
THIRD READING

Bill No: AB 692
Author: Kalra (D), et al.
Amended: 8/29/25 in Senate
Vote: 21

SENATE LABOR, PUB. EMP. & RET. COMMITTEE: 4-1, 6/25/25
AYES: Smallwood-Cuevas, Cortese, Durazo, Laird
NOES: Strickland

SENATE JUDICIARY COMMITTEE: 11-2, 7/15/25
AYES: Umberg, Allen, Arreguín, Ashby, Caballero, Durazo, Laird, Stern, Wahab,
Weber Pierson, Wiener
NOES: Niello, Valladares

SENATE APPROPRIATIONS COMMITTEE: 5-2, 8/29/25
AYES: Caballero, Cabaldon, Grayson, Richardson, Wahab
NOES: Seyarto, Dahle

ASSEMBLY FLOOR: 47-21, 6/5/25 - See last page for vote

SUBJECT: Employment: contracts in restraint of trade

SOURCE: American Economic Liberties Project
California Employment Lawyers Association
California Federation of Labor Unions
California Nurses Association/National Nurses United
Student Borrower Protection Center

DIGEST: This bill (1) enhances penalties against employers who engage in practices that restrain workers from practicing their profession, business, or trade, and (2) makes specified contracts void that are entered into between workers and employers. Among other things, this bill makes it unlawful to include in any employment contract specified terms requiring a worker to pay an employer a debt if the worker's employment or work relationship with that employer terminates.

ANALYSIS:

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. (Business and Professions Code §16600)
- 2) Defines “unfair competition” to include any unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising, as specified. (Business and Professions Code §17200)
- 3) 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. (Business and Professions Code §17206)
- 4) Establishes within the Department of Industrial Relations (DIR), various entities including the Division of Labor Standards Enforcement (DLSE) under the direction of the Labor Commissioner (LC), and empowers the LC with ensuring a just day’s pay in every workplace and promotes economic justice through robust enforcement of labor laws. (Labor Code §79-107)
- 5) Requires an employer to indemnify their employees for all necessary expenditures or losses incurred by the employee in direct consequence of the discharge of their duties, or 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. (Labor Code §2802)
- 6) Specifies that the above provisions apply 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. (Labor Code Section §2802.1)

- 7) Specifies that for purposes of the above provisions, “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.
 - b) Education or training that is voluntarily undertaken by the employee or applicant solely at their discretion. (Labor Code Section §2802.1)
- 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. (Labor Code Section §2802.1)

This bill:

- 1) Defines, among other terms, the following:
 - a) “Contract” includes a promise, undertaking, contract, or agreement, whether written or oral, express or implied.
 - b) “Debt” means money, personal 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.
 - c) “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.
 - d) “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.
 - e) “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.

- f) “Misconduct” has the same meaning as in Section 1256 of the Unemployment Insurance Code.
- 2) 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 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.
- 3) Specifies that the above contract provisions do 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 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, 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.
- 4) Provides, under the Business and Professions Code, that a contract that is unlawful pursuant to these provisions is a contract restraining a person from engaging in a lawful profession, trade, or business, and is void, as specified, only if the contract was entered into on or after January 1, 2026.

- 5) Provides that the rights, remedies, and penalties established by this bill 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 existing laws, as specified.
- 6) Provides, under the Labor Code, that a contract or contract term that violates the bill's provisions is void and contrary to public policy only if entered into on or after January 1, 2026.
- 7) Authorizes a worker who has been subjected to the conduct prohibited by the provisions of this bill, or a worker representative, to bring a civil action on behalf of that worker, other persons similarly situated, or both, in any court of competent jurisdiction.
- 8) Provides that any person found liable for a violation of these provisions 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.

Background

Employer-driven debt & 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.

Need for this bill? According to the author, “With the threat of financial ruin, stay-or-pay contracts or TRAPs discourage workers from speaking out against unsafe or unfair working conditions for fear of losing their jobs and being forced to pay off the debt... A worker's ability to decide where they want to work and speak out against unfair wages or unsafe working conditions without the threat of retaliation is foundational to a free and fair economy. By prohibiting debt TRAPs, AB 692 levels the playing field and protects workers from being coerced into exploitative contracts.”

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

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

According to the Senate Appropriations Committee:

- 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.

SUPPORT: (Verified 8/29/25)

American Economic Liberties Project (Co-source)
California Employment Lawyers Association (Co-source)
California Federation of Labor Unions, AFL-CIO (Co-source)
California Nurses Association/National Nurses United (Co-source)
Student Borrower Protection Center (Co-source)
Attorney General Rob Bonta
California Low-income Consumer Coalition
California School Employees Association
Consumer Federation of California

Economic Security California Action
TechEquity Action
United Food and Commercial Workers - Western States Council

OPPOSITION: (Verified 8/29/25)

Acclamation Insurance Management Services
Allied Managed Care
AltaMed Health Services Corporation
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 & 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 of California
Flasher Barricade Association
National Federation of Independent Business
Public Risk Innovation, Solutions, and Management
Rural County Representatives of California
Santa Clarita Valley Chamber of Commerce
Society for Human Resource Management
Urban Counties of California

ARGUMENTS IN SUPPORT:

According to the sponsors, “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. This is particularly true in areas with highly concentrated labor markets and in industries with low-wage workers, immigrant workers, new graduates, and nonunion workers...AB 692 is necessary to end the exploitative practice of employers using debt to restrain worker job mobility, trapping workers in low-wages and unsafe working conditions.”

ARGUMENTS IN OPPOSITION:

A coalition of employer organizations are opposed to the measure, arguing that AB 692 will disincentivize voluntary benefit programs for employees and is duplicative of existing law regarding reimbursements and trainings. It imposes significant penalties for any good faith error and improperly sweeps in independent contractors in a way that is at odds with the legal definition of an independent contractor.

ASSEMBLY FLOOR: 47-21, 6/5/25

AYES: Addis, Aguiar-Curry, Ahrens, Alvarez, Arambula, Bennett, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Connolly, Elhawary, Fong, Garcia, Gipson, Mark González, Haney, Harabedian, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, McKinnor, Muratsuchi, Pacheco, Papan, Pellerin, Petrie-Norris, Quirk-Silva, Ransom, Celeste Rodriguez, Rogers, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Valencia, Ward, Wicks, Zbur, Rivas

NOES: Alanis, Ávila Farías, Bauer-Kahan, Castillo, Chen, Davies, DeMaio, Dixon, Ellis, Flora, Gallagher, Jeff Gonzalez, Hadwick, Hoover, Lackey, Macedo, Patterson, Sanchez, Ta, Tangipa, Wallis

NO VOTE RECORDED: Bains, Berman, Gabriel, Hart, Nguyen, Ortega, Patel, Ramos, Michelle Rodriguez, Blanca Rubio, Wilson

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