

GOVERNMENT AFFAIRS WATCHDOG

UNEMPLOYMENT INSURANCE COST INCREASES

The unemployment rate in California is now in double digits, 10.1 percent, and not expected to decline any time soon. The gravity of the situation has forced state officials to request a federal loan to meet the demand for benefits. The unemployment insurance (UI) fund also faces other insolvency issues that cannot be solved solely with federal stimulus dollars.

The federal stimulus package includes money to extend the number of weeks individuals can be on unemployment and another \$893 million is available to California if the State adopts eligibility changes. Specifically, the state would need to pass legislation that implements the use of an alternative base period. Unfortunately, this change would result in an additional annual \$152 million cost to the system. This means that in approximately five and half years, once the federal dollars are exhausted, the State will be responsible for this additional cost.

In addition, employers will soon be faced with a potential doubling or tripling of their UI tax.

Assembly member Joe Coto (D-San Jose) introduced AB 1298 that would make drastic reforms to the UI system and increase taxes:

- Increases the Taxable Wage Base from \$7,000 to \$16,600;
- The Tax Wage Base will be indexed over the years;
- All employers' UI rate would increase by 2.1 percent;
- The new employer rate would go up from 3.4 to 4.5 percent; and

SOUTH COAST AIR PERMIT FREEZE

A recent court ruling invalidated a South Coast Air Quality Management District (AQMD) rule specifying how the agency accounts for and calculates the amount of emission reductions that are available to fund the "priority reserve" and offset exemptions.

The result of the decision has been to restrict AQMD from issuing any permits for new, replaced, relocated or modified equipment that admits air pollution without offsetting it with other equipment that can reduce air pollution emissions (Rule 1315). The Natural Resources Defense Council and others succeeded in convincing the court that a new environmental assessment under the California Environmental Quality Act is required before a new rule can be adopted.

As a result of the court decision, permits will only be issued to sources that have provided their own offsets in the form of Emission Reductions Credit (ERC) certificates. The moratorium on AQMD's permits affects industry as well as any public service trying to obtain an offsetting credit, including hospitals, police stations, landfills, sewage treatment plants. The court decision could impact the validity of any air permit issued after September 8, 2006.

AQMD appealed the court's ruling on November 25, 2008. The appeal didn't grant the AQMD the right to issue new permits, but stayed cancellation of thousands of previously issued permits.

- The bill includes an income disregard increase from \$25 to \$200, (allowing for more part-time workers to be eligible for unemployment benefits).

Although the additional costs of these changes have not been fully evaluated, employers will be the only ones taking on this additional financial burden.

WHEN IS LABOR TAXABLE?

Sales tax does not apply to installation labor, labor charges related to nontaxable sales or itemized charges for repair labor.

In California, however, some labor charges are taxable, such as fabrication labor or other labor charges related to taxable sales (See Regulation 1526). Fabrication is labor for assembling, creating, or producing a product. Fabrication labor is generally taxable whether you itemize labor charges or include them in the price of your product. This is true whether you supply the materials or your customers supply the materials for fabrication.

If you have questions on how tax applies to a specific transaction, call Gerry Bonetto at (323) 728-9500, Ext. 248.



**Affiliated
Associations:**

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WCIRB RECOMMENDS RATE INCREASE

The Workers' Compensation Insurance Rating Bureau (WCIRB) Governing Committee directed the WCIRB to submit a filing to the California Department of Insurance (CDI) recommending an approximate 24.4% increase in pure premium rates (or "claims cost benchmark") effective July 1, 2009.

The Governing Committee made its decision based on a recommendation made by the WCIRB Actuarial Committee at its March 16, 2009 meeting.

The recommendation is based on two principal components. First, the WCIRB's evaluation of December 31, 2008 loss experience produces an indicated increase in the claims cost benchmark of 17.6%. This increase is primarily the result of increased medical costs.

Second, the WCIRB's analysis of anticipated cost increases stemming from three recent Workers' Compensation Appeals Board decisions (*Ogilvie v. City and County of San Francisco*, *Almaraz v. Environmental Recovery Services* and *Guzman v. Milpitas Unified School District*) indicates an additional increase of 5.8%.

Throughout its discussion, there was a general consensus among Governing Committee members that 5.8% is a "minimum estimate" of the potential additional costs arising from these decisions inasmuch as no cost data is yet available. It is quite likely that the actual additional costs arising from these decisions could be significantly higher.

For what it's worth, If the full 24.4% increase is approved by the Insurance Commissioner, the July 1, 2009 pure premium rates will still be, on average, 54% lower than the approved pure premium rates in effect July 1, 2003.

SAN FRANCISCO DO NOT MAIL PASSES

The San Francisco Board of Supervisors passed, on a 9-2 vote, the non-binding resolution calling on Congress (this was an amendment to the resolution made following last week's

VALUATION FACTORS FOR PRESSES

We continue our project to change the "life table" and "valuation factors good" for printing presses. The tables serve as the basis for the assessment of county property tax.

By changing these tables, to more adequately reflect the market value of presses, individual companies' property tax will decrease significantly.

At the September 15, 2008 meeting, the BOE adopted a Formal Issue Paper that outlines the procedures to be followed to submit a Petition to Conduct a Property Tax Valuation Study. The petition is a screening device to discourage industries for pursuing a valuation study. We submitted our petition in January 2009.

On March 16, we received the following email regarding the project:

"Attached is a PDF version of the letter from Dean Kinnee, Chief of County-Assessed Properties Division notifying you that your petition for the Board to conduct a valuation study of offset printing presses has been approved. The hardcopy of this letter is in the mail.

Congratulation for being the first industry to be approved in the Board's new valuation petition process as outlined in form BOE-401. And, thank you for your patients and your willingness to address the petition requirements.

*Very Respectfully,
Isaac Cruz
Senior Specialist Property Auditor Appraiser
County-Assessed Properties Division
California State Board of Equalization"*

hearing) and the California legislature to adopt a Do Not Mail registry.

Although the resolution passed, it was not for a lack of effort put forth by the printers, unions, and direct marketers involved contacting their Supervisors directly, educating them on the unintended negative consequences that a Do Not Mail registry would have and testifying at the hearing.

The Do Not Mail registry supporters argued that direct mail harmed the environment and that government should create a Do Not Mail registry similar to the telephone solicitation Do Not Call registry.

PIC opposed the resolution on three fronts: economic, environmental, and existing registry.

First, advertising mail plays a critical role in the California economy. More than 400,000 Californians have jobs that are directly or indirectly made possible by advertising mail. In 2008, more than 22,000 small businesses in California relied on advertising mail to support their businesses, and advertising mail brought almost \$97 billion in increased sales to

California's economy.

Second, advertising mail is also an environmentally responsible way to advertise. Major U.S. paper manufacturers have adopted sustainable forestry practices where trees are planted, harvested and re-planted to ensure a growing future supply. In fact, there are more forests in the U.S. today than there were 50 years ago.

Furthermore, recycling rates for advertising mail and catalogs are increasing rapidly. According to the EPA, from 1990 through 2007 the recovery rate for advertising mail and catalogs rose from 5.2 percent to 40.3 percent. Advertisers and the U.S. Postal Service also have implemented programs to help further increase recycling of advertising mail.

Finally, Do Not Mail programs are unnecessary as individuals already have many existing options available to manage their mail, including the Direct Marketing Association's Mail Preference Service (MPS) at <http://www.dmchoice.org>.