THIRD READING

Bill No: AB 1697
Author: Kalra (D)
Amended: 8/21/26 in Senate
Vote: 27 - Urgency

SENATE LABOR, PUB. EMP. & RET. COMMITTEE: 5-0, 6/10/26
AYES: Smallwood-Cuevas, Strickland, Cortese, Durazo, Laird

SENATE JUDICIARY COMMITTEE: 13-0, 6/23/26
AYES: Umberg, Niello, Allen, Ashby, Caballero, Durazo, Laird, Reyes, Stern, Valladares, Wahab, Weber Pierson, Wiener

SENATE APPROPRIATIONS COMMITTEE: Senate Rule 28.8

ASSEMBLY FLOOR: 61-5, 5/18/26 - See last page for vote

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

SOURCE: Author

DIGEST: This bill 1) delays for one year, until January 1, 2027, the effective date of AB 692 (Kalra, Chapter 703, Statutes of 2025) which prohibits an employment contract from including any provisions that require a worker to assume a debt if their employment concludes before the end of the contract's term; and 2) establishes some exemptions to the prohibitions adopted with AB 692 for certain bonuses, advanced paid time off payments, and certain contracts in the financial securities and insurance industries that meet specified criteria.

Senate Floor Amendments of 8/21/26 1) add legislative intent clarifying the reason for moving the effective date of last year's AB 692 provisions; 2) specify that the provisions of AB 692, as they existed on January 1, 2026, shall be inoperative from January 1, 2026 to December 31, 2016; and 3) add several additional exemptions to the existing AB 692 provisions.

ANALYSIS:

Existing law:

1) For contracts entered into *on or after January 1, 2026*, makes it unlawful to include in any employment contract, or to require a worker to execute as a condition of employment or a work relationship, a contract term that does any of the following:
   a) 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.
   b) 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.
   c) Imposes any penalty, fee, or cost on a worker if the worker's employment or work relationship with a specific employer terminates.
   (Business and Professions Code §16608(b)(1))

2) Exempts certain types of contracts from the above prohibition, including:

   a) A contract entered into under any loan repayment assistance program or loan forgiveness program provided by a federal, state, or local governmental agency.
   b) A contract related to the repayment of the cost of tuition for a transferable credential, provided that specified conditions are met.
   c) A contract related to enrollment in an apprenticeship program approved by the Division of Apprenticeship Standards.
   d) A contract for the receipt of a discretionary or unearned monetary payment, including a financial bonus, at the outset of employment that is not tied to specific job performance, provided that all of the following conditions are met:
      i) The terms of any repayment obligation are set forth in a separate agreement from the primary employment contract.
      ii) The employee is notified that they have the right to consult an attorney regarding the agreement and provided with a reasonable time period of not less than five business days to obtain advice of counsel prior to executing the agreement.
      iii) Any repayment obligation for early separation from employment is not subject to interest accrual and is prorated based on the remaining term of any retention period, which shall not exceed two years from the receipt of payment.

iv) The worker has an option to defer receipt of the payment to the end of a fully served retention period without any repayment obligation.
v) Separation from employment prior to the retention period was at the sole election of the employee, or at the election of the employer for misconduct.

e) A contract related to the lease, financing, or purchase of residential property, as specified. (Business and Professions Code §16608(b)(2))

3) Provides that a contract that is unlawful under the above prohibition is void and contrary to public policy as a restraint of engaging in a lawful profession, trade, or business. (Business and Professions Code §16608(c) & Labor Code §926(a))

4) Authorizes a worker, or a worker representative acting on behalf of a worker(s), to bring a civil action for specified civil penalties and relief for a violation of these provisions. Any person found liable for a violation shall be liable for actual damages sustained by the worker or workers on whose behalf the case is brought, or five thousand dollars ($5,000) per worker, whichever is greater, in addition to injunctive relief, and reasonable attorney's fees and costs. (Labor Code § 926(b)(c))

This bill:

1) Finds and declares:
   a) The intent of the Legislature to provide all employers with an additional year to structure their employment contracts free of debt traps or quit fees that penalize workers who choose to exercise their freedom of employment;
   b) That to effectuate this intent, any pending claim based on a violation alleged to have occurred between January 1, 2026 and the effective date of this bill shall be moot.

2) Delays the effective date of the above described provisions for one year so that the prohibitions apply to contracts entered into on or after January 1, 2027 and includes an urgency clause for the delay.

3) Specifies that the provisions of AB 692, including the enforcement provisions found in the Labor Code, as they existed on January 1, 2026, shall be inoperative from January 1, 2026 to December 31, 2016, inclusive.

4) For the existing law exemption from these provisions of a contract for the receipt of a discretionary or unearned monetary payment, including a financial

bonus, as specified, deletes the reference that the payments must occur "at the outset of employment" thereby making these types of bonuses allowable for existing employees as well.

5) Exempts the following contracts from the existing law prohibitions:

   a) Any contract entered into pursuant to a recruitment and retention program funded by a federal, state, or local government agency grant that offers recruitment or retention bonuses, if the employee repayment obligations comply with the requirements of the grant and do not exceed the service obligations required by the grant.

   b) A contract for the receipt of a discretionary or unearned monetary payment from the employer that is an inducement for the worker to be affiliated with the employer or agreeing to maintain a relationship with the employer, provided that all of the following conditions are met:
      i. The terms of any repayment obligation are set forth in a separate agreement from the primary employment contract.
      ii. The payment from the employer to the worker is in addition to compensation that would otherwise be payable to the worker in connection with their employment.
      iii. The worker is notified that they have the right to consult an attorney regarding the agreement and be provided with a reasonable time period of not less than five business days to obtain advice of counsel prior to executing the agreement.
      iv. If an outstanding repayment obligation continues following separation from employment and interest accrues on the obligation after separation, the applicable interest rate shall not exceed the applicable federal rate published by the IRS for federal income tax purposes.
      v. The contract is between a securities broker-dealer, insurance producer, or investment adviser, including their affiliates, and its agents or representatives, registered and licensed as specified.

   c) A repayment obligation arising from voluntary separation of employment related to an advanced payment made by the employer for paid time off in excess of a worker's accrued paid time off, provided that all of the following conditions are met:
      i. The terms of any repayment obligation are clearly disclosed to the worker separate from the primary employment contract upon the worker's

request to receive advanced payment for paid time off in excess of a worker's accrued paid time off.

ii. The repayment obligation does not exceed 40 hours accrued paid time off.
iii. The repayment obligation is not subject to interest accrual.

Background

"Stay or Pay" Provisions & Training Repayment Agreement Provisions (TRAPs): Employer-driven debt, also known as "stay or pay" provisions, refers to debt obligations incurred by individuals through employment arrangements that include employer provided training, equipment, or supplies, in exchange for worker commitments to work with the employer for a specified amount of time. Contract provisions specific to training are also known as Training Repayment Agreement Provisions or "TRAPs." These arrangements require the worker to reimburse the employer for such expenses if the worker leaves the job before the specified date, even if the worker is fired or laid off.

AB 692 (Kalra, Chapter 703, Statutes of 2025). In response to the abusive use of these provisions, the Legislature passed, and the Governor signed AB 692 (Kalra) last year to prohibit, with some exceptions, 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. In his signing message for the bill, Governor Newsom stated the following:

"I commend the author for advocating on behalf of workers who are trapped in employment contracts that impose significant financial repercussions for leaving their jobs. California has long been a national leader in adopting policies that promote competition for top talent. This includes the state's longstanding prohibition on noncompete clauses, a policy that has helped attract top talent. So called "debt traps" in employment contracts appear to be a modern variation of noncompete agreements, keeping employees in their positions longer than necessary, stifling innovation, and preventing workers from reaching their full potential.

However, there is still more work to be done. I encourage the Legislature to enact follow-up legislation in 2026 to accommodate the collective bargaining process. Allowing these issues to be resolved through the collective bargaining process is appropriate because those agreements are tailored to the unique needs of workers and their employers."

Need for the bill? According to the author: “as stated in the Governor’s signing message, the Legislature was encouraged to accommodate certain active collective bargaining and, as such, would require the implementation of AB 692 to be delayed. In doing so, this bill will allow ongoing issues that are unique to the respective needs of particular workers and employers to be more appropriately resolved through the collective bargaining process.

AB 1697 would delay the implementation of AB 692 (Kalra, Chapter 703, Statutes of 2025) by one year so that the prohibitions on predatory stay-or pay would apply to contracts entered into on or after January 1, 2027. AB 1697 also adds and updates contract exemptions in the current law that are worker friendly and incentive based. This bill contains an urgency clause and would take effect immediately.”

[NOTE: Please see the Senate Labor, Public Employment and Retirement Committee analysis on this bill for more background information and information on more prior and related legislation.]

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

SUPPORT: (Verified 8/20/26)

California Bankers Association
Financial Services Institute
National Football League
Securities Industry and Financial Markets Association

OPPOSITION: (Verified 8/20/26)

None received

ARGUMENTS IN SUPPORT: The National Football League is in support of the measure and write:

“We appreciate the Legislature’s intent to protect workers from exploitative practices and support policies that promote fair competition and worker mobility. However, as the Governor acknowledged in his signing message, there is “more work to be done” to accommodate the collective bargaining process, and he encouraged follow-up legislation in 2026 to allow these issues to be resolved through collective bargaining. Professional sports operate under comprehensive Collective Bargaining Agreements (CBAs) negotiated in good faith between leagues and players’ associations. Certain provisions implicated by AB 692 may be interpreted to intersect with these collectively bargained agreements in ways that were not intended by the author. AB 1697 is an urgency measure that simply provides an implementation delay until January 1, 2027, allowing the Legislature, professional sports, and the Administration time to address these unintended impacts."

ASSEMBLY FLOOR: 61-5, 5/18/26
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Caloza, Carrillo, Connolly, Davies, Elhawary, Flora, Fong, Gabriel, Garcia, Gipson, Jeff Gonzalez, Mark González, Haney, Harabedian, Hart, Irwin, Jackson, Kalra, Krell, Lowenthal, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NOES: DeMaio, Hadwick, Hoover, Macedo, Sanchez
NO VOTE RECORDED: Calderon, Castillo, Chen, Dixon, Ellis, Gallagher, Johnson, Lackey, Lee, Quirk-Silva, Celeste Rodriguez, Stefani, Ta, Tangipa

Prepared by: Alma Perez-Schwab / L., P.E. & R. / (916) 651-1556
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