Date of Hearing: August 5, 2026

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Buffy Wicks, Chair
SB 1174 (Valladares) – As Amended June 15, 2026

Policy Committee:	Transportation	Vote:	15 - 0
	Judiciary		10 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill directs the Department of Transportation (Caltrans) to provide a bid preference to a contractor with an employee stock ownership plan (ESOP).

More specifically, this bill directs Caltrans to provide a bid preference to a contractor with an ESOP, as follows:

- 2% to a qualified contractor with 30% to 49% of the business owned by its ESOP.
- 3% to a qualified contractor with 50% to 99% of the business owned by its ESOP.
- 4% to a qualified contractor with 100% of the business owned by its ESOP.
- An additional 1% for a qualified contractor that is a signatory to a collective bargaining agreement or master labor agreement.

The bill makes it 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 obtain public moneys, and cooperate in the establishment of a contractor found to have violated the foregoing prohibitions.

The bill makes an entity that violates these prohibitions liable for specified sanctions—up to $5,000 for the first violation and a civil penalty not to exceed $20,000 for each additional or subsequent violation, as well as suspension from bidding or participating in any contract or project for Caltrans for a period of one month to one year. In addition, the bill prohibits Caltrans from contracting with a suspended contractor or subcontractor and requires Caltrans to report an alleged violation to the Attorney General.

FISCAL EFFECT:

1) This bill creates significant new costs for Caltrans to establish the ESOP bid-preference program and significant ongoing costs to administer it. Caltrans anticipates needing three new positions in the first year of implementation, at an annual cost of roughly $600,000, to establish program procedures (special fund). Caltrans did not provide an estimate of ongoing costs to administer the program, instead asserting such costs will depend upon how much and how often the bid preference is used.

In addition, Caltrans projects significant increases in its contracting costs, likely in the millions of dollars annually, and warns of a corresponding decrease in maintenance and rehabilitation projects, absent additional funding.

1) Cost pressures (Trial Court Trust Fund, General Fund) of an unknown, but potentially significant amount to the courts to adjudicate any additional filings resulting from violations of the bill's prohibitions. Actual costs will depend on the number of cases filed and the amount of court time needed to resolve each case. It generally costs approximately $1,000 to operate a courtroom for one hour. Although courts are not funded on the basis of workload, increased pressure on the Trial Court Trust Fund may create a demand for increased funding for courts from the General Fund. The state budget provides annual General Fund backfills to the Trial Court Trust Fund to offset revenue reductions, totaling approximately $117.3 million in 2025-26.

COMMENTS:

Typically, a statute requires a state agency to award contracts to the lowest qualified bidders. However, existing law establishes multiple contract procurement programs to encourage state contracting with small businesses, disabled veteran-owned businesses, businesses performing work in distressed areas and employing individuals at higher risk of unemployment, and for projects servicing disadvantaged communities identified by CalEPA. Generally, such a procurement preference program applies a percentage-based preference to artificially lower the bid cost for eligible businesses.

Caltrans administers programs to communicate with and provide bid preferences to businesses owned by people with certain characteristics. For example, through the Small Business (SB) program, the Disabled Veteran Business Enterprise (DVBE) program and the Disadvantaged Business Enterprise (DBE) program, Caltrans provides bid preferences in contracting, training and technical assistance.

According to the California Employee Ownership Coalition, which is the sponsor of this bill, an ESOP is an ownership structure in which, over time, employees earn an ownership stake in the company they work for, which is held in trust on behalf of the employees without requiring workers to invest their own money. According to the coalition, there are more than 780 ESOPs in California representing 12,378 employee-owners, and 70 of these ESOPs are associated with construction businesses.

The author describes this bill as a way to increase the diversity of ownership of the companies with which the state does business that is more effective and efficient than are programs through which the state gives biding preference to companies owned by members of certain groups or those who have certain characteristics, such as women, those with disabilities and veterans. According to the author:

> 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.

Some companies in the construction industry or related fields agree, including many companies that offer an ESOP. However, several entities disagree. For example, the Associated Builders and Contractors of California, the Associated General Contractors, California Chapters, and the Western Electrical Contractors Association each generally objects to bidding practices that preference one model of employee compensation over others. Buildout California—which describes itself as the world's largest industry association dedicated to the sustainable growth of LGBT and allied-owned businesses, professionals, tradespeople, and stakeholders across architecture, engineering and construction services—similarly objects, but also opposes the bill because:

> SB 1174 would not expand opportunities for small or diverse firms; instead, it would redirect work toward companies that qualify for the new preference, regardless of whether they offer the most accessible or inclusive contracting approach. This shift limits the ability of underrepresented businesses to compete for meaningful roles on public projects and further strains already limited contracting opportunities.

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