
CONSENT

Bill No: AB 521
Author: Carrillo (D)
Introduced: 2/10/25
Vote: 21

SENATE BUS., PROF. & ECON. DEV. COMMITTEE: 8-0, 6/9/25
AYES: Ashby, Choi, Archuleta, Arreguín, Grayson, Niello, Strickland, Umberg
NO VOTE RECORDED: Menjivar, Smallwood-Cuevas, Weber Pierson

SENATE JUDICIARY COMMITTEE: 12-0, 6/24/25
AYES: Umberg, Niello, Allen, Arreguín, Ashby, Caballero, Durazo, Laird, Stern,
Wahab, Weber Pierson, Wiener
NO VOTE RECORDED: Valladares

SENATE APPROPRIATIONS COMMITTEE: Senate Rule 28.8

ASSEMBLY FLOOR: 76-0, 5/1/25 (Consent) - See last page for vote

SUBJECT: Contractors State License Board: bond deposits: liability for legal fees and costs

SOURCE: Contractors State License Board (CSLB)

DIGEST: This bill specifies that the CSLB shall not be responsible for any legal fees or costs accrued by a claimant in a civil action against a deposit in lieu of bond (deposit) while a court determines whether payment should be made against the deposit, regardless of when the deposit was filed with the CSLB Registrar.

ANALYSIS:

Existing law:

- 1) Establishes the CSLB within the Department of Consumer Affairs (DCA) to license and regulate contractors and home improvement salespersons.

(Business and Professions Code (BPC) § 7000 et seq.)

- 2) Authorizes the CSLB to appoint a registrar of contractors to be the executive officer and secretary of the CSLB. (BPC § 2011)
- 3) Requires, as a condition precedent to the issuance, reinstatement, reactivation, renewal, or continued maintenance of a license, that an applicant or licensee file or have on file a contractor's bond in the sum of twenty-five thousand dollars. (BPC § 7071.6(a))
- 4) Requires a contractor's bond to be executed by an admitted surety in favor of the State of California, in a form acceptable to the registrar and filed with the registrar by the licensee or applicant. States the contractor's bond shall be for the benefit of consumers who experienced financial harm as a result of a violation of the Contractors State License Law (License Law), as specified. (BPC § 7071.4(a))
- 5) Requires a contractor's bond to be executed by an admitted surety in favor of the State of California, in a form acceptable to the registrar and filed with the registrar by the licensee or applicant. (BPC § 7071.5)
- 6) Requires an applicant or licensee, as a condition of licensure, to file or have on file a contractor's bond in the sum of \$25,000, authorizes CSLB to increase the bond requirement to \$50,000 if the licensee has been subject to disciplinary action, and requires an applicant or licensee that is a limited liability company to have on file a surety bond in the sum of \$100,000. (BPC §§ 7071.6(a), (d), 7071.6.5)
- 7) Specifies that a qualifying individual's bond must be executed by an admitted surety insurer in favor of the State of California, in a form acceptable to the registrar and filed with the registrar by the qualifying individual for the benefit specified contractor clients and employees. (BPC § 7071.10)
- 8) Requires, as condition of licensure following the revocation of a license for violating the License Law, an applicant or licensee to file or have on file a contractor's bond in a sum to be fixed by the registrar, based on the seriousness of the violation, but shall not be less than \$25,000 nor more than \$250,000. (BPC § 7071.8(b))

- 9) Permits lawful money or cashier's check deposits to be filed with the registrar in lieu of a contractor's bond, as specified. (BPC § 7071.4(f))
- 10) Prohibits the deposit or any portion thereof from being released for any purpose, except as determined by the court. (BPC § 7071.4(c)(1))
- 11) Subjects a license to suspension or revocation when a licensee fails to maintain a sufficient bond, as specified. (BPC § 7071.15)
- 12) Defines "Officer" as the sheriff, marshal, clerk of court, judge or magistrate (if there is no clerk), board, commission, department, or other public official or entity to whom the bond is given or with whom a copy of the bond is filed or who is required to determine the sufficiency of the sureties or to approve the bond. (Code of Civil Procedure (CCP) § 995.160)
- 13) Specifies that a deposit given instead of a bond has the same force and effect, is treated the same, and is subject to the same conditions, liability, and statutory provisions, including provisions for increase and decrease of amount, as the bond. (CCP § 995.730)
- 14) Authorizes liability on a bond to be enforced by civil action and requires the principal and the sureties to be joined as parties to the action. (CCP § 996.430)

This bill specifies that CSLB shall not be liable for any legal fees or costs in any civil action against a deposit in lieu of bond while a court determines whether payment should be made against the deposit, regardless of when it was filed with the registrar.

Background

The CSLB is responsible for implementing and enforcing the Contractors State License Law (License Law) related to the licensure, practice and discipline of the construction industry in California. CSLB is a special fund program that obtains 100 percent of its revenue from license fees and fines from enforcement actions. The CSLB licenses approximately 285,000 licensees in 44 licensing classifications, issues two certifications, and registers approximately 18,000 Home Improvement Salespersons. CSLB regulations, Title 16 of the California Code of Regulations (16 CCR) §§ 832.02–832.62, specify the work that each classification may lawfully engage in under that classification.

Current law requires all businesses and individuals who construct or alter, or offer to construct or alter, any building, highway, road, parking facility, railroad, excavation, or other structure in California to be licensed by the CSLB if the total cost, including both labor and materials, of one or more contracts on the project is \$1,000 or more for labor, materials, and all other items when the work is considered of casual, minor, or inconsequential nature, and the work or operation does not require a building permit (BPC § 7048(a)).

As a condition of licensure, contractors are required to maintain a \$25,000 contractor's bond for the benefit of consumers, employees, or other contractors who may be damaged as a result of defective construction or from other Contractors State License Law violations. BPC § 7071.4 authorizes CSLB to accept cash deposits in lieu of filing a contractors bond and subdivision (c)(1) prohibits CSLB from releasing any portion of the deposit for any purpose, except as determined by the court. Procedures of the civil process require CSLB to be named as a co-defendant in any civil case that includes a claim against the cash deposit, which is a necessary step for a consumer to claim against a cash deposit held by CSLB.

The process was worked well until a decision in a California Appellate Court case, *Karton v. Ari Design & Construction (Karton)*, found that surety bond companies holding licensed contractor bonds may be ordered to pay the attorney fees of the litigating parties when the surety company delays in releasing the bond in the civil litigation. The *Karton* decision will likely expose CSLB to liability for attorney fees in all future "cash deposit" civil cases. In fact, on or about April 20, 2023, a deputy attorney general representing CSLB in a routine cash deposit bond case on which CSLB was listed as a codefendant, alerted CSLB that *Karton* was being used to request the court to make CSLB liable for consumer's attorney fees.

CSLB did not oppose payment in either case and was a party only because of the requirement to make payment (or not) in response to a court order. CSLB's role in these cases is to protect the consumer and the funds by making the cash deposit bond funds available when the court has litigated the issues and directed CSLB to dispense the funds to an injured party. However, the legal interpretation that the *Karton* decision applies in these cases is possible because the Bond and Undertaking Law (Code of Civil Procedure §§ 995.010 through 996.560) treats CSLB as a "surety" in situations when CSLB is holding cash deposits for contractors until their dispute is resolved. There are currently 300 deposits on file for which CSLB could be held liable for attorney fees in cases in which CSLB is simply complying with the law by awaiting disposition instruction from the court.

This exposure is contrary to the policy and purpose behind cash deposits, which is simply to provide contractors who do not want to use a surety company with a means of complying with the contractor's bond requirement, a condition precedent to licensure (BPC § 7071.6). CSLB is not a surety, does not issue bonds or make profit on bonds, and has no discretion to release cash deposits without an order from the court. For the CSLB to be required to pay attorney fees in a dispute it is not engaged in would result in a gross misuse of licensee funds.

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

SUPPORT: (Verified 8/18/25)

Contractors State License Board (sponsor)
Associated General Contractors, California Chapters
California Builders Alliance
California Legislative Conference of Plumbing, Heating & Piping Industry
Contractors State License Board
National Electrical Contractors Association
Northern California Allied Trades
Northern California Floor Covering Association
Sacramento Regional Builders Exchange
Southern California Glass Management Association
United Contractors
Wall and Ceiling Alliance
Western Painting and Coating Contractors Association
Western Wall and Ceiling Contractors Association

OPPOSITION: (Verified 8/18/25)

None received

ARGUMENTS IN SUPPORT: The Contractors State License Board (sponsor) writes, "Unlike surety companies, CSLB does not issue bonds, make a profit from them, or have the authority to release cash deposits without a court order. This potential liability undermines the purpose of cash deposits, which are simply an alternative for contractors who do not wish to use a surety company but still need to fulfill the bonding requirement for licensure."

Associated General Contractors writes, "AB 521 introduces essential reforms to relieve the Contractors State License Board from liabilities associated with legal fees or costs in actions against specific deposits, irrespective of when they were

filed with the registrar. This legislation is a pragmatic step toward ensuring that the Board can operate more efficiently without the undue burden of potential financial liabilities impacting its regulatory functions.”

The California Legislative Conference of the Plumbing, Heating and Piping Industry, National Electrical Contractors Association, Northern California Allied Trades, Northern California Floor Covering Association, Southern California Glass Management Association, United Contractors, Wall And Ceiling Alliance, Western Wall and Ceiling Contractors Association, and Western Painting and Coating Contractors Association write, “AB 521 helps ensure that the CSLB is not unnecessarily burdened with legal fees and costs associated with civil actions over bond claims—matters for which the Board serves merely as a stakeholder, not a party to the dispute. This common-sense clarification will protect CSLB from unnecessary litigation expenses and allow the Board to focus its limited resources on its core mission: protecting California consumers and supporting a fair and efficient licensing process.”

The Sacramento Regional Builders Exchange writes in support, “AB 521 provides critical clarity regarding the liability of the Contractors State License Board (CSLB) concerning attorney’s fees and costs in civil actions involving contractors’ alternative bond deposit arrangements. By specifying that the CSLB cannot be held liable for such legal fees that may exceed the value of the deposit itself, this legislation protects both the regulatory body’s ability to operate efficiently and the interests of the contractors it oversees.”

ASSEMBLY FLOOR: 76-0, 5/1/25

AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, Muratsuchi, Nguyen, Ortega, Pacheco, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas

NO VOTE RECORDED: Chen, McKinnor, Papan

Prepared by: Yeaphana La Marr / B., P. & E.D. /
8/21/25 16:45:28

**** **END** ****