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

AB 692 (Kalra)
Version: June 26, 2025
Hearing Date: July 15, 2025
Fiscal: Yes
Urgency: No
ME

SUBJECT

Employment: contracts in restraint of trade

DIGEST

This bill enhances 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.

EXECUTIVE SUMMARY

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 are prevalent. Employers seem to have shifted from forcing employees to sign noncompete agreements, which are unlawful and void in California, 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 seeks 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, a contract 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 are some exceptions to these prohibitions. The author has agreed to amendments that provide more exceptions to these prohibitions. The amendments are reflected in the mock-up at the end of this analysis.

The bill is 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 is opposed by the California Chamber of Commerce, numerous employer organizations, and the California Hospital Association. AB 692 passed out of the Senate Labor, Public Employment and Retirement Committee with a vote of 4 to 1.

PROPOSED CHANGES TO THE LAW

Existing law:

1) Declares every contract by which anyone is restrained from engaging in a lawful profession, trade, or business as void, except as expressly provided. Specifies that this provision shall be read broadly to void the application of any non-compete agreement in an employment context, or any non-compete clause in an employment contract, no matter how narrowly tailored, except as specified. (Bus. and Prof. Code § 16600.)

2) Defines "unfair competition" to include any unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising. Provides that any person who engages, has engaged, or proposes to engage in unfair competition shall be liable for a civil penalty not to exceed $2,500 for each violation, which shall be assessed and recovered in a civil action brought in the name of the people of the State of California by the Attorney General and other public prosecutors, as specified. (Bus. and Prof. Code §§ 17200, 17206, 17500.)

3) Establishes within the Department of Industrial Relations (DIR) a Division of Labor Standards Enforcement (DLSE), which is administered by the Labor Commissioner (Commissioner). Authorizes the Commissioner to receive complaints, conduct investigations, and enforce the provisions of the Labor Code. (Lab. Code §§ 79-107.)

4) Establishes the (DIR) in the Labor and Workforce Development Agency (LWDA), and vests it with various powers and duties to foster, promote, and develop the welfare of the wage earners of California, to improve their working conditions, and to advance their opportunities for profitable employment. (Lab. Code § 50.5.)

5) Provides that an employer shall indemnify their employee for all necessary expenditures or losses incurred by the employee in direct consequence of the

discharge of his or her duties, or of their obedience to the directions of the employer, even though unlawful, unless the employee, at the time of obeying the directions, believed them to be unlawful. (Lab. Code § 2802.)

6) Specifies that 5) above applies to any expense or cost of any employer-provided or employer-required educational program or training for an employee providing direct patient care or an applicant for direct patient care employment. Provides that those expenses or costs shall constitute a necessary expenditure or loss incurred by the employee in direct consequence of the discharge of the employee's duties, as specified. (Lab. Code § 2802.1 (a).)

7) Specifies that for purposes of 6) above "employer-provided or employer-required educational program or training" does not include either of the following:
    a) requirements for a license, registration, or certification necessary to legally practice in a specific employee classification to provide direct patient care; or
    b) education or training that is voluntarily undertaken by the employee or applicant solely at their discretion. (*Id.)*

8) Prohibits an employer, or any person acting on behalf of the employer, from retaliating against an applicant for employment or employee for refusing to enter into a contract or agreement that violates the provisions specified above which apply only to applicants for employment or employees providing direct patient care for a general acute care hospital, as specified. (Lab. Code § 2802.1.)

This bill:

1) Except as provided in 5) and 6), below, for contracts entered into on or after January 1, 2026, it shall be 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 that includes, 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.

2) Provides that a contract that is unlawful under subdivision 1) is a contract restraining a person from engaging in a lawful profession, trade, or business, and is void under Section 16600.

3) Provides that a violation of 1), above, constitutes an act of unfair competition within the meaning of Chapter 5 (commencing with Section 17200).

4) Specifies that the rights, remedies, and penalties are cumulative and shall not be construed to supersede the rights, remedies, or penalties established under other laws, including, but not limited to: obligations of employers under Section 2802 of the Labor Code; and Article 1.5 (commencing with Section 2775) of Chapter 2 of Division 3 of the Labor Code.

5) Provides that the prohibitions above do not apply to a contract entered into under any loan repayment assistance program or loan forgiveness program provided by a federal, state, or local governmental agency. Provides that the prohibitions above do not apply to a contract related to enrollment in an apprenticeship program approved by the Division of Apprenticeship Standards.

6) Provides that the prohibitions above do not apply to a contract related to the repayment of the cost of tuition for a transferable credential if all of the following requirements are met:
    a) the contract is offered separately from any contract for employment;
    b) the contract does not require obtaining the transferable credential as a condition of employment;
    c) the contract specifies the repayment amount before the worker agrees to the contract, and the repayment amount does not exceed the cost to the employer of the transferable credential received by the worker;
    d) the contract provides for a prorated repayment amount during any required employment period that is proportional to the total repayment amount and the length of the required employment period; and
    e) the contract does not require repayment to the employer by the worker if the worker is terminated, except if the worker is terminated for gross misconduct.

7) Enhances the enforcement mechanism for violations of the Business and Professions Code chapter relating to contracts in restraint of trade which can be found at Chapter 1 (commencing with Section 16600) of Part 2 of Division 7 of the Business and Professions Code.

8) Provides that a contract or contract term that violates Chapter 1 (commencing with Section 16600) of Part 2 of Division 7 of the Business and Professions Code is void as contrary to public policy.

9) Specifies that the Labor Commissioner may enforce violations of Chapter 1 (commencing with Section 16600) of Part 2 of Division 7 of the Business and Professions Code, including receiving and investigating complaints of an alleged violation and ordering appropriate temporary relief to mitigate the violation or to maintain the status quo pending the completion of a full investigation or hearing through the procedures set forth in Section 98, 98.3, or 1197.1, including by issuance of a citation against an employer who violates this article and by filing a civil action. If a citation is issued, the procedures for issuing, contesting, and enforcing

judgments for citations and civil penalties issued by the Labor Commissioner shall be the same as those set out in Section 1197.1, as appropriate.

10) Allows a worker, a prospective worker, or a worker representative, seeking to establish liability against an employer, for violations of Chapter 1 (commencing with Section 16600) of Part 2 of Division 7 of the Business and Professions Code, to bring a civil action on behalf of the person, other persons similarly situated, or both, in any court of competent jurisdiction. Provides that any person found liable for a violation shall be liable for actual damages sustained by the worker or $5,000, whichever is greater, in addition to injunctive relief, and reasonable attorney's fees and costs.

11) Specifies that these provisions do not limit the remedies available to a worker or other natural person specified in Section 16608 of the Business and Professions Code.

12) Specifies that in carrying out their duties under these provisions, the Labor Commissioner shall coordinate with the Attorney General on the enforcement of a violation of Section 16608 of the Business and Professions Code, which is enacted through this bill in 1), above.

13) Specifies that "business entity" includes a corporation, partnership, or other association.

14) Specifies that "contract" includes a promise, undertaking, contract, or agreement, whether written or oral, express or implied.

15) Specifies that "consumer financial product or service" has the same meaning as defined in subdivision (e) of Section 90005 of the Financial Code.

16) Specifies that "debt" means money, property, or their equivalent that is due or owing or alleged to be due or owing from a natural person to another person, including, but not limited to, for employment-related costs, education-related costs, or a consumer financial product or service, regardless of whether the debt is certain, contingent, or incurred voluntarily.

17) Specifies that "Debt collector" has the same meaning as defined in subdivision (c) of Section 1788.2 of the Civil Code.

18) Specifies that "education-related cost" means a cost associated with enrollment or attendance at an educational program, as defined in Section 94837 of the Education Code, a job training program, or a skills training program, and related expenses, including, but not limited to, tuition, fees, books, supplies, student loans, examinations, and equipment required for enrollment or attendance in an educational, training, or residency program.

19) Specifies that "employer" means any person or entity that employs workers. "Employer" includes any parent company, subsidiary, division, affiliate, contractor, hiring party, or third-party agent of an employer.

20) Specifies that "employment-related cost" means a necessary expenditure or loss incurred by a person in direct consequence of the discharge of their duties at work or of their obedience to a direction of their employer, including, but not limited to, a training, residency, orientation, licensure, or competency validation required either by an employer or to practice in a specific employee classification.

21) Specifies that "freelance worker" has the same meaning as defined in subdivision (a) of Section 18101.

22) Specifies that "hiring party" has the same meaning as defined in subdivision (b) of Section 18101.

23) Specifies that "penalty, fee, or cost" includes, but is not limited to, a replacement hire fee, retraining fee, replacement fee, quit fee, reimbursement for immigration or visa-related costs, liquidated damages, lost goodwill, and lost profit.

24) Specifies that "person" means a natural person or an entity, including, but not limited to, a corporation, partnership, association, trust, limited liability company, cooperative, or other organization.

25) Specifies that "training provider" means an entity, whether or not affiliated with an employer, that provides an education program, as defined in Section 94837 of the Education Code, a job training program, or a skills training program.

26) Specifies that "transferable credential" means a degree that is offered by a third-party institution that is accredited and authorized to operate in the state, is not required for a worker's current employment, and is transferable and useful for employment beyond the worker's current employer.

27) Specifies that "worker" means a natural person who is permitted to work for or on behalf of an employer or business entity, or who is permitted to participate in any other work relationship, job training program, or skills training program. "Worker" includes, but is not limited to, an employee, prospective employee, independent contractor, freelance worker, extern, intern, apprentice, or sole proprietor.

COMMENTS

1. 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 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 an employee from working for a competitor of their previous employer.

The author and sponsors of AB 692 seek to stop another practice that effectively prevents a worker from leaving their job. This bill would make 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 are some exceptions to these prohibitions. A violation constitutes an

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

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 argue 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:[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 author explains the following:

> AB 692 will place an end to these deceptive and unethical practices of entrapping workers into debt agreements that discourage them from speaking out against unfair wages or unsafe working conditions.
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> These types of debt agreements, known as "stay-or-pay" contracts or "Training Repayment Agreement Provisions (TRAPs)," lock workers into jobs and place an "exit fee" on them regardless of whether they are fired, laid-off, or quit. These debt contracts impact low-wage workers and are prevalent in the

[2] Fact Sheet: Protecting Workers from Exploitative Stat-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].

> transportation, healthcare, retail, aviation, and tech industries. Workers should not be bound to debt as a condition of employment.
>
> AB 692 will prohibit these types of contracts and will empower workers to speak out on these unlawful practices and further protect workers.

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 the bill write:

> 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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> [. . .]
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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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> 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.

2. 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 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.
>
> 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 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

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

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 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 healthcare, trucking, aviation, and the retail and service industries." The AG also noted various statutes 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.

3. How the bill attempts to solve the problem

For contracts entered into on or after January 1, 2026, this bill 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 that includes, a contract term that does any of the following: 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 are exceptions to the prohibitions. The bill provides that the prohibitions above do not apply to a contract entered into under any loan repayment assistance program or loan forgiveness program provided by a federal, state, or local governmental agency. The bill provides that the prohibitions above also do not apply to a contract related to enrollment in an apprenticeship program approved by the Division of Apprenticeship Standards. The bill also specifies that the prohibitions do not apply to a contract related to the repayment of the cost of tuition for a transferable credential if five requirements are met. The first requirement is that the contract is offered separately from any contract

[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].

for employment. The second requirement is that the contract does not require obtaining the transferable credential as a condition of employment. The third requirement is that the contract specifies the repayment amount before the worker agrees to the contract, and the repayment amount does not exceed the cost to the employer of the transferable credential received by the worker. The fourth requirement is that the contract provides for a prorated repayment amount during any required employment period that is proportional to the total repayment amount and the length of the required employment period. And the fifth requirement is that the contract does not require repayment to the employer by the worker if the worker is terminated, except if the worker is terminated for gross misconduct.

Violations of the above provisions subject the employer to liability in a civil action for the worker to recover actual damages and a civil penalty. The prevailing plaintiff is also entitled to attorney fees and costs.

4. Opposition

A coalition of opponents to the bill, led by the California Chamber of Commerce writes the following in opposition to the bill:

> Many California employers presently offer monetary bonuses or educational opportunities to their employees. For example, employers may pay a worker's tuition to get an advanced degree or additional certification or pay a signing bonus at the outset of employment. These mutually beneficial programs give the employee an opportunity to improve their resume/skills or receive additional money up front while the employer simultaneously makes an investment in its workforce. Understandably, employers are more motivated to invest in these types of voluntary benefits if they know the worker will be at the company for a longer period of time. It is therefore common for employers to offer more benefits if the worker agrees to remain at the company for a certain amount of time afterwards. Conversely, it does not make sense to offer an employee a signing bonus only to have them quit two weeks later.
>
> [. . .] The unintended consequence of this bill is that it removes the incentive for employers to offer these benefits programs. That is especially true for small and medium-sized businesses in light of the mandatory minimum $5,000 penalty.
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> [. . .] None of AB 692's provisions should apply to independent contractors. For example, Labor Code 2802's requirements apply to employees, not independent contractors. This makes sense given the concept of an independent contractor – someone who performs work outside of the company's usual course of business, is free from control of the company regarding the performance of the work, and is customarily engaged in an independent trade or business. Independent contractors often work for many different companies.

> Anything specific to the needs of a specific company would be negotiated for in the terms and price of the contract between the contractor and that company.

Opponents also argue that current law, specifically Labor Code sections 2802 and 2802.1 already operate to ensure employers cannot make employees pay for training required for their job and that the provisions in AB 692 "will deter employers from offering employee benefits" that benefit the worker and the employer. They explain:

> Many California employers presently offer monetary bonuses or educational opportunities to their employees. For example, employers may pay a worker's tuition to get an advanced degree or additional certification or pay a signing bonus at the outset of employment. These mutually beneficial programs give the employee an opportunity to improve their resume/skills or receive additional money up front while the employer simultaneously makes an investment in its workforce. Understandably, employers are more motivated to invest in these types of voluntary benefits if they know the worker will be at the company for a longer period of time. It is therefore common for employers to offer more benefits if the worker agrees to remain at the company for a certain amount of time afterwards. Conversely, it does not make sense to offer an employee a signing bonus only to have them quit two weeks later.

5. Amendments

The author has agreed to accept amendments that would allow the employer to enter into a contract with the worker for discretionary or unearned monetary payments if specified conditions are met. The amendments are detailed in the mock-up at the end of this analysis. Amendments also streamline the enforcement mechanism and remove references to the Attorney General and Labor Commissioner.

SUPPORT

American Economic Liberties Project (sponsor)
California Employment Lawyers Association (sponsor)
California Federation of Labor Unions, AFL-CIO (sponsor)
California Nurses Association/National Nurses United (sponsor)
Student Borrower Protection Center (sponsor)
California School Employees Association
Consumer Federation of California
TechEquity Action

OPPOSITION

Acclamation Insurance Management Services
Allied Managed Care
AltaMed
American Staffing Association

California Apartment Association
California Association for Health Services at Home
California Attractions and Parks Association
California Business Properties Association
California Chamber of Commerce
California Hospital Association
California Hotel and Lodging Association
California League of Food Producers
California Life Sciences
California Medical Association
California Restaurant Association
California Retailers Association
California Staffing Professionals
California State Association of Counties
California Trucking Association
Coalition of Orange County Community Health Centers
Coalition of Small and Disabled Veteran Businesses
Community Clinic Association of Los Angeles County
Cottage Health
CPCA Advocates
Dairy Institute
Flasher Barricade Association
National Federation of Independent Businesses
Public Risk Innovation Solutions and Management
Rural County Representatives of California
Santa Clarita Valley Chamber of Commerce
Society for Human Resource Management
Society for Human Resource Management California
Urban Counties of California

RELATED LEGISLATION

Pending Legislation: None known.

Prior Legislation:

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 Committee (Ayes 4, Noes 1)
Assembly Floor (Ayes 47, Noes 21)
Assembly Appropriations Committee (Ayes 10, Noes 3)
Assembly Judiciary Committee (Ayes 7, Noes 3)
Assembly Labor and Employment Committee (Ayes 5, Noes 0)
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MOCK-UP OF AMENDMENTS TO AB 692 (KALRA)[7]
As amended on June 26, 2025

SECTION 1.

Section 16608 is added to the Business and Professions Code, immediately following Section 16607, to read:

16608.

(a) For purposes of this section, the following definitions apply:
~~(1) "Business entity" includes a corporation, partnership, or other association.~~
(1) ~~(2)~~ "Contract" includes a promise, undertaking, contract, or agreement, whether written or oral, express or implied.
~~(3) "Consumer financial product or service" has the same meaning as defined in subdivision (e) of Section 90005 of the Financial Code.~~
(2) ~~(4)~~ "Debt" means money, property, or their equivalent that is due or owing or alleged to be due or owing from a natural person to another person, including, but not limited to, for employment-related costs, education-related costs, or a consumer financial product or service, regardless of whether the debt is certain, contingent, or incurred voluntarily.
(3) ~~(5)~~ "Debt collector" has the same meaning as defined in subdivision (c) of Section 1788.2 of the Civil Code.
~~(6) "Education-related cost" means a cost associated with enrollment or attendance at an educational program, as defined in Section 94837 of the Education Code, a job training program, or a skills training program, and related expenses, including, but not limited to, tuition, fees, books, supplies, student loans, examinations, and equipment required for enrollment or attendance in an educational, training, or residency program.~~
(4) ~~(7)~~ "Employer" means any person or entity that employs workers. "Employer" includes any parent company, subsidiary, division, affiliate, contractor, hiring party, or third-party agent of an employer.
~~(8) "Employment-related cost" means a necessary expenditure or loss incurred by a person in direct consequence of the discharge of their duties at work or of their obedience to a direction of their employer, including, but not limited to, a training, residency, orientation, licensure, or competency validation required either by an employer or to practice in a specific employee classification.~~
(5) ~~(9)~~ "Freelance worker" has the same meaning as defined in subdivision (a) of Section 18101.
~~(10) "Hiring party" has the same meaning as defined in subdivision (b) of Section 18101.~~

[7] Amendments are subject to technical nonsubstantive changes requested by the Office of Legislative Counsel.

(6) ~~(11)~~ "Penalty, fee, or cost" includes, but is not limited to, a replacement hire fee, retraining fee, replacement fee, quit fee, reimbursement for immigration or visa-related costs, liquidated damages, lost goodwill, and lost profit.
(7) ~~(12)~~ "Person" means a natural person or an entity, including, but not limited to, a corporation, partnership, association, trust, limited liability company, cooperative, or other organization.
(8) ~~(13)~~ "Training provider" means an entity, whether or not affiliated with an employer, that provides an education program, as defined in Section 94837 of the Education Code, a job training program, or a skills training program.
(9) ~~(14)~~ "Transferable credential" means a degree that is offered by a third-party institution that is accredited and authorized to operate in the state, is not required for a worker's current employment, and is transferable and useful for employment beyond the worker's current employer.
(10) ~~(15)~~ "Worker" means a natural person who is permitted to work for or on behalf of an employer or business entity, or who is permitted to participate in any other work relationship, job training program, or skills training program. "Worker" includes, but is not limited to, an employee, prospective employee, independent contractor, freelance worker, extern, intern, apprentice, or sole proprietor.
(b) (1) Except as provided in paragraph (2), for contracts entered into on or after January 1, 2026, it shall be 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 that includes, 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.
(2) This section does not apply to any of the following:
(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 that meets all of the following requirements:
(i) The contract is offered separately from any contract for employment.
(ii) The contract does not require obtaining the transferable credential as a condition of employment.
(iii) The contract specifies the repayment amount before the worker agrees to the contract, and the repayment amount does not exceed the cost to the employer of the transferable credential received by the worker.
(iv) The contract provides for a prorated repayment amount during any required employment period that is proportional to the total repayment amount and the length of the required employment period and does not require an accelerated payment schedule if the worker separates from the employment.

(v) The contract does not require repayment to the employer by the worker if the worker is terminated, except if the worker is terminated for gross misconduct.
(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 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 subject to negotiation independent from the primary employment contract.
(ii) The worker is individually represented by legal counsel in negotiating the terms of any repayment obligation, provided that for purposes of this subdivision, a worker is not considered individually represented by legal counsel if the counsel is paid for by, or was selected based upon the suggestion of, the worker's employer.
(iii) Any repayment obligation for early termination of 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) Termination of employment prior to the retention period was at the sole election of the worker, or at the election of the employer for material noncompliance or misconduct.
(c) A contract that is unlawful under subdivision (b) is a contract restraining a person from engaging in a lawful profession, trade, or business, and is void under Section 16600 only if the contract was entered into on or after January 1, 2026.
~~(d) A violation of this section constitutes an act of unfair competition within the meaning of Chapter 5 (commencing with Section 17200).~~
(d) ~~(e)~~ The rights, remedies, and penalties established by this section are cumulative and shall not be construed to supersede or limit the rights, remedies, or penalties established under other laws, or to limit the ability of any other person or entity to pursue enforcement of rights, remedies, or penalties established under other laws, including, but not limited to:
(1) Obligations of employers under Section 2802 of the Labor Code.
(2) Article 1.5 (commencing with Section 2775) of Chapter 2 of Division 3 of the Labor Code.
(3) The Unfair Competition Law (Business and Professions Code Section 17200, et seq.

SEC. 2.

Section 926 is added to the Labor Code, to read:

926.

(a) A contract or contract term that violates ~~Chapter 1 (commencing with Section 16600) of Part 2 of Division 7 of the~~ Business and Professions Code Section 16608 is void as contrary to public policy only if entered into on or after January 1, 2026.

~~(b) The Labor Commissioner may enforce this section, including receiving and investigating complaints of an alleged violation and ordering appropriate temporary relief to mitigate the violation or to maintain the status quo pending the completion of a full investigation or hearing through the procedures set forth in Section 98, 98.3, or 1197.1, including by issuance of a citation against an employer who violates this article and by filing a civil action. If a citation is issued, the procedures for issuing, contesting, and enforcing judgments for citations and civil penalties issued by the Labor Commissioner shall be the same as those set out in Section 1197.1, as appropriate.~~

~~(c) A worker, a prospective worker, or a worker representative, seeking to establish liability against an employer may bring a civil action on behalf of the person, other persons similarly situated, or both, in any court of competent jurisdiction. Any person found liable for a violation of this section shall be liable for actual damages sustained by the worker or five thousand dollars ($5,000), whichever is greater, in addition to injunctive relief, and reasonable attorney's fees and costs.~~

(b) A worker or worker representative, who has been subjected to the conduct prohibited in Business and Professions Code Section 16608, subsection (b), or who has been induced to enter into a contract including terms prohibited in Business and Professions Code section 16608, subsection (b), or a worker representative, shall be authorized to bring a civil action on behalf of that person, other persons similarly situated, or both, in any court of competent jurisdiction.

(c) Any person found liable for a violation of this section 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.

(d) This section does not limit the remedies available to a worker or other natural person specified in Section 16608 of the Business and Professions Code.

~~(e) In carrying out their duties under this section, the Labor Commissioner shall coordinate with the Attorney General on the enforcement of a violation of Section 16608 of the Business and Professions Code.~~