SENATE JUDICIARY COMMITTEE
Senator Thomas Umberg, Chair
2025-2026 Regular Session

AB 1697 (Kalra)
Version: April 13, 2026
Hearing Date: June 23, 2026
Fiscal: Yes
Urgency: Yes
ME

SUBJECT

Employment contracts: stay-or-pay provisions: contract date

DIGEST

The worker protections provided in AB 692 (Kalra, Ch. 703, Stats. 2025) have been in effect since January 1, 2026. It has been unlawful for employers to require specified employment contract provisions. This bill removes the January 1, 2026 effective date and substitutes a January 1, 2027 effective date.

EXECUTIVE SUMMARY

Last year, the Legislature passed AB 692 to enhance penalties against employers who engage in practices that restrain workers from practicing their profession, business, or trade and make specified contracts void that are entered into between workers and employers. The bill was sponsored by the American Economic Liberties Project, California Employment Lawyers Association, California Federation of Labor Unions, AFL-CIO, California Nurses, Association/National Nurses United, and Student Borrower Protection Center and supported by numerous worker organizations. The bill was opposed by the California Chamber of Commerce, numerous employer organizations, and the California Hospital Association.

California has long codified that contracts are void if they restrain anyone from engaging in a lawful profession, trade, or business of any kind. Noncompete agreements in employment contracts are void under this law. Despite California's strong public policy against contractual restraints on the practice of a profession, business, or trade, companies that do business in California continue to find ways to restrain workers from leaving their jobs. Contracts between employers and workers that effectively keep workers at jobs that no longer work for them have been prevalent. Employers could not force employees to sign noncompete agreements because they are unlawful and void in California. They instead shifted to signing agreements that effectively keep employees from leaving their jobs. Employers have been entering into

contracts with workers that bind workers to work for the employers for a number of years or pay the employer a certain amount of money. This effectively can act to prevent a worker from moving jobs or moving out of town, even if the worker is in a toxic work environment or the worker needs to move out of town to attend to a sick parent or for other reasons.

The author of AB 692 sought to stop these practices by strengthening restraint of trade law and prohibiting employers from including these types of provisions in any employment contract or requiring a worker to execute as a condition of employment or a work relationship, a contract that includes such an agreement. The law took effect January 1, 2026. Now, the author brings this bill as an urgency measure to have the provisions take effect on January 1, 2027. Violations that occurred between January 1, 2026 and the date the bill is signed would continue to be violations if engaged in during that period. However, from the date of the bill being signed and January 1, 2027 none of these prohibitions would be in place.

This bill is supported by the National Football League and has no known opposition. The Senate Labor Committee passed this bill with a vote of 5 to 0. Should the Committee pass this bill it will then be referred to the Senate Appropriations Committee.

PROPOSED CHANGES TO THE LAW

Existing law:

1) Prohibits an employment contract from requiring a worker to pay certain penalties, fees, costs, or debts related to employment or education if the worker's employment or work relationship terminates, as provided. (Bus. & Prof. Code § 16608; Lab. Code § 926.)

2) Provides that a contract that is unlawful under that prohibition is void and contrary to public policy as a restraint of engaging in a lawful profession, trade, or business. (Bus. & Prof. Code § 16608; Lab. Code § 926.)

3) Authorizes a worker, among other persons, to bring a civil action for specified civil penalties and relief for a violation of these provisions. (Bus. & Prof. Code § 16608; Lab. Code § 926.)

4) Applies the above prohibitions to contracts entered into on or after January 1, 2026. (Bus. & Prof. Code § 16608; Lab. Code § 926.)

This bill:

1) Applies the above prohibitions and penalties to contracts entered into on or after January 1, 2027.

2) Declares that its provisions take effect immediately as an urgency statute.

COMMENTS

1. Stated need for the bill

According to the author:

> Last year, the Legislature passed AB 692 (Kalra, Chapter 703, Statutes of 2025), which prohibits employment contracts going forward from including "debt traps" which forces workers to pay back a debt the employer says is owed if they leave, like employee training. This also applies to contract provisions that impose quit fees where an employer imposes a penalty simply because a worker wants the freedom to work somewhere else. AB 692 was carefully crafted to include limited exceptions and allowances for when an employer would be allowed to claw back benefits received by the employee. Specifically, AB 692 under provision (b)(2)(D) allows an employer to take back a monetary bonus given at hire if not tied to job performance and meets other conditions of disclosure and worker protection.
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> AB 1697 responds to the Governor's signing message of AB 692 by delaying the effective date a year so that only employee contracts signed on or after January 1, 2027 would be subject to the prohibitions of the bill. By doing so, this gives enough time to accommodate employers with a collective bargaining agreement to come into compliance with the law and it also gives all employers an extra year to structure their contracts free of debt traps or quit fees that punishes workers choosing to exercise their freedom of employment.

2. California's public policy against contractual restraint of the practice of a profession, business, or trade

As explained by the California Supreme Court[1]:

> Under the common law, as is still true in many states today, contractual restraints on the practice of a profession, business, or trade, were considered valid, as long as they were reasonably imposed. [citations omitted] This was true even in California. […] However, in 1872 California settled public policy in

[1] *Edwards II, v. Arthur Andersen LLP* (2008), 44 Cal. 4th 937, 945-46.

> favor of open competition, and rejected the common law "rule of reasonableness," when the Legislature enacted the Civil Code. […]
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> Section 16600 states: "Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." The chapter excepts noncompetition agreements in the sale or dissolution of corporations (§ 16601), partnerships (*ibid.;* § 16602), and limited liability corporations (§ 16602.5). […]
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> Under the statute's plain meaning, therefore, an employer cannot by contract restrain a former employee from engaging in his or her profession, trade, or business unless the agreement falls within one of the exceptions to the rule (§ 16600.).

In the last few years, the Legislature passed and the Governor signed bills to strengthen restraint of trade law. (SB 699 (Caballero, Ch. 157, Stats. 2023) and AB 1076 (Bauer-Kahan, Ch. 828, Stats. 2023).) These bills specifically targeted noncompete agreements which are agreements that aim to prevent an employee from leaving their employment to work for a competitor or prevent a person from working for a competitor of their previous employer.

The author and sponsors of AB 692 (Kalra, Ch. 703, Stats. 2025) made it unlawful for an employer to include in any employment contract or to require a worker to execute as a condition of employment or a work relationship, a contract that includes a term that: requires the worker to pay an employer, training provider, or debt collector for a debt if the worker's employment or work relationship with a specific employer terminates; authorizes the employer, training provider, or debt collector to resume or initiate collection of or end forbearance on a debt if the worker's employment or work relationship with a specific employer terminates; or imposes any penalty, fee, or cost on a worker if the worker's employment or work relationship with a specific employer terminates. There were some exceptions to these prohibitions. A violation constitutes an act of unfair competition and subjects the employer to liability for actual damages sustained by the worker, or $5,000, whichever is greater, in addition to providing for injunctive relief, and reasonable attorney's fees and costs. The author and sponsors argued that a worker is effectively restrained from leaving employment or speaking out about injustices at the workplace because of terms in the employment contract that make the employees liable to pay heavy sums to the employers if they leave their job before a specified length of time.

As explained by the Student Borrower Protection Center in their letter in support of AB 692:[2]

> Whereas traditional non-compete clauses directly prohibit employees from working for competing firms, stay-or-pay provisions — often presented as a precondition to employment — obligate employees who quit or are fired within a certain period of time, typically years, to pay their employer potentially huge sums of money. Because they create such large financial burdens for switching jobs, stay-or-pay contracts are sometimes called de facto non-compete clauses. Workers often aren't aware of these penalties until it's too late (for example, when they try to quit in favor of a better job or are disciplined for speaking up about poor conditions). And even when employees know they will be subject to a stay-or-pay contract, working conditions and wages are often much worse than they anticipate. Meanwhile, the contracts also deprive competitor firms of access to labor talent. Much like "junk fees," stay-or-pay contracts operate to pad profit margins not by developing a new product or improving services, but through deception and raw exercises of market power.
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> Restrictive employment contracts like non-competes and stay-or-pay contracts produce relatively more negative impacts on women, workers of color, and workers with disabilities than other groups. These workers are generally more likely to be low-wage workers, who are most negatively impacted by stay-or-pay practices.

The American Economic Liberties Project, California Employment Lawyers Association, California Federation of Labor Unions, AFL-CIO, California Nurses, Association/National Nurses United, and Student Borrower Protection Center, sponsors of AB 692 wrote the following in support of the bill:

> These predatory employment arrangements—sometimes referred to as employer-driven debt agreements, stay-or-pay contracts, or Training Repayment Agreement Provisions (TRAPs)— undermine a worker's job mobility and limit workers' bargaining power over working conditions. With the threat of having to pay back a debt or fee to their employer, TRAPs and other stay-or-pay contracts can indenture workers into unsafe or exploitative working conditions, chilling workers from advocating for or seeking better wages or working conditions elsewhere. Effectively serving as an "exit fee", these contracts force workers to pay their employer for unavoidable fees or damages, which are often disguised as the costs of on-the-job training, if they leave their job before completing a minimum period or work.

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[2] Fact Sheet: Protecting Workers from Exploitative Stay-or-Pay Contracts, available at https://protectborrowers.org/wp-content/uploads/2024/04/FACT-SHEET_-Stay-or-Pay-Contracts.pdf [as of July 7, 2025].

> [. . .]
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> Through TRAPs, employers often shift onto workers the costs of on-the-job training, orientation, equipment, or other supplies necessary to perform their work duties. In other stay-or-pay contracts, employers force workers into contracts with income-share requirements, quit fees, liquidated damages provisions, or other financial arrangements that a worker must pay their employer if they leave their job before fulfilling a minimum work commitment. Often buried deep in employment contracts or in onboarding paperwork that a worker must sign as a condition of employment, a growing number of employers are using stay-or-pay contracts to exploit workers in transportation, health care, retail, aviation and tech industries.
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> [. . .]
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> Employers are using the threat of debt collection as an exploitative tool to trap workers into jobs, often with low wages and substandard working conditions. TRAPs can also silence whistleblowers and chill workers from acting collectively to improve working conditions. In healthcare workplaces, about a third of nurses who have been subject to a TRAP reported that they felt restrained from complaining about unsafe staffing or other unsafe or unfair working conditions. For example, TRAPs locked many new graduate nurses [in] unsafe jobs during the height of the Covid-19 pandemic as hospital employers failed to provide appropriate respiratory protection and were severely understaffed.

3. Examples of the problem

A 2022 survey of registered nurses found that almost 40% of registered nurses who started their careers within the past decade were subject to a Training Repayment Agreement Provision (TRAP) for new graduate "residency" programs.[3] A news report highlights the impact on nurses:

> When Jacqui Rum quit her nursing job at Los Robles Regional Medical Center last fall over the heavy workload and low staffing levels, it came with a high price — a $2,000 bill from her former employer for training costs.
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> The payment was related to a contract Rum was required to sign when she took the job at the Thousand Oaks, California, hospital owned by HCA Healthcare, the nation's largest for-profit hospital chain. Under the agreement, which is standard for entry-level nurses working at HCA hospitals and becoming increasingly standard for other health systems, Rum agreed to pay back the

[3] National Nurses United (Dec. 2022), *Caught in a TRAP*, *National Nurse Magazine*.

> hospital for training if she quit or was fired before her two-year contract expired.
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> Despite the agreement, Rum said she quit after 13 months because of the physical and mental strain, citing staffing that was so thin she was often unable to take even a 30-minute break during her 12-hour shifts. As a result of leaving, she has received seven letters since October from a collection agency working for HCA demanding payment for the remaining $2,000 in training costs the hospital says she owes, and threatening to charge her interest and legal fees.
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> [. . .] The practice of requiring repayment for training programs aimed at recent nursing school graduates has become increasingly common in recent years, with some hospitals requiring nurses to pay back as much as $15,000 if they quit or are fired before their contract is up, according to more than a dozen nursing contracts reviewed by NBC News and interviews with nurses, educators, hospital administrators and labor organizers.[4]

A Consumer Financial Protection Bureau report found that workers may be rushed into signing agreements that contain TRAPs with hidden terms and may not be aware of the debt trap, or employers may unilaterally change terms and conditions of the debt. They highlighted that debt TRAPs are often imposed as a condition of employment, impeding workers' ability to consider and negotiate the terms of the employer-driven debt before accepting a job. They also noted that employers may misrepresent the value and nature of the employer-driven debt, work conditions, or the earnings of the prospective jobs for which workers are considering incurring debt.[5] These stay-or-pay provisions are utilized in a variety of fields.

The California Attorney General (AG) issued a legal alert directed to all California employers to remind them of state-law restrictions on employer-driven debt.[6] The AG explained how the use of "employer-driven debt products has grown substantially in recent years, potentially stifling competition in the labor market and forcing workers to remain in jobs that they would otherwise prefer to leave due to low pay or substandard working conditions. As a form of consumer debt, employer-driven debt may also expose workers to significant financial risk and predatory debt collection practices. Employer-driven debt has been observed in numerous industries, including in

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[4] Shannon Pettypiece, *'Indentured servitude': Nurses hit with hefty debt when trying to leave hospitals* (March 12, 2023) NBC News, available at: https://www.nbcnews.com/politics/economics/indentured-servitude-nurses-hit-hefty-debt-trying-leave-hospitals-rcna74204 [as of July 7, 2025].
[5] Consumer Finance Protection Bureau, *CFPB Office for Consumer Populations, Consumer risks posed by employer-driven debt* (2023) available at: https://www.consumerfinance.gov/data-research/research-reports/issue-spotlight-consumer-risks-posed-by-employer-driven-debt/full-report/ [as of July 7, 2025].
[6] California Department of Justice Office of the Attorney General, Legal Alert No. OAG-2023-01, *State Law Restrictions on Employer-Driven Debt* (July 25, 2023) available at: https://oag.ca.gov/system/files/media/legal-alert-oag-2023-01-employer-driven-debt.pdf [as of July 7, 2025].

healthcare, trucking, aviation, and the retail and service industries." The AG also noted various statutes that employer-driven debt may violate, including Labor Code sections 2802, 2802.1, and 2804. The AG also highlighted how employer-driven debt practices may also violate a number of consumer protection statutes.

SUPPORT

National Football League

OPPOSITION

None known

RELATED LEGISLATION

Pending legislation: None known.

Prior legislation: AB 692 (Kalra, Ch. 703, Stats. 2025) prohibited an employment contract from requiring a worker to pay certain penalties, fees, costs, or debts related to employment or education if the worker's employment or work relationship terminates, as provided. Specified that a contract that is unlawful under that prohibition is void and contrary to public policy as a restraint of engaging in a lawful profession, trade, or business.

AB 1076 (Bauer-Kahan, Ch. 828, Stats. 2023) strengthened California's restraint of trade prohibitions in the context of non-compete agreements.

SB 699 (Caballero, Ch. 157, Stats. 2023) strengthened California's restraint of trade prohibitions by clarifying, among other things, that any contract that is void under California's restraint of trade law is unenforceable regardless of where and when the contract was signed.

AB 747 (McCarty, 2023) would have provided, among other things, that an employer shall not enter into, present an employee or prospective employee as a term of employment, or attempt to enforce any contract in restraint of trade that is void under the chapter regarding contracts in restrain to trade, which is Sections 16600 through 16607 of the Business and Professions Code. AB 747 died on the Assembly Floor.

AB 2588 (Kalra, Ch. 351, Stats. 2020) clarified that the cost of any employer-required training incurred by a direct patient care employee or applicant for direct care employment constitutes an expenditure or loss to that employee or applicant during the discharge of their duties.

PRIOR VOTES:

Senate Labor, Public Employment and Retirement (Ayes 5, Noes 0)
Assembly Floor (Ayes 61, Noes 5)
Assembly Appropriations Committee (Ayes 9, Noes 2)
Assembly Labor and Employment Committee (Ayes 6, Noes 1)
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