

Date of Hearing: June 30, 2026

ASSEMBLY COMMITTEE ON JUDICIARY
Ash Kalra, Chair
SB 1174 (Valladares) – As Amended June 15, 2026

SENATE VOTE: 33-0

SUBJECT: PUBLIC CONTRACTS: DEPARTMENT OF TRANSPORTATION: BID PREFERENCES: EMPLOYEE STOCK OWNERSHIP PLANS

SYNOPSIS

CalTrans has historically administered bid preferences under the Small Business (SB), Disabled Veteran Business Enterprise (DVBE), and Disadvantaged Business Enterprise (DBE) outreach and procurement programs. The DBE program is a federal program and, due to the current administration's changes to regulations, no longer considers race- or sex-based factors. The DBE program, like the other programs, focuses on who owns the company. With the changes to who can qualify under the federal DBE, a new type of bid preference can offer a different method to expand opportunity when it comes to public contracts. This bill requires CalTrans to administer a bid preference program specifically for companies that have employee stock ownership plans (ESOP). These companies would receive specified bid preference values depending on the percentage of ownership their ESOPs control.

The bill is sponsored by the California Employee Ownership Coalition (CEOC) and supported by the ESOP Association and several employee-owned construction companies. This bill is opposed by Buildout California and a few associations of contractors, including the Associated Builders and Contractors of California. The bill passed out of the Assembly Committee on Transportation by a 15-0 vote.

SUMMARY: Requires the State Department of Transportation (CalTrans) to provide certain bid preferences to a contractor with an ESOP that bids on a state-funded construction contract, as specified. Specifically, **this bill:**

- 1) Requires CalTrans, on or after January 1, 2028, to provide bid preferences for a state-funded construction contract to each ESOP contractor that bids on a state-funded construction project as follows:
 - a) 2% to a qualified contractor with 30 to 49% of the entity owned by its ESOP.
 - b) 3% to a qualified contractor with 50 to 99% of the entity owned by its ESOP.
 - c) 4% to a qualified contractor with 100% of the entity owned by its ESOP.
 - d) An additional 1% for a qualified contractor that is a signatory to a collective bargaining agreement or master labor agreement.
- 2) Prohibits the award of bid preferences to a noncompliant bidder or to achieve applicable minimum requirements.

- 3) Provides that it is unlawful for a person, contractor or subcontractor to willfully or knowingly commit fraud regarding ESOP qualification, provide false statements to a state official regarding ESOP acceptance, obstruct or impede an investigation of the qualifications of an ESOP contractor, fraudulently obtaining public moneys, and cooperate in the establishment of a contractor found to have violated the foregoing prohibitions.
- 4) Makes a person, contractor or subcontractor who violates the prohibitions above liable for a civil penalty not to exceed \$5,000 for the first violation, and a civil penalty not to exceed \$20,000 for each additional or subsequent violation. Anyone who fails to pay a penalty is prohibited from bidding on any contract with CalTrans for a specified period or until the penalties are satisfied.
- 5) In addition to civil penalty fines, a person, contractor or subcontractor who is found in violation of the above-mentioned actions is required to be suspended 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.
- 6) Prohibits CalTrans from entering a contract with a suspended contractor or subcontractor and requires it to report an alleged violation to the Attorney General.
- 7) Defines the following terms:
 - a) “Contractor” means any person or entity, within the meaning of the provisions of Chapter 9 (commencing with Section 7000) of Division 3 of the Business and Professions Code, who submits a bid and performs work on a state-funded construction contract.
 - b) “Department” means the Department of Transportation.
 - c) “Employee stock ownership plan” or “ESOP” has the same definition as that term is defined in paragraph (7) of subsection (e) of Section 4975 of the Internal Revenue Code, as that provision read on January 1, 2022.
 - d) “ESOP contractor” means a contractor or subcontractor that presents an attestation by an independent, certified public accountant, as defined in Section 5033 of the Business and Professions Code, of a percentage equal to or greater than 30 percent of the issued and outstanding shares of the contractor that are owned by its ESOP at the time of bid.
 - e) “Person” means any individual, firm, corporation, association, or other entity doing business in California.
 - f) “Subcontractor” means a contractor who contracts to perform work on a project without contracting directly with the awarding authority.

EXISTING LAW:

- 1) Establishes CalTrans with various powers and duties, including but not limited to, planning, designing, constructing, operating, and maintaining the State’s highway system, as specified. (Government Code Section 14001 *et seq.*)

- 2) Establishes bid preferences in public contracting for certain types of bidders, including, but not limited to, small business, microbusiness, and disabled veteran business enterprise bidders. (Government Code Section 14835 *et seq*; Military and Veterans Code Section 999 *et seq*.)
- 3) Requires CalTrans to achieve, at a minimum, an overall rate of 25% certified small business participation and 3% for disabled veteran business enterprises in state-funded contracts and procurement. (Government Code Section 14110.3.)
- 4) Consistent with federal and state requirements, requires CalTrans to develop a plan by January 1, 2020, to increase by up to 100% the dollar value of contracts and procurements awarded to small businesses, disadvantaged, business enterprises, and disabled veteran business enterprises. (Government Code Section 14110.)
- 5) Requires CalTrans to submit to the Legislature, by January 1, 2019, a detailed outreach plan intended to increase procurement opportunities for small business enterprises, including, but not limited to, those owned by women, minority, disabled veterans, LGBT, and other disadvantaged groups, in all transportation programs managed by CalTrans. (Government Code Section 14110.1.)
- 6) Makes certain legislative findings and declarations of the Legislature under the California Employee Ownership Act, including that employees becoming owners would create opportunities for wealth-building and community stability. It would also help California create a more inclusive, equitable, and stable economy, supported by the studies of employee-owned businesses and their success and resiliency during the Great Recession and the COVID-19 pandemic. (Government Code Section 12100.31.)
- 7) Defines “employee stock ownership plan,” pursuant to federal law, as a defined contribution plan which is a stock bonus plan which is qualified, or a stock bonus and a money purchase plan both of which are qualified under section 401(a), and which are designed to invest primarily in qualifying employer securities. (26 U.S.C. Section 4975.)

FISCAL EFFECT: As currently in print this bill is keyed fiscal.

COMMENTS: CalTrans has historically administered bid preferences under the Small Business (SB), Disabled Veteran Business Enterprise (DVBE), and Disadvantaged Business Enterprise (DBE) outreach and procurement programs. The DBE program is a federal program and, due to the current administration’s changes to regulations, no longer considers race- or sex-based factors. The DBE program, like the other programs, focuses on who owns the company. With the changes to who can qualify under the federal DBE, a new type of bid preference can offer a different method to expand opportunity when it comes to public contracts. According to the author:

California law establishes several programs that provide preferences to several classes of businesses on public works construction. Those programs, however, are fundamentally flawed. They only assess the owners of those businesses which, in some cases, could only be one person. SB 1174 proposes a more equitable wealth distribution compared to other construction procurement preferences for construction contracting. One way to do that, which the legislature has recognized through the passage of AB 2849 (Bonta) and SB 1407

(Becker) both from 2022, is the promotion of employee-owned businesses. Government Code Section 12100.31(c) perfectly explains the benefits of those entities:

Employees becoming owners would create opportunities for wealth-building and community stability. It would also help California create a more inclusive, equitable, and stable economy, supported by the studies of employee-owned businesses and their success and resiliency during the Great Recession and the COVID-19 pandemic.

The most efficient way to achieve California's policy objective, that is, to diversify ownership to a broader population, is to incentivize shared ownership through employee stock ownership plans (ESOPs). Rather than requiring each qualified individual to start up their own enterprise, this strategy would allow existing owners to extend ownership rights to employees via grants of stock through ESOP accounts, a process separate from the employee's compensation. Given the current demographic breakdown of the California workforce on public infrastructure projects as documented by Caltrans in the 2024 Disparity Study, these Plans would directly distribute ownership to the intended populations on a much broader and more inclusive scale than existing policies. According to the study, 65.8% of California construction workers during the period of 2018 to 2022 were people of color. Modelled after California's Small Business Enterprise and Disabled Veterans Business Enterprise programs, SB 1174 [...] establishes a scaled bid preference for construction companies that operate an ESOP program. This will build wealth for construction workers.

ESOPs. An employee stock ownership plan (ESOP) is an ownership structure that allows employees to have an ownership stake in the company where they work. The ESOP is a trust that holds the employees' stock and is funded by the company. The shares in the trust are then distributed, based on tenure or compensation, to individual employee retirement accounts. When an employee retires or leaves, the shares are then cashed out and provided to the employee. In California, according to the bill's sponsor, there are approximately 70 construction companies that are ESOP-owned, representing roughly 12,378 employee-owners.

This bill requires CalTrans to provide a bid preference for ESOP contractors for any state-funded construction contract. The bid preference is based on the percentage the company owned by its ESOP. Bid preferences work by taking a percentage of the price for the lowest responsive bid—that is not from a preferential bidder—and deducting that amount from all qualifying preferential bids. The bill also includes a provision that adds an additional one percent bid preference to an ESOP company that is a signatory to a collective bargaining or master labor agreement that covers the contract being bid on.

For companies that are 30 to 49 percent owned by their ESOP, they would receive a two percent bid preference value; companies that are 50 to 99 percent owned by their ESOP, would receive a three percent bid preference value; and companies that are 100 percent owned by their ESOP, would receive a four percent bid preference value. To illustrate, if the lowest non-ESOP bid was \$100,000, and a company that was 50 percent owned by its ESOP bid \$103,000, the ESOP bid would receive a \$3,000 bid preference (3% of \$100,000), making it \$100,000 (\$103,000 reduced by \$3,000), for the purposes of bid selection.

The bill specifies it is unlawful to knowingly and intentionally commit fraud in the pursuit of obtaining acceptance as an ESOP contractor. The bill also specifies it is unlawful to willingly and knowingly make a false statement regarding ESOP status, obstruct or impede an

investigation into ESOP status, or attempt to obtain public money that a party is not entitled to. The penalties specified for these acts are \$5,000 for the first violation, and \$20,000 for the second and any subsequent violation. If a person, contractor, or subcontractor establishes or exercises control over a contractor found to be in violation of the aforementioned offenses, they will receive an initial penalty of \$50,000 and a \$200,000 penalty for the second and any subsequent violations. Additionally, a party in violation of this bill will be prevented from bidding on a future CalTrans contract for not less than 30 days and not more than one year. CalTrans must report any alleged violations to the Attorney General, who may then decide to bring a civil action.

Constitutional Concern. As mentioned above, the current federal administration changed the regulations regarding the DBE program, in light of a federal district court decision. The U.S. District Court for the Eastern District of Kentucky concluded that the sex-based and race-based factors used to determine if a business was disadvantaged—and therefore eligible for the program—was unconstitutional under the Equal Protection Clause of the U.S. Constitution. (*Mid-Am. Milling Co., LLC v. United States DOT* (Sep. 23, 2024) 2024 U.S. Dist. LEXIS 171113.) Essentially, the court held that because a business may be women-owned or minority-owned, does not create the presumption that the business is disadvantage under the federal program. This bill stays away from the constitutional concerns, because the preferences afforded are not for characteristics that would fall under the Equal Protection Clause.

ARGUMENTS IN SUPPORT: This bill is sponsored by the California Employee Ownership Coalition (CEOC) and supported by the ESOP Association and several employee-owned construction companies. CEOC write in support:

SB 1174 proposes a new type of bid preference that targets companies that operate employee stock ownership plans (ESOPs). Rather than an “independently owned and operated” business, or one owned by investors, companies that operate ESOPs are owned by their employees. This is a unique and expanding business model that gives workers the opportunity to share ownership in their employer.

SB 1174 is a modest step to encourage the development and expansion of ESOPs in California. The bill creates a bid preference, up to maximum of five percent, to ESOP companies that bid on Caltrans construction projects that are 100% state funded. The bid preference is scaled based on the level of ESOP ownership.

The legislature should work to expand and encourage worker ownership because they provide wealth and economic security for workers. In fact, ESOPs in California have distributed an estimated \$11.2 billion in value to their employee-owners. These distributions represent meaningful wealth building outcomes for tens of thousands of California workers.

The ESOP Association writes in support:

SB 1174 establishes a bid preference for ESOP contractors bidding on state-funded construction contracts. By providing graduated preferences based on the degree of employee ownership, the bill creates a practical incentive for businesses to adopt and expand employee ownership while rewarding companies that already share ownership with their workers. The bill also reflects the realities of public contracting by applying the preference both to

traditional low-bid procurements and to best-value competitions that rely on bidder scores rather than price alone.

SB 1174 also creates a straightforward and workable process for qualifying for the preference. Rather than requiring the state to create a separate certification system, the bill allows bidders to present objective documentation at the time of bid, including an IRS determination letter, Form 5500 filed with the U.S. Department of Labor, and an independent review of ESOP ownership. The bill protects the integrity of the preference by establishing meaningful civil penalties and suspension provisions for fraud or abuse, using an enforcement structure modeled on the existing California preference program for Small Business Enterprises.

California recognized the power of employee ownership when it passed SB 1407 in 2022 with bipartisan support, creating the Employee Ownership Hub to address the hundreds of thousands of California businesses and millions of workers affected by the coming wave of business-owner retirements. SB 1174 builds on that vision by using a targeted contracting tool to support businesses that provide life-changing ownership to their employees. The societal and economic benefits of employee ownership are well documented. ESOP companies provide workers with meaningful opportunities to build wealth and retirement security. They also tend to have higher productivity, lower turnover, and stronger long-term resilience than comparable non-employee-owned businesses. Employee ownership helps keep companies rooted in their communities, protecting local jobs and supporting a more stable and inclusive economy.

ARGUMENTS IN OPPOSITION: This bill is opposed by Buildout California and a few associations of contractors. The Associated General Contractors (AGC), California Chapter write in opposition:

California's public contracting system is built on a simple, long-standing premise: the lowest responsive and responsible bidder wins. This standard protects taxpayers, ensures fairness, and prevents political influence from distorting procurement decisions. SB 1174 would replace that objective standard with a subjective preference, allowing a bidder to win a contract even when they are not the lowest-cost provider. These exceptions make the competitive bidding system less transparent, less predictable, and more vulnerable to manipulation.

Bid preferences do not create new value; they simply shift awards away from the lowest-cost bidder. As a result, the state pays more for the same project, agencies lose the ability to select the most cost-effective contractor, and construction budgets stretch further, reducing the number of projects that can be delivered. In a year when California faces significant fiscal constraints, SB 1174 would increase project costs without improving safety, quality, or performance.

Preferences disadvantage qualified contractors and reduce competition. Contractors who have invested in safety, training, workforce development, and compliance may still lose work solely because they do not qualify for a preference category. This reduces the number of bidders, which is well-documented to drive up prices and limit competition — the opposite of what public procurement should encourage.

The Associated Builders and Contractors of California (ABC CA) write in opposition:

Government contracts are generally awarded to the lowest bid submitted by a responsible and responsive bidder. This policy helps ensure that taxpayer dollars are spent efficiently and effectively while preventing government agencies from providing preferential treatment to certain companies. While well-intentioned, SB 1174 undercuts both of these fundamental principles of good government spending.

Creating a new bid preference will increase project costs with no tangible benefit in the project outcome or to Californians at large. Indeed, this change will reduce how far taxpayer dollars go, ultimately limiting the number of projects Caltrans can deliver and the benefit the agency is able to provide to the state as a whole. This impact will be especially significant in a year when the budget is already under considerable strain.

[...]

Like any form of employee compensation, ESOPs have shortcomings. Under an ESOP, employees are allocated shares of the company while they work there. However, unlike more traditional stock options, they are generally unable to sell those shares or access their value until they retire or leave the company. Further, unlike a traditional 401(k), an ESOP does not provide a diversified retirement portfolio. An employee's retirement security may depend entirely on the value of their ESOP stock. An employee may spend 40 years accumulating company stock only to see the business fail before retirement, leaving them with little or nothing to retire on.

Despite providing employees with stock, an ESOP does not guarantee any of the features traditionally associated with "ownership". A company providing an ESOP does not necessarily mean that the company is entirely employee-owned. It does not even mean that employees own any significant number of shares. The shares allocated through an ESOP do not entitle employees to an equal share of company profits, guarantee voting rights on all business decisions, ensure a safer working environment, or necessarily result in higher hourly compensation.

REGISTERED SUPPORT / OPPOSITION:

Support

California Employee Ownership Coalition (sponsor)

Ambroseadvisors

Bapko Metal

C. Wells Pipeline Materials INC.

Caltrol, INC.

Couts Heating and Cooling

Employee-owned S Corporations of America

Eureka Capital Partners, LLC

Ggg Demolition, INC.

Griffith Company

Marina Landscape, INC.

Mcguire and Hester

Murray Company
Pavement Coatings Co.
Pavement Recycling Systems
Prs Holdings, INC
Prs Logistics
Riverside Construction Company, INC.
Sustainable Emulsions, LLC
The ESOP Association

Opposition

Associated Builders and Contractors of California
Associated General Contractors, California Chapters
Buildout California
Western Electrical Contractors Association

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