
SENATE COMMITTEE ON APPROPRIATIONS

Senator Anna Caballero, Chair
2025 - 2026 Regular Session

AB 692 (Kalra) - Employment: contracts in restraint of trade

Version: July 17, 2025

Policy Vote: L., P.E. & R. 4 - 1, JUD. 11 -
2

Urgency: No

Mandate: No

Hearing Date: August 18, 2025

Consultant: Robert Ingenito

Bill Summary: AB 692 would (1) enhance penalties against employers who engage in practices that restrain workers from practicing their profession, business, or trade, and (2) make specified contracts void that are entered into between workers and employers.

Fiscal Impact:

- The Department of Industrial Relations (DIR) indicates that this bill would result in first year costs of \$517,000, and \$493,000 annually thereafter, to implement the provisions of the bill. (Labor Enforcement and Compliance Fund).
- The Department of Justice indicates that this bill would result in minor and absorbable costs.
- This bill could result in increased penalty revenue to the State. The magnitude is unknown, but probably minor.
- By authorizing a new civil action, as specified, this bill could result in an increased number of civil actions. Consequently, the bill could result in potentially significant cost pressures to the courts; the magnitude is unknown (Trial Court Trust Fund (TCTF)). The specific number of new actions that could be filed under the bill also is unknown; however, it generally costs about \$10,500 to operate a courtroom for an eight-hour day. Courts are not funded on the basis of workload, and increased pressure on TCTF may create a need for increased funding for courts from the General Fund. The enacted 2025-26 budget includes \$38 million in ongoing support from the General Fund to continue to backfill TCTF for revenue declines.

Background: Employment contract provisions specific to training can include arrangements known as Training Repayment Agreement Provisions or “TRAPs.” Such 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.

The State’s Attorney General (AG) issued a legal alert regarding unlawful employer-driven debt arrangements in July 2023 where he warned that, “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 warned that such arrangements may violate existing state labor law, which requires an employer to “indemnify employees for all necessary expenditures or losses incurred by the employee in direct consequence of the discharge of his or her duties,” as well as state consumer protection law, which prohibits an employer from engaging in unfair or deceptive practices when attempting to collect debt.

Employers argue that these mutually beneficial arrangements help workers improve their resume/skills while protecting the employer’s investment in the professional development of their workers. Given the investments made by employers, they want to ensure that the workers they are investing in do not receive the incentives and then quit a few weeks later.

Proposed Law: This bill, among other things, would do the following:

- For contracts entered into on or after January 1, 2026, make 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, specified contract terms, including 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.
- Declare these contracts as contracts that restrain a person from engaging in a lawful profession, trade, or business, and as void and contrary to public policy, except as provided.
- Authorize a worker who has been subjected to the specified prohibited conduct regarding a contract or its terms or a work representative to bring an action on behalf of that worker, other persons similarly situated, or both, in any court of competent jurisdiction.
- Make a person who violates these provisions liable for specified civil penalties and relief.

Related Legislation:

- AB 747 (McCarty, 2023) would have prohibited an employer from entering into, presenting an employee or prospective employee as a term of employment, or attempting to enforce any contract in restraint of trade that is void, as specified. Additionally, the bill would have provided that an employer that violates this prohibition is liable for actual damages and an additional penalty per employee. AB 747 died on the Assembly Floor.
- AB 1076 (Bauer-Kahan, Chapter 828, Statutes of 2023) codified existing case law by specifying that the prohibition on noncompete agreements is to be broadly construed to void noncompete agreements or clauses in the employment context that do not satisfy specified exceptions. Additionally provides that a violation of the prohibition on noncompete agreements in employment constitutes unfair competition.

- SB 699 (Caballero, Chapter 157, Statutes of 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 2588 (Kalra, Chapter 351, Statutes of 2020) required an employer to reimburse an employee providing direct patient care or an applicant for direct patient care employment for the costs of any employer-provided or employer-required educational program or training, as defined.

-- END --