

Date of Hearing: May 19, 2021

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Lorena Gonzalez, Chair

AB 1221 (Flora) – As Amended May 5, 2021

Policy Committee:	Privacy and Consumer Protection	Vote:	11 - 0
	Judiciary		11 - 0

Urgency: No State Mandated Local Program: Yes Reimbursable: Yes

SUMMARY:

This bill modifies existing law pertaining to service contracts by allowing service contractors to sell a service contract that covers a class of products rather than a single product and authorizes the sale of automatically renewing service contracts.

FISCAL EFFECT:

Cost pressure (Trial Court Trust Fund) possibly in tens of thousands of dollars annually to the trial courts to hear and adjudicate new claims for relief to the extent this bill expands a service contractor's obligations in accordance with the Song Beverly Consumer Warranty Act (SBCWA). If five new claims are filed for violations of the obligations set out in this bill, requiring one day of court time, at an estimated cost of approximately \$7,644 per day, the approximate cost to the trial courts is \$40,000 annually. However, new claims are likely to be minimal given the modest nature of the obligations provided in this bill.

COMMENTS:

- 1) **Purpose and Background.** This bill authorizes retailers to lawfully sell service contracts governing a class of products to California consumers. A service contract—sometimes referred to as an extended warranty, extended service plan or maintenance agreement—is an agreement that protects the purchaser of a consumer product in case something goes wrong with the product during the term of coverage.

Service contracts are similar to product warranties. But while a warranty is typically included in an item's purchase price, service contracts must generally be bought separately at additional cost. Retailers commonly offer service contracts to consumers when they purchase expensive products like cell phones, home appliances and computers. This bill amends existing law to allow for the sale of service contracts that cover single items, rather than a class of items and legalizes the offer and sale of service contracts that renew automatically until canceled, with some specified protections for consumers.

The Electronic and Appliance Repair Dealer Registration law (EARDRL) requires "service providers" - meaning people who install or repair electronics, as defined - to register with the Bureau of Electronic and Appliance Repair, Home Furnishings and Thermal Insulation at the Department of Consumer Affairs. The SBCWA regulates service contracts and provides consumers the right to file a civil action against a service provider for a failure to comply with the specified notification requirements of the SBCWA. This bill requires a service

contractor that chooses to provide a service contract on multiple products or offer automatic renewal to provide specific notifications, thereby expanding the legal grounds for which a person may bring an action pursuant to the SBCWA.

2) **Argument in Support.** According to the Service Contract Industry Council:

AB 1221...would modernize the regulation of consumer goods service contracts in California consistent with their treatment in the rest of the country. AB 1221 would allow for essential programs that are offered in every state in the country to take place in California and would provide the much-needed clarity for service contract laws under California law.

3) **Prior Legislation.** SB 340 (Yee), Chapter 350, Statutes of 2009 requires any business making an “automatic renewal” or “continuous service” offer to clearly and conspicuously, as defined, disclose terms of the offer and obtain the consumer’s affirmative consent to the offer.

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