



CALIFORNIA  
AUTOBODY  
ASSOCIATION

June 20, 2018

The Honorable Autumn Burke  
California State Assembly  
State Capitol, Room 5150  
Sacramento, California 95814

**Re: AB 2276 (Burke) – Auto Body Labor Rate Survey-Oppose**

Dear Assembly member Burke:

On behalf of the California Autobody Association (CAA), we must again regretfully oppose AB 2276, the successor of AB 1679 which failed earlier this year in the Assembly Appropriations Committee. The CAA is a non-profit automotive trade association comprised of approximately 1,000 individual and independent repair businesses within the collision repair industry.

We appreciate all your efforts to meet and work with CAA and other stakeholders to address our concerns. Although AB 2276 offers improvement over AB 1679, concerns are still present and the bill remains fundamentally flawed.

As you are well aware, a labor rate survey is a process that allows an insurer to determine a reasonable range of prevailing rates auto shops charge for labor to repair damaged motor vehicles in a local market. When properly done, a survey can be a useful tool for insurers to benchmark labor rates in a particular geographical area in order to pay a fair and reasonable labor rate. However, when improperly done, a labor rate survey can be used to artificially fix prices below market rates and deprive auto repair businesses from charging fair and reasonable rates, forcing consumers to pay unnecessary out-of-pocket costs.

The California Department of Insurance (CDI) recently enacted regulations which defined voluntary guidelines and standards that insurers can use to conduct labor rate surveys in a fair and equitable manner. They grant insurers who use the recommended guidelines a “safe harbor” that the rates are reasonable, effectively preventing consumers and auto repair shops from challenging them. At least one major insurer (Farmers) has already taken advantage of the new CDI regulations, and arrived at labor rates that both Farmers and the most shops find fair and reasonable.

AB 2276 allows insurers to conduct an “alternative labor rate survey” but eliminates important standards set forth in the CDI regulations that produce consistent, accurate and reliable labor rate results and instead allows insurers to skew the results in a manner that will suppress market rates.

Specifically, we have the following concerns with AB 2276:

- **Geographic Area.** Allows insurers to use an artificially large geographically area (boundaries of local workforce development areas established by the Employment Development Department). These boundaries include areas as large as counties and multi-counties. The legislature recognizes that local workforce development areas are too large and do not reflect local markets which will result in a statistically invalid surveys. As such we have suggested as a compromise that workforce development areas that contain more than 100 auto body repair shops be divided into areas that contain less than 100 shops using geographic proximity (so there in no gerrymandering) and similar market conditions (defined below), provided that the minimum confidence level is 95% and the standard error is no more than 5% (below).
- **Insurers Must Address Local Market Conditions.** Market areas for body shops are small and local to their customers. Insurers must address local market conditions when applying labor rate in a specific geographic area. In order to provide clarity, the bill should define market conditions. We have suggested the following language: market conditions mean various local economic factors including, but limited to, labor costs, rent, land prices, local laws and regulations.
- **Survey Confidence Level and Margin of Error.** The smaller the margin of the error, the more confidence there is in the labor rate results. We have suggested that the minimum confidence level be 95% and the standard error of no more than 5%.
- **Ignores Modern Materials.** Allows insurers to avoid surveying for labor rates used when working on modern vehicle materials such as Aluminum, Carbon Fiber and Fiber Glass. Knowing how to repair aluminum properly is no different than knowing how to perform structural steel repairs properly; both require specific training and equipment and because of that, both have specific labor rates. These rates are already being surveyed by insurers, and are a requirement of CDI regulations. The bill leaves a big gap in how insurers will pay these rates and invites disputes by consumers and their chosen auto body shops. The written standardized questionnaire must also survey Aluminum, Carbon Fiber and Fiberglass.
- **Rebuttable Presumption.** The Rebuttable Presumption provision should be deleted. Last year the stakeholders agreed there would be no rebuttable presumption going forward.

For the foregoing reasons we must respectfully continue to oppose AB 2276. If you have any questions or wish to discuss in further detail, please free to contact me.

Very truly yours,



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