
SENATE COMMITTEE ON APPROPRIATIONS

Senator Anna Caballero, Chair
2025 - 2026 Regular Session

AB 381 (Stefani) - State contracts: certification process: forced labor and human trafficking

Version: May 23, 2025

Policy Vote: G.O. 15 - 0, L., P.E. & R. 5 - 0

Urgency: No

Mandate: Yes

Hearing Date: August 18, 2025

Consultant: Janelle Miyashiro

Bill Summary: AB 381 revises, for a contract entered into or renewed on or after January 1, 2026, specified state contracting requirements to require contractors and subcontractors to certify that contracts comply with specified human trafficking prohibitions and a detailed series of labor standards; creates a new requirement for contractors and subcontractors to develop and implement compliance plans, as specified; and expands the list of potential sanctions for violations of these provisions.

Fiscal Impact:

- The Department of General Services (DGS) reports:
 - Total one-time cost of approximately \$170,000 for a limited term staff for a term of 24 months to create, update, and manage initial revisions of state contracting regulations.
 - Total ongoing costs of approximately \$340,000 for two permanent staff to address a potential increase in contract disputes and lawsuits, assist with compliance workload, and address Small Business/Disabled Veteran Business Enterprise program inquiries, complaints, investigations, and referrals (General Fund).
- Unknown, potentially significant increase in state procurement cost pressures, as contractors generally pass increased business expenses to the state through increased contracting costs, higher bids, and quoted prices. DGS notes contractors may also choose not to do business with state agencies, limiting competition which may lead to increased bid costs. Additionally, DGS notes that to the extent this bill slows down the contract and procurement process thereby jeopardizing time sensitive funding sources or the use of low dollar expeditious acquisition methods, there may be a corresponding fiscal impact to state agencies' procurement activities.
- Unknown, potentially significant fiscal impact across all impacted departments that utilize garment and equipment procurement or laundering services (General Fund and various special funds). Additional workload includes implementing new employment and contracting practices, performing new contract management duties to oversee labor and business practices of contractors and subcontractors, and enforcing compliance with the mandates of this bill.

Background: Existing law imposes a series of requirements on state contractors awarded state contracts for the procurement of equipment, material, supplies, and

garments. It requires that all state contractors comply with a DIR contractor responsibility program, including a “Sweat Free Code of Conduct.”

Generally, the Sweat Free Code of Conduct requires all contractors and subcontractors to certify, under penalty of perjury, that products supplied to the state are not produced with sweatshop labor or other abusive labor practices. The law is intended to ensure that contractors engaging in public contracts with the state adhere to labor standards that respect human rights and dignity.

The certification must affirm that none of the products supplied were made in conditions that violate those principles. Any person who certifies as true any material matter pursuant to the above requirement that they know to be false is guilty of a misdemeanor. The contracting certification requirements do not apply to credit card purchases of \$2,500 or less (this exemption shall not exceed \$7,500 per year for each company from which a state agency is purchasing goods).

Further, existing law requires contractors cooperate with state agencies by granting access to their records and premises for compliance checks by state agencies or the DIR, and outlines penalties for contractors found to be in violation, including voiding contracts, imposing fines, and banning from future contracts.

In cases where a contractor is found to have violated these conditions, the Sweat Free Code of Conduct outlines various sanctions including financial penalties of up to \$1,000 or twenty percent of the value of the products and/or the contractor or subcontractor being barred from participating in future state contracts. Existing law grants contractors the ability to appeal sanctions, including hearings before an administrative law judge (ALJ). These sanctions are intended to serve as a deterrent against the exploitation of workers and ensure that contractors maintain high labor standards.

Contractors are required to ensure that their subcontractors are in compliance with the Sweat Free Code of Conduct. Any person who certifies as true any material matter pursuant to the above requirements that they know to be false is guilty of a misdemeanor.

Proposed Law:

- Requires, for a contract entered into or renewed on or after January 1, 2026, every contractor working with a state agency for the procurement or laundering of apparel, garments, or corresponding accessories, or the procurement of equipment, materials, or supplies, other than procurement related to a public works contract, to certify that the contract, among other things, complies with the requirement that contractors, contractor employees, subcontractors, subcontractor employees, and their agents are prohibited from all of the following:
 - Engaging in severe forms of trafficking in persons during the performance period of the contract.
 - Using forced labor in the performance of the contract.

- Destroying, concealing, confiscating, or otherwise denying access by an employee to the employee's identity or immigration documents, regardless of the issuing authority.
 - Using misleading or fraudulent practices during the recruitment or hiring of employees, including failing to disclose, in a format and language understood by the employee or potential employee, basic information or making material misrepresentations regarding the key terms and conditions of employment, as specified.
 - Using recruiters that do not comply with state labor laws and the laws of the country that the recruiting takes place.
 - Charging employees or potential employees recruitment fees.
 - Failing to provide or pay for the cost of required return transportation upon the end of employment, as specified.
 - Providing or arranging housing that fails to meet the housing and safety standards of the country where the work is performed.
 - If required by law or contract, failing to provide an employment contract, recruitment agreement, or other required work document in writing, as specified.
- Requires contractors and subcontractors to notify employees of the prohibited activities described above and the actions that may be taken against them for violations.
 - Provides that the contractor is ineligible for, and shall not bid on, or submit a proposal for, a contract described above if that contractor has failed to certify compliance, as specified.
 - Requires a contractor, before a contract or subcontract is awarded, to provide or obtain from the proposed subcontractor and then provide to the contracting officer a certification that states both of the following: the contractor and/or subcontractor has implemented a compliance plan, as specified; and the contractor and/or subcontractor has conducted due diligence, as specified.
 - Requires the compliance plan, contractors, and subcontractors to comply with specified criteria and disclosure requirements.
 - Requires contracts to provide suitable remedies, including termination, to be imposed on contractors and subcontractors that fail to comply with the requirements of this bill.
 - Provides that the contract shall specify that the contractor is required to cooperate fully in providing reasonable access to the contractor's records, documents, agents, employees, or premises if reasonably required by authorized officials of the contracting agency, the Department of Industrial Relations (DIR), or the Department

of Justice (DOJ) to determine the contractor's compliance with the requirements under this bill.

- Provides, for a contract entered into or renewed on or after January 1, 2026, that any contractor contracting with the state who knew or should have known that the apparel, garments, corresponding accessories, equipment, materials, or supplies furnished to the state were laundered or produced in violation of specified conditions when entering into a contract pursuant to the above, may, in addition to existing sanctions, have other specified sanctions applied.
 - Provides that when imposing the sanctions, the contracting agency shall notify the contractor of the right to a hearing, if requested, within 15 days of the date of the notice, as specified.
 - Authorizes, for a contract entered into or renewed on or after January 1, 2026, an administrative law judge, during a hearing requested by a contractor on the imposition of sanctions, to consider both mitigating and aggravating factors, as specified.
- Provides that if a contractor, contractor employee, subcontractor, subcontractor employee, or agent violates specified provisions of the Penal Code, the federal Trafficking Victims Protection Act of 2000, Federal Executive Order 13627, or this bill the contractor must complete specified notification and other requirements.
- Requires, for a contract entered into or renewed on or after January 1, 2026, a contracting officer, upon receipt of credible information regarding a violation described above, to promptly notify, in accordance with agency procedures, the state agency with oversight, the agency debarring and suspending official, and if appropriate, law enforcement officials with jurisdiction over the alleged offense. The contracting officer may direct the contractor to take specific steps to abate the alleged violation or enforce the requirements of its compliance plan.
- Specifies that requirements set forth in this bill shall govern contracts and subcontracts entered into by a state agency, regardless of place of performance.

Related Legislation: SB 1157 (Hurtado, 2024) was similar to this bill and would have revised existing contracting requirements to require compliance with specified human trafficking prohibitions; required contractors and subcontractors to certify that contracts comply with specified provisions of law under the penalty of perjury, as specified; required posted compliance plans, as specified; included due diligence and annual reporting requirements; and specified required actions for noncompliance violations, as specified. SB 1157 was held on the Suspense File in this committee.

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