

Date of Hearing: April 3, 2024

ASSEMBLY COMMITTEE ON INSURANCE
Lisa Calderon, Chair
AB 2227 (Hoover) – As Introduced February 7, 2024

SUBJECT: Unemployment insurance: violations

SUMMARY: Allows the trial of unemployment insurance (UI) violations to take place in any county where any money or property from the alleged offenses was obtained.

EXISTING LAW:

- 1) Provides that the place of trial for UI violations will be in the county of residence or principal place of business of the defendant or defendants, or in any county where the defendant or defendants were transacting business that resulted in the alleged offenses, except that if the defendant has no residence or principal place of business in this state, the trial shall be held in the County of Sacramento. (UI Code, Section 2124)
- 2) Requires EDD to report to the Assembly Committee on Insurance, Assembly Committee on Labor and Employment, and the Senate Committee on Labor, Public Employment and Retirement by June 30 of each year on EDD's fraud deterrence and detection activities. (UI Code, 2614)
- 3) Establishes the Employment Development Department (EDD) within the Labor and Workforce Development Agency with the task of engaging in job creation activities while administering UI and Disability Insurance Programs. (UI Code, Section 301)
- 4) Creates UI, funded by the state and the federal government and administered by EDD, to provide unemployment insurance benefits to persons unemployed through no fault of their own, and to reduce involuntary unemployment and the suffering caused by it. (UI Code, Section 100)

FISCAL EFFECT: Unknown

COMMENTS:

- 1) *Purpose:* According to author, "AB 2227 would clarify the limits of the venue for prosecuting a non-resident defendant for Unemployment Insurance Fraud to include any county where the defendant was transacting business that resulted in the alleged offense or where any money or property from the alleged offense was obtained. Existing law suggests that an out-of-state fraudster can only be tried in Sacramento County, which creates a logistical nightmare for law enforcement agencies located elsewhere in the state that happen to apprehend a non-resident committing unemployment insurance fraud."
- 2) *Background:* California's UI program is a partnership between the state and federal government that provides temporary wage replacement to eligible unemployed workers. The program helps alleviate economic hardships for Californians who are unemployed, or whose hours have been reduced, through no fault of their own. The UI program is intended to replace half of workers' wages for up to 26 weeks where state law sets the maximum benefit

at \$450 per week. According to the Legislative Analyst's Office (LAO), the average benefit is about \$330 per week for eligible Californians. Businesses typically pay state and federal UI payroll taxes that go to the UI trust fund to pay future eligible Californians and cover a portion of the costs for administering the program.

States must operate their UI programs within broad federal guidelines that determine eligibility for benefits. To be eligible for UI benefits, an unemployed worker must be: totally or partially unemployed, unemployed through no fault of your own, physically able to work, available for work, ready and willing to accept work immediately, and actively looking for work. UI covers traditional employees, excluding independent contractors, self-employed individuals, informal workers, and undocumented workers.

- 3) *UI Fraud*: During the COVID-19 pandemic, a surge in the filing of unemployment claims began in March 2020 following the issuance of a statewide stay-at-home order at the start of the COVID-19 pandemic, which resulted in a significant increase in EDD's workload. During the same time period, Congress expanded federal UI benefits and relaxed the eligibility criteria for receiving those benefits through the Coronavirus Aid, Relief, and Economic Security Act.

According to EDD, from March 2020, to January 2021, of California's confirmed fraudulent payments, 95% was associated with the federal Pandemic Unemployment Assistance (PUA) program, which the U.S. Department of Labor stated was particularly susceptible to fraud. The remaining 5% was associated with California's UI program. By comparison, in 2019 fraud accounted for about 6% of the state's total UI payments.

EDD, since 2020, has opened over 2,000 investigations of UI fraud. EDD reports as of February 2024, EDD has 2,075 total investigations, 731 arrests, and 432 convictions.

- 4) *Examples*: The author's office provided the following examples, which highlights the need for the measure.
- "Beverly Hills police arrested 44 people suspected of unemployment benefit fraud and identity theft, police said Wednesday. The suspects were using stolen identities to get benefit cards from the Employment Development Department, and then often using the money on short-term rentals and luxury items, the Beverly Hills Police Department said in a news release. Since Sept. 3, officers have found and arrested 44 people who had 129 fraudulent EDD debit cards, together holding over \$2.5 million, according to police. Officers also seized more than \$289,000 and seven handguns found among those arrested. 'Suspects have traveled primarily from out of state to obtain these fraudulent EDD cards in California,' Beverly Hills police said." <https://ktla.com/news/local-news/beverly-hills-arrest-44-in-unemployment-benefit-scam-2-5-million-recovered/>
 - "These sophisticated fraud schemes targeted unemployment insurance agencies across the nation and honed in on the susceptibilities inherent in the federal Pandemic Unemployment Assistance program created by the CARES Act. Security experts working for the state said crime rings based in Russia, China, Nigeria and other countries have used stolen identities to file fraud claims in the names of unsuspecting people, while other schemes have involved claims filed in the names of prison inmates."

<https://www.latimes.com/california/story/2021-01-28/audit-california-warnings-unemployment-benefit-fraud-covid-19>

- <https://www.justice.gov/usao-sdca/pr/foreign-national-sentenced-40-months-custody-5-million-unemployment-fraud-scheme>

REGISTERED SUPPORT / OPPOSITION:

Support

Conference of California Bar Associations

Opposition

None on file

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