
SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

SB 1174 (Valladares) - Public contracts: Department of Transportation: bid preferences: employee stock ownership plans

Version: February 18, 2026

Urgency: No

Hearing Date: May 4, 2026

Policy Vote: TRANS. 12 - 0, JUD. 13 - 0

Mandate: No

Consultant: Mark McKenzie

Bill Summary: SB 1174 would require the Department of Transportation (Caltrans) to provide a bid preference of up to five percent to a contractor with an employee stock ownership plan (ESOP) that bids on a state-funded construction project, beginning on January 1, 2028, as specified.

Fiscal Impact:

- Unknown one-time and ongoing costs to Caltrans, likely in the hundreds of thousands of dollars annually, to update internal contracting guidance and processes and the Contract Administration & Tracking System II, and to conduct ongoing compliance monitoring activities on state-funded construction contracts. (State Highway Account)
- Unknown potentially significant increased state contracting costs, to the extent awarding contracts to ESOP bidders reduces competition in the bid pool and results in higher contracting costs (Various transportation special funds, federal funds). Actual increases in project costs will vary and depend on, among other things, the number of eligible ESOP contractors, frequency of use, and the cost of the contracts awarded. Staff notes that this bill would cover all state-funded construction contracts for programs administered by Caltrans.

Background: An employee-owned company is one where employees own part or all shares in a business. While the forms of employee ownership may be different (such as stock grants, worker cooperatives, and stock options), the goal is the same: to promote employee ownership in a business. One form of employee ownership comes in the form of an ESOP, which acts as a retirement plan, in some ways similar to and governed by the same laws and regulations as a 401k plan, that provides a company's workforce with an ownership interest in the company. To establish an ESOP, a firm forms a trust that purchases the shares of a company from the owner and allocates the shares to employees as part of their compensation. ESOP shares are part of an employee's remuneration for work performed. Shares are allocated to employees over time based on compensation or tenure, and may be held in an ESOP trust until the employee retires or leaves the company, at which time the shares may be either cashed out and bought back by the company for redistribution or voided.

Under current law, Caltrans currently has utilization goals and bid preferences for certified Disadvantaged Business Enterprises (DBEs), Small Businesses (SBs), and Disabled Veteran Business Enterprises (DVBEs) when soliciting state contracts. Certified Small Businesses and DVBEs can receive a 5% bid preference on applicable

state solicitations. Additionally, Caltrans has established utilization goals of 25% for SBs, 5% for DVBEs, and 22.2% for DBEs. For federally funded projects, Caltrans applies a DBE goal of 22.2%.

The contractor certification process is managed by the Department of General Services (DGS). For example, in order to obtain certification as a small business for public works contracts, a company must meet the following requirements:

- Be independently owned and operated;
- Not dominant in field of operation;
- Principal office located in California;
- Owners, Officers, Members/Managers, Partners must be domiciled in California;
- Average annual gross receipts of forty-three million dollars (\$43,000,000) or less over the previous three tax years, as specified; and,
- A business with 200 or fewer employees (including affiliates).

Existing law, as enacted by SB 1407 (Becker), Chap. 733/2022, established the California Employee Ownership Program, within Office of the Small Business Advocate. The program is designed to support businesses transitioning to employee ownership in a variety of aspects including, but not limited to, education and outreach, technical assistance, and policy development.

Proposed Law: SB 1174 would require Caltrans, when preparing a solicitation for a state-funded construction project, to provide a bid preference to an ESOP contractor as follows:

- A preference of 2% if 30 to 49 percent of the ESOP contractor is owned by its ESOP. (For this and the other bid preferences, this would be applied to the lowest responsible bidder meeting specifications or 2% of the highest responsible bidder's score, as applicable)
- A preference of 3% if 50 to 99 percent of the ESOP contractor is owned by its ESOP.
- A preference of 4% if 100 percent of the ESOP contractor is owned by its ESOP.
- An additional 1% would be added to each of the above preferences to an ESOP contractor that includes employees covered by a collective bargaining agreement or master labor agreement.

This bill would also do the following:

- Specify that that the bid preference shall not be awarded to a noncompliant bidder and shall not be used to achieve any applicable minimum requirements.
- Make it unlawful for a person or contractor to willfully or knowingly carry out a number of actions pertaining to fraud, providing false statements, and/or impeding an investigation of qualifications as an ESOP contractor, as specified.
- Require Caltrans to report an alleged violation to the Attorney General, who must determine whether to bring a civil action against a person or contractor for a violation.
- Impose specified civil penalties for violations of those prohibitions, and further suspend a person or contractor found to be in violation of those provisions from bidding or participating as either a contractor, subcontractor, or supplier, in any contract or project for Caltrans for a period between one month to one year, as specified.

- Prohibit Caltrans from entering a contract with a person or contractor suspended for one of the abovementioned violations during the period of suspension, as specified.
- Specify that the bill's provisions would become operative on January 1, 2028.

Related Legislation: SB 713 (Valladares), which was held on this Committee's Suspense File last year, would have required the Department of General Services to establish an ESOP contractor certification program, required the Office of the Small Business Advocate to maintain a list of qualified ESOP contractors, and required Caltrans to provide a bid-preference for certified ESOP contractors, similar to the preference in this bill.

SB 1407 (Becker), Chap. 733/2022, established the California Employee Ownership Program, within Office of Small Business Administration.

AB 2849 (Bonta, Ch. 808, Stats. 2022) established a panel to conduct a study regarding the creation of an Association of Cooperative Labor Contractors for the purpose of facilitating the growth of democratically run high-road cooperative labor contractors, as provided.

SB 553 (Wilk, 2019), which failed passage in the Senate Governmental Organization Committee, would have required an entity awarding a contract pursuant to the State Contract Act to provide a 3 percent bid preference to a qualified ESOP bidder, as defined.

Staff Comments: By providing a bid preference on Caltrans construction projects that is similar to preferences offered to other business enterprises, this bill is intended to encourage the development and expansion of the ESOP business model that builds wealth and economic security for workers. According to the bill's sponsors, there are over 780 ESOPs in the state, 70 of which are construction businesses, representing 12,378 employee-owners. The overall fiscal impact related to providing a new bid preference of up to 5% for ESOP contractors is unknown, but potentially significant, and would depend upon the volume of ESOP contractors bidding on Caltrans' state-funded construction projects, the specified applicable bid preference provided on those contracts, and the overall costs of those contracts.

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