

ASSEMBLY BILL 1643

THE ISSUE: ABC Corp engages a well-respected Graphics Design Company (GDC), a sole proprietorship, to develop a catalogue. GDC works for two months and delivers an excellent catalogue at below the expected cost. Two years later the EDD informs ABC Corp that it considers GDC an employee and that ABC Corp owes back employment taxes, fines and penalties. ABC Corp spends the next four years defending itself at tremendous cost in both staff time and legal and accounting fees. ABC Corp wins the case. ABC Corp swears to never again use the services of any small or micro-business or any sole proprietorship. The result is a **chilling effect on the small and micro-businesses** that are the engine that will drive California's economic recovery.

This example is an amalgam of numerous documented cases presented in testimony on behalf of this bill. This issue also prevents small businesses from partnering to pursue larger projects due to the fear and uncertainty associated with the application of existing law. AB 1643 would **provide important information** to evaluate how often this misclassification occurs and would help businesses and the state understand the extent to which small and micro-businesses are impacted.

THE BILL: AB 1643 would require that the EDD conduct a study over the course of the next year, 2005, which would let the Legislature and public know:

- The total number of times, in the course of processing a claim for unemployment insurance or disability insurance benefits, that *an owner of a small business was determined by the department not to be the employer of a worker.*
- The length of time that the department took to make a final determination in each case.

THE COST: The Senate Appropriation Committee estimated the cost of the study at about \$95,000. We believe it can be undertaken using existing EDD resources. However, even the Committee's estimate represents a **nominal cost** in relation to the potential return on investment from energizing the business community and the California economy. In fact, the data collected from this study should be collected in the ordinary course of business for the EDD. In short, how often and how many employee resources are used to pursue a case that fails—a poor use of resources and an opportunity to improve efficiency throughout the EDD.

THE BENEFIT: This bill is just the first step towards removing the barriers to freely associate and build business relationships. By freeing up companies to use the best resources available we unleash the power and innovation of entrepreneurship throughout California. The direct benefits to the State could be immeasurable—by removing the barriers for many of the large state contractors to **use lower cost subcontractors the State could achieve substantial cost savings** in numerous areas.

THE SPONSOR: NAWBO-CA is a non-partisan, non-profit organization that represents the issues and interests of nearly 1 million women business owners in California who employ 1.4 million employees and have **annual revenues of \$200 billion**, according to the Center of Women's Business Research in Washington D.C. This bill is supported by a broad coalition of small businesses, corporations, local and ethnic chambers of commerce and non-profit corporations.

The women of NAWBO would be very grateful to have the Governor's signature on this bill.

Respectfully Submitted,

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