

CONCURRENCE IN SENATE AMENDMENTS

AB 692 (Katra)

As Amended September 5, 2025

Majority vote

SUMMARY

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, specified contract terms that require a worker to assume a debt if the employment is terminated, except as provided; provides that the unlawful contract is a contract in restraint of trade and is void; and provides for a private right of action.

Senate Amendments

- 1) Modify certain criteria that must be met in order for a contract related to the repayment of the cost of tuition for a transferable credential to be exempt from the bill's provisions making contracts with specified terms unlawful, as follows:
 - a. Provide that the contract must not require obtaining the transferable credential as a condition of employment, rather than requiring that the contract itself must not be a condition of employment.
 - b. Modify the requirement that the contract must provide for a prorated amount during any required employment period that is proportional to the total repayment amount and the length of the required employment period, to also specify that the contract must not require an accelerated payment schedule if the worker separates from the employment.
 - c. Modify the requirement that the contract must not require repayment to the employer by the worker if the worker is terminated, to allow for repayment by the employee if the employee is terminated for misconduct.
- 2) Add to the list of contracts that are exempt from the bill's provisions making contracts with specified terms unlawful:
 - a. A contract related to enrollment in an apprenticeship program approved by the Division of Apprenticeship Standards.
 - b. 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.
- c. A contract related to the lease, financing, or purchase of residential property, including, but not limited to, a contract pursuant to the California Residential Mortgage Lending Act.
- 3) Modify the provision that a contract that is unlawful under this bill is a contract restraining a person from engaging in a lawful profession, trade, or business, and is void, as specified, to instead apply only if the contract was entered into on or after January 1, 2026.
- 4) Remove the provision that a violation of this bill constitutes an act of unfair competition, as specified.
- 5) Modify the provision that, under the Labor Code, a contract or contract term that violates the bill's provisions is void and contrary to public policy to instead apply only if entered into on or after January 1, 2026.
- 6) Remove the authority for the Labor Commissioner (LC) to enforce the bill, and the requirement that the LC coordinate with the Attorney General (AG) on enforcement.
- 7) Modify the definition of "worker" to remove independent contractors, freelance workers, externs, interns, apprentices, or sole proprietors and instead specify that "worker" includes, but is not limited to, an employee or prospective employee.
- 8) Define "misconduct" to have the same meaning as in Section 1256 of the Unemployment Insurance Code.
- 9) Delete certain definitions, including "business entity," "consumer financial product or service," "education-related cost," "employment-related cost," and "hiring party."
- 10) Make other minor and technical changes.

COMMENTS

Training repayment agreement provisions, known as "TRAPs," refer to clauses in employment contracts that require the worker to pay for training programs if the worker leaves their job within a certain amount of time. These provisions are gaining popularity especially in light of many state and federal proposals to ban noncompete agreements that temporarily prohibit departing employees from joining or starting competing enterprises.

A report by the Student Borrower Protection Center in 2022 estimated that three industries heavily reliant on the clauses – healthcare, trucking, and retail – employ one third of US

workers.¹ A 2022 survey of registered nurses (RNs) found that nearly 40% of RNs who started their career in the past decade were subject to a TRAP for new graduate residency programs.²

Proponents of these "stay-or-pay" provisions argue that they are necessary to lessen the costs of turnover, and are a more narrowly tailored and fairer substitute for noncompete clauses, given that TRAPs only apply if the worker leaves before the employer's investment has been recouped. However, opponents argue that these programs shift onto workers the costs of basic on-the-job training, and limit their mobility and bargaining power.

According to the Author

"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. 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 exploitative debt contracts impact low-wage workers and are prevalent in the transportation, healthcare, retail, aviation, and tech industries. Workers should not be bound to debt as a condition of employment."

Arguments in Support

The California Nurses Association, Student Borrower Protection Center, California Employment Lawyers Association, California Federation of Labor Unions AFL-CIO, and American Economic Liberties Project, co-sponsors of this measure, state that, "In 2023, the Consumer Financial Protection Bureau (CFPB)'s comprehensive report on employer-driven debt included examples of TRAPs where workers were indebted to their employers between \$4,000 and \$30,000. 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. 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."

Arguments in Opposition

A coalition of business and employer organizations, including the California Chamber of Commerce, is in opposition and states that "the intent behind AB 692 appears to be aimed at prohibiting employers from requiring specific training and then saddling employees with a bill for that training upon termination of employment. That scenario is already addressed under Labor Code section 2802. Under section 2802, employers must reimburse employees for all necessary expenses and/or losses incurred in the course and scope of their employment. Courts have interpreted this provision quite broadly in favor of the employee. For example, if an

¹ Student Borrower Protection Center (July 2022), "Trapped at Work." https://protectborrowers.org/wp-content/uploads/2023/12/stay-or-pay-compendium_12-2023_FINAL.pdf

² National Nurses United (Dec. 2022), "Caught in a TRAP," National Nurse Magazine. <https://nnumagazine.uberflip.com/i/1489186-national-nurse-magazine-october-november-december-2022/19?>

employee makes a mistake at work that costs the employer money – such as damaging valuable equipment – the employee cannot be required to reimburse the employer. Or if the employer requires the employee to use their cell phone to conduct work, the employer must provide reimbursement, even if the employee is not incurring any additional cost because they have an unlimited data plan."

FISCAL COMMENTS

According to the Senate Appropriations Committee:

- 1) 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).
- 2) The Department of Justice indicates that this bill would result in minor and absorbable costs.
- 3) This bill could result in increased penalty revenue to the State. The magnitude is unknown, but probably minor.
- 4) 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.

VOTES:

ASM LABOR AND EMPLOYMENT: 5-0-2

YES: Ortega, Elhawary, Kalra, Lee, Ward

ABS, ABST OR NV: Flora, Chen

ASM JUDICIARY: 7-3-2

YES: Kalra, Bryan, Connolly, Harabedian, Lee, Stefani, Zbur

NO: Dixon, Macedo, Sanchez

ABS, ABST OR NV: Bauer-Kahan, Pacheco

ASM APPROPRIATIONS: 10-3-2

YES: Wicks, Arambula, Calderon, Caloza, Elhawary, Fong, Mark González, Hart, Pellerin, Solache

NO: Dixon, Ta, Tangipa

ABS, ABST OR NV: Sanchez, Pacheco

ASSEMBLY FLOOR: 47-21-11

YES: 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

NO: Alanis, Ávila Farías, Bauer-Kahan, Castillo, Chen, Davies, DeMaio, Dixon, Ellis, Flora, Gallagher, Jeff Gonzalez, Hadwick, Hoover, Lackey, Macedo, Patterson, Sanchez, Ta, Tangipa, Wallis

ABS, ABST OR NV: Bains, Berman, Gabriel, Hart, Nguyen, Ortega, Patel, Ramos, Michelle Rodriguez, Blanca Rubio, Wilson

UPDATED

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