

SENATE THIRD READING

SB 291 (Grayson)

As Amended May 1, 2025

Majority vote

SUMMARY

Strengthens enforcement of workers' compensation insurance requirements for contractors licensed by the Contractors State License Board (CSLB).

Major Provisions

- 1) Requires the CSLB to include in its annual report to the Legislature the number of disciplinary actions for workers' compensation insurance violations.
- 2) Establishes minimum civil penalties for workers' compensation insurance violations:
- 3) Prohibits the CSLB from renewing or reinstating a license in violation of workers' compensation insurance requirements until the applicant or licensee provides the CSLB with a current and valid Certificate of Workers' Compensation Insurance or Certification of Self-Insurance in the applicant's or licensee's business name.
- 4) Requires the CSLB to report its proposed process for verifying that an applicant or licensee without employees is eligible for exemption from the workers' compensation insurance requirement to the Legislature by January 1, 2027, as specified.

COMMENTS

Workers' Compensation Insurance. The License Law, which governs contractors in California and is enforced by the CSLB, requires contractors to have workers' compensation insurance if they have employees. Contractors are required to submit to CSLB a valid Certificate of Workers' Compensation Insurance, a valid Certification of Self-Insurance from the Department of Industrial Relations, or a Certificate of Exemption. Contractors without employees may file an exemption—except for those holding C-8 (Concrete), C-20 (Heating, Ventilation, and Air Conditioning), C-22 (Asbestos Abatement), and D-49 (Tree Service) licenses. Filing a false workers' compensation insurance exemption is cause for disciplinary action by the CSLB and cancellation of the false exemption, which subjects the license to suspension. This bill would prohibit the CSLB from renewing or reinstating a contractor's license until they comply.

Recent History of Workers' Compensation Insurance Requirements for Contractors. Before the passage of SB 216 (Dodd), Chapter 978, Statutes of 2022, only a C-39 (Roofing) contractor was required to have workers' compensation insurance regardless of whether they had any employees. In response to growing evidence that a significant number of contractors had exemptions on file but were still employing workers, SB 216 expanded the classifications prohibited from filing an exemption, effective January 1, 2023. It also required every contractor to have workers' compensation insurance, without exception, beginning January 1, 2026.

During the CSLB's 2024 Sunset Review, the CSLB estimated that 115,000 contractors would need to obtain workers' compensation insurance and expressed concerns that the implementation of SB 216 would have a greater-than-anticipated impact on its workload and potentially increase license processing times. The CSLB also shared concerns raised by stakeholders that the bill

would unfairly impact contractors with no employees. Moreover, the CSLB projected that if 10% of licensees stopped paying to maintain a license, it could lose \$8 million in revenue, potentially impacting its enforcement operations. In response, Senator Dodd introduced SB 1071 of 2024, which would have allowed contractors to file an exemption if they provided both an affidavit and adequate proof that they have no employees. That bill was held in the Assembly Appropriations Committee, but the CSLB's sunset bill, SB 1455 (Ashby), Chapter 485, Statutes of 2024, delayed the implementation of the universal workers' compensation requirement to January 1, 2028, and required the CSLB to establish an exemption verification process by January 1, 2027.

This bill initially sought to rescind the universal workers' compensation insurance mandate that takes effect on January 1, 2028, and instead allow contractors, except C-39 (Roofing) contractors, to file an exemption if they meet specified criteria. These provisions were stricken from the bill in the Senate and replaced by a requirement that the CSLB provide a report to the Legislature by January 1, 2027, outlining a process to verify that a contractor has no employees.

CSLB Civil Penalties. The CSLB is authorized to take disciplinary action against licensed and unlicensed contractors who have violated the License Law and is empowered to use an escalating scale of penalties, ranging from citations and fines (referred to as civil penalties) to license suspension and revocation. Current law caps the civil penalty amount that the CSLB may assess for workers' compensation insurance violations at \$30,000. This bill would establish a minimum fine of \$10,000 per violation for any sole owner and \$20,000 per violation for any partnership, corporation, limited liability company, or tribal business licensee. This bill would authorize additional civil penalties for subsequent violations, up to \$30,000 per occurrence.

Report to the Legislature. Current law requires the CSLB to submit an annual report to the Legislature by October 1st with data related to its enforcement program, including, but not limited to, the number of complaints received, disciplinary actions taken, and enforcement timeframes. This bill would require the CSLB to include the number of disciplinary actions it has taken against contractors for workers' compensation insurance violations.

According to the Author

“[This bill] will uphold consumer protections by establishing significant penalties for any licensee who does not follow existing law, and will also make sure that we have the necessary data to create a pathway in the future to ensure that licensees without any employees do not have to carry unnecessary workers' compensation insurance policies. This will ultimately help our state to maintain the licensee population needed to meet consumer construction needs, while meeting our commitments to California's workers.”

Arguments in Support

As the sponsor of this bill, the *CSLB* writes: “Board members expressed support for the enhanced penalties in the bill and is committed to working in good faith with [Senator Tim Grayson] and the Legislature on a responsible and lasting solution to the concern of requiring business owners who do not use employees to obtain workers' compensation insurance.”

Arguments in Opposition

There is no opposition on file.

FISCAL COMMENTS

According to the Assembly Appropriations Committee:

- 1) CSLB's estimates minor and absorbable special fund costs to create a verification process for workers' compensation insurance exemptions and report its proposed process to the Legislature by January 1, 2027. Specifically, CSLB indicates its licensing division estimates approximately 120 hours to develop and report to Legislature the verification process and CSLB's Information Technology department estimates approximately 1,000 hours for custom programming to implement the exemption verification change and to make changes to the website.
- 2) Possible increased penalty revenue of an unknown amount, potentially in the mid-hundreds of thousands of dollars annually (special funds), to the extent this legislation results in higher civil penalties collected. For example, 30 contractors paying the minimum \$10,000 penalty, rather than the \$200 required under existing law, would generate additional penalty revenue of nearly \$300,000 annually.

Although hard to predict, to the extent the bill does not deter violators or cause contractors to stop paying to maintain a license, continued violations could result in significant penalty revenue increases to CSLB. For context, CSLB reported that between January 2018 and March 2020 it issued 500 stop-work orders to licensed contractors on job sites for failing to secure workers' compensation and took 342 legal actions against licensed contractors for workers' compensation insurance violations.

VOTES

SENATE FLOOR: 35-0-5

YES: Allen, Alvarado-Gil, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Choi, Cortese, Dahle, Durazo, Gonzalez, Grayson, Hurtado, Laird, McGuire, McNERney, Menjivar, Niello, Ochoa Bogh, Padilla, Pérez, Richardson, Rubio, Seyarto, Smallwood-Cuevas, Stern, Strickland, Umberg, Valladares, Wahab, Weber Pierson, Wiener
ABS, ABST OR NV: Cervantes, Grove, Jones, Limón, Reyes

ASM BUSINESS AND PROFESSIONS: 16-0-2

YES: Berman, Flora, Ahrens, Alanis, Caloza, Chen, Elhawary, Hadwick, Haney, Irwin, Jackson, Krell, Lowenthal, Ellis, Nguyen, Pellerin
ABS, ABST OR NV: Bains, Bauer-Kahan

ASM INSURANCE: 17-0-0

YES: Calderon, Wallis, Addis, Alvarez, Ávila Farías, Berman, Chen, Ellis, Gipson, Hadwick, Harabedian, Krell, Nguyen, Ortega, Petrie-Norris, Michelle Rodriguez, Valencia

ASM APPROPRIATIONS: 15-0-0

YES: Wicks, Sanchez, Arambula, Calderon, Caloza, Dixon, Elhawary, Fong, Mark González, Ahrens, Pacheco, Pellerin, Solache, Ta, Tangipa

UPDATED

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