long and 40 feet wide “designed to improve the ecology of the Delta with almost 100 square miles of habitat restoration. Yes, that is big, but so is the problem.” The Governor compared the $14 billion price to the cost of the London Olympics, which lasted a short while whereas “this project will serve California for hundreds of years.”

Climate Change

The Governor predicted California will meet the goal of getting carbon emissions to 1990 levels by 2020. Savings from reduced electricity consumption through efficiency standards for buildings and appliances have saved Californians $65 billion, “and we are not through yet,” the Governor said.

He added that the state will achieve more than 20% renewable energy this year and will get at least a third or more of its electricity from sun, wind and other renewable sources by 2020.

Transportation/High Speed Rail

The Governor said he has directed the Transportation Agency to review current priorities and explore long-term funding options. Turning to high speed rail, the Governor noted that he signed the original high speed rail authority more than 30 years ago, in 1982. In 2013, “we will finally break ground and start construction,” he said, invoking the story of “The Little Engine That Could.”

The Governor concluded: “This is my 11th year in the job and I have never been more excited. Two years ago, they were writing our obituary. Well it didn’t happen. California is back, its budget is balanced, and we are on the move. Let’s go out and get it done.”
A recent ruling by the 3rd District Court of Appeal may have an impact on passage of future state budgets.

In *Howard Jarvis Taxpayers Association v. Debra Bowen, Secretary of State and the Legislature*, the court considered whether the California Legislature acted unconstitutionally when it approved a budget trailer bill, AB 1499, that moved the Governor’s tax initiative, Proposition 30, to the top of the ballot.

Because Proposition 30 has already been passed by the voters, it might seem any ruling on the issue would be too late to create any effect. The real victory in the decision, however, involves the court’s ruling on the meaning of a “budget-related bill” in Proposition 25.

California Chamber of Commerce President and CEO Allan Zaremberg observes that the ruling means the Legislature is on notice that it cannot game the budget. “If the Legislature overreaches the authority granted by the voters in Proposition 25, the court will set them straight,” Zaremberg commented.

**Proposition 25**

Until voters approved Proposition 25 in 2010, the Constitution required budget appropriations to be approved by a two-thirds vote of both houses of the Legislature. Moreover, a two-thirds vote was required to adopt legislation taking effect immediately. Otherwise, legislation adopted takes effect January 1 of the following year.

In approving Proposition 25, voters created an exception allowing a simple majority vote to pass a budget and urgent budget-related bills, also known as “trailer bills.”

Trailer bills are substantive changes to state law that implement budget changes, such as reducing social services grants to meet lower state welfare budget funds.

**‘Spot Bills’**

With the passage of Proposition 25, the Legislature believed it also had the authority to pass so-called “spot bills” as urgency measures in budget packages. These spot bills contain no meaningful bill language and are amended later to achieve their purpose, creating the potential for politicians to bypass other constitutional restraints related to the budget and legislative process.

The ruling by the 3rd District Court underscores the fact that the state Constitution does not allow the Legislature to pass as part of the budget package empty spot bills to be amended substantially at some later date.

As the decision explains, the majority vote provision of Article IV, Section 12, Subdivision (3), is limited to the budget at the time the budget is passed.

The court’s holding points out that a “transparent loophole in the budget process” would be created if the Legislature could 1) “identify nothing more than a bill number in the budget bill,” and 2) after passage of the budget, then add substance and an appropriation to the spot bill and pass it by majority vote.

This loophole would “defeat the electorate’s intent” that, to qualify for majority vote passage as a “bill providing for an appropriation related to the budget,” the bill must “pinpoint the idea or concept at the time the budget is passed.”

**CalChamber Brief**

The CalChamber filed a friend-of-the-court brief in the *Howard Jarvis* case. The CalChamber brief focused on what is meant by the Proposition 25 language allowing majority vote approval for “other bills providing for appropriations related to the budget bill.” The CalChamber argued that because AB 1499 included the re-prioritization of the numbering of ballot measures, it was not an appropriation and therefore not permitted under Proposition 25.

The CalChamber also argued that changes in substantive law cannot be accomplished through bills adopted pursuant to Proposition 25.

The court deferred to future cases other important Proposition 25 questions, including the meaning of the phrase “other bills providing for appropriations related to the budget bills.”

**Staff Contact:** Heather Wallace

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**CalChamber-Sponsored Seminars/Trade Shows**

More information: calchamber.com/events.

**Labor Law**

Guidelines for New PDL and Disability Discrimination Rules Seminar.
CalChamber. February 15, Sacramento. (800) 331-8877.

Leaves of Absence: Making Sense of It All.
CalChamber. May 9, Sacramento. (800) 331-8877.

**Business Resources**


Networking/Recruiting Fair for Employers.
University of California (UC), Merced. March 13: University of the Pacific, Stockton; March 14: UC Merced; March 15: Fresno State University. (209) 228-7272.


**Government Relations**


**International Trade**


CeBit 2013: Shareconomy. Deutsche Messe. March 5–9, Hannover, Germany.
Unemployment Fund Deficit Means Higher Employer Tax

From Page 1

bring key business and labor stakeholders together this year to identify alternatives to meet the state’s annual federal interest obligations, repay the federal loan and return the state’s UI fund to solvency.

California’s UI program is funded exclusively from taxes on employers, with the exception of federal grants for administration and certain extended benefits. Since 2001, California’s total benefit costs have exceeded its revenue in all but two years.

Insolvency Factor

California’s current UI fund insolvency is caused not only by significant unemployment, but also can be traced back to the UI benefit increases imposed in 2001. The California Chamber of Commerce opposed this increase in benefits because it was not coupled with cost savings.

Further exacerbating the situation, as unemployment and duration of benefits increase, the state is collecting fewer tax revenues and paying more benefits to unemployed Californians.

With annual UI benefit obligations projected to be around $6.5 billion in 2013, California can expect its UI Trust Fund to be in debt about $10.2 billion to the Federal Unemployment Account (FUA) by the end of 2013. The state Employment Development Department (EDD) projects the fund balance to be at a $9.2 billion deficit by the end of 2014.

If California does not have sufficient UI tax receipts to both pay ongoing benefits and repay the FUA loan, the principal debt will remain outstanding, the state will continue to pay interest on the balance, and the federal tax on employers will continue to rise by about $21 per employee per year.

The first annual interest payment on the FUA loan was slightly more than $303.4 million, which was paid in September 2011. The second interest payment, made on September 30, 2012, was $308.2 million. An additional $291.2 million is estimated due in 2013, and $278.8 million in 2014.

Federal law prohibits paying interest from the UI Trust Fund. Therefore, given California’s budget woes, the interest payments in 2011 and 2012 were loaned from the State Disability Insurance account, and will be paid back with interest from the General Fund.

UI Taxes Will Escalate as Long as California Owes Federal Unemployment Debt

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Base FUTA Rate</th>
<th>FUTA Offset Credit (offset credit from beginning tax year 2011)</th>
<th>Annual Total FUTA Paid</th>
<th>Employers Will Pay</th>
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<tbody>
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<td>6.2%</td>
<td>5.4%</td>
<td>0.8%</td>
<td>$56</td>
</tr>
<tr>
<td>2011</td>
<td>6.2% (until 6/30)</td>
<td>5.1%</td>
<td>1.1% (through 6/30)</td>
<td>$77 (through 6/30)</td>
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<tr>
<td>2012</td>
<td>6%</td>
<td>4.8%</td>
<td>1.2%</td>
<td>$84</td>
</tr>
<tr>
<td>2013</td>
<td>6%</td>
<td>4.5%</td>
<td>1.5%</td>
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</tr>
<tr>
<td>2014</td>
<td>6%</td>
<td>4.2%</td>
<td>1.8%</td>
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<tr>
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<td>6%</td>
<td>$420</td>
</tr>
</tbody>
</table>

Reduced Tax Offsets

Federal law requires the federal government to incrementally reduce the tax offsets to employers in states that do not timely repay their FUA loans—essentially a tax increase. A federal tax is levied on employers at a current rate of 6% on wages up to $7,000 a year.

Employers will lose 0.3% of their federal tax credit each year, which translates into approximately $21 per year for any employee who makes $7,000 or more a year. (California employers pay UI taxes on the first $7,000 of wages per employee.)

Statewide, the tax increase totaled an estimated $289.8 million in 2012 and $615.7 million in 2013, according to the EDD. This represents a loss of 0.6% of the tax credit this past year. The additional taxes paid will help offset California’s federal loan balance.

The table above illustrates the Federal Unemployment Tax Act (FUTA) tax increase to employers over the years. The tax will continue to increase 0.3% per year until such time as the offset credit is exhausted, or the fund becomes solvent. The offset credit will be fully restored once the trust fund is solvent.

A report of the state Legislative Analyst’s Office suggested that options involving UI tax increases on employers would quickly improve the fund’s condition, but also concluded that tax increases could hurt California’s competitiveness.

CalChamber Position

The CalChamber believes that for California to combat rising unemployment, and therefore improve the stability of the UI Trust Fund, the state must improve the business climate in California.

The California Legislature has made a series of public policy choices that has led to California having a high cost of wages, a high tax burden, excessive power costs and expensive commercial property. Any “fix” for the UI fund must address the trust fund insolvency, ensure further debt is not incurred going forward and include a consideration of all options to streamline the system. Furthermore, any solution must include a series of policy changes that will improve California’s business climate and spur investment and job creation.

Staff Contact: Marti Fisher
CalChamber Hosts Look at Environmental Quality Act Reform Issues

Cassie Gilson, Gilson Government Strategies, and Senator Michael Rubio (D-Shafter), chair of the Senate Environmental Quality Committee, speak at a CalChamber-hosted “CEQA 101” meeting on January 28. The gathering provided background on the California Environmental Quality Act (CEQA) and its impact on the state’s economic development and infrastructure projects. The CalChamber is part of the CEQA Working Group, a broad coalition of business, labor, clean technology companies, schools, hospitals, transportation, local government, affordable housing and other groups that have long been advocating reform to modernize CEQA to better harmonize it with other environmental laws and regulations.

Small Business Advocate Award: CalChamber Issues Call for Nominees

The California Chamber of Commerce is seeking nominations for its Small Business Advocate of the Year Award. Each year, the CalChamber recognizes several small business owners who have done an exceptional job with their local, state and national advocacy efforts on behalf of small businesses.

**Application**

The application should include information regarding how the nominee has significantly contributed as an outstanding advocate for small business in any of the following ways:

- Held leadership role or worked on statewide ballot measures;
- Testified before state Legislature;
- Held leadership role or worked on local ballot measures;
- Represented chamber before local government;
- Actively involved in federal legislation.

The application also should identify specific issues the nominee has worked on or advocated during the year. Additional required materials:

- Describe in approximately 300 words why nominee should be selected.
- News articles or other exhibitions as supporting materials.
- Letter of recommendation from local chamber of commerce president or chairman of the board.

**Deadline**

Award nominations are due to the CalChamber Local Chamber Department by April 15. The nomination form is available on the CalChamber website at [www.calchamber.com/smallbusiness](http://www.calchamber.com/smallbusiness) or may be requested from the Local Chamber Department at (916) 444-6670.

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How Are Government Regulations Working (Or Not)?

Help CalChamber Identify Overlapping/Duplicative Regulations

The targets of regulations often know best how government requirements work in the real world. The California Chamber of Commerce would appreciate your help in identifying overlapping and duplicative state regulations affecting your business. Please email your comments to regs@calchamber.com.
LIVE WEBINAR | FEBRUARY 21, 2013 | 10:00 – 11:30 A.M. PT

Alternatives to Hiring Employees

Not every job requires a regular full-time or even a part-time employee. But you do have options for getting the work done, especially when unexpected circumstances like a leave of absence or a special project requires backfill.

Join CalChamber employment law experts Erika Frank and Susan Kemp for a live, online discussion of your hiring alternatives, including seasonal workers, employee leasing, temporary employees and student internships.

Learn what alternatives are feasible for your organization, each bringing different employer liabilities and responsibilities. We’ll provide compliance guidelines, addressing wage and hour issues, consequences of misclassifying employment status and more.

REGISTER at calchamber.com/feb21webinar or call (800) 331-8877 and mention priority code REG.