

Date of Hearing: August 25, 2026

ASSEMBLY COMMITTEE ON BUSINESS AND PROFESSIONS

Marc Berman, Chair

SB 342 (Umberg) – As Amended August 19, 2026

NOTE: This bill is being heard pursuant to Assembly Rule 77.2.

SENATE VOTE: 39-0

SUBJECT: Contractors: unlicensed work

SUMMARY: Authorizes a contractor to recover compensation owed for work conducted while the contractor was licensed, and prohibits a person from recovering compensation paid to an unlicensed contractor for work completed while the contractor was licensed, as specified.

EXISTING LAW:

- 1) Establishes, until January 1, 2025, the Contractors State License Board (CSLB or Board) under the Department of Consumer Affairs (DCA) to implement and enforce the Contractors State License Law (License Law), which includes the licensing and regulation of contractors and home improvement salespersons. (Business and Professions Code (BPC) §§ 7000 *et seq.*)
- 2) Requires, until January 1, 2025, the CSLB to appoint a Registrar of Contractors to be the executive officer and secretary of the CSLB and to carry out all of the administrative duties of the Board. (BPC § 7011)
- 3) Establishes an enforcement division within the CSLB to rigorously enforce the License Law, prohibiting all forms of unlicensed activity and enforcing the obligation to secure the payment of valid and current workers' compensation insurance, as specified. (BPC § 7011.4(a))
- 4) Requires the CSLB to provide an annual report to the Legislature, no later than October 1, related to complaints filed with the CSLB, as specified. (BPC § 7017.3)
- 5) Exempts from the License Law a work or operation on one undertaking or project by one or more contracts if the aggregate price for labor, materials, and all other items is less than \$1,000 that work or operation being considered of casual, minor, or inconsequential nature, and the work or operation does not require a building permit. (BPC § 7048)
- 6) Authorizes the CSLB to issue licenses to individual owners, partnerships, corporations, and limited liability companies. (BPC § 7065(b))
- 7) Defines "contractor" to include any person, consultant to an owner-builder, firm, association, organization, partnership, business trust, corporation, or company, who or which undertakes, offers to undertake, purports to have the capacity to undertake, or submits a bid to construct any building or home improvement project, or part thereof. (BPC § 7026.1(a)(2)(A))

- 8) Establishes that, unless exempted from licensure, it is a misdemeanor for a person to engage in the business of, or act in the capacity of, a contractor if the person is not licensed in accordance with the License Law. (BPC § 7028(a)(1))
- 9) Authorizes the Registrar, upon complaint or otherwise, seeing that a licensee has engaged in, or is engaging in, any act, practice, or transaction which constitutes a violation of the License Law whereby another person may be substantially injured, or that any person, who does not hold a state contractor's license in any classification, has engaged in, or is engaging in, any act, practice, or transaction which constitutes a violation of the License Law, whether or not there is substantial injury, to apply for an injunction restraining such person from acting in the capacity of a contractor without a license in violation of the License Law, or from acting in violation of the License Law when another person may be substantially injured. (BPC § 7028.3)
- 10) Empowers the Registrar of Contractors to issue citations containing orders of abatement and civil penalties against persons acting in the capacity of or engaging in the business of a contractor without having a license in good standing to so act or engage. (BPC § 7028.6)
- 11) Provides that all licenses issued under the provisions of the License Law shall expire two years from the last day of the month in which the license is issued, or two years from the date on which the renewed license last expired. Requires the licensee to, before the time at which the license would otherwise expire, apply for renewal on a form prescribed by the Registrar and pay the prescribed renewal fee. (BPC § 7140)
- 12) Requires the Registrar to grant retroactive renewal of a license if, within 90 days of the expiration of the license, the otherwise eligible licensee submits a completed application for renewal on a form prescribed by the Registrar and pays the appropriate renewal and delinquency fees. An application shall be deemed submitted if it is delivered to the Board's headquarters or postmarked within 90 days of the expiration of the license. (BPC § 7141.5)
- 13) Prohibits any person engaged in the business or acting in the capacity of a contractor to bring or maintain any action, or recover in law or equity in any action, in any court of this state for the collection of compensation for the performance of any act or contract where a license is required by the License Law without alleging that they were a duly licensed contractor at all times during the performance of that act or contract, regardless of the merits of the cause of action brought by the person, except as specified. (BPC § 7031 (a))
- 14) Authorizes a person who utilizes the services of an unlicensed contractor to bring an action in any court of competent jurisdiction in this state to recover all compensation paid to the unlicensed contractor for the performance of any act or contract. (BPC § 7031 (b))
- 15) Specifies that the judicial doctrine of substantial compliance shall not apply under this section where the person who engaged in the business or acted in the capacity of a contractor has never been a duly licensed contractor in this state. The court may determine that there has been substantial compliance with licensure requirements under this section if it is shown at an evidentiary hearing that the person who engaged in the business or acted in the capacity of a contractor (1) had been duly licensed as a contractor in this state prior to the performance of the act or contract, (2) acted reasonably and in good faith to maintain proper licensure, and

(3) acted promptly and in good faith to remedy the failure to comply with the licensure requirements upon learning of the failure. (BPC § 7031(e))

THIS BILL:

- 1) Authorizes a person to maintain an action for compensation if the person was a duly licensed contractor at the time the contract was executed and during the portion of the performance of the contract for which compensation is sought, without regard to the underlying merits of the cause of action.
- 2) Authorizes a person to bring an action to recover the portion of compensation paid to an unlicensed contractor for work performed during the time in which the contractor was unlicensed.
- 3) Limits these authorizations to an action for compensation arising from a contract for any of the following:
 - a) A public work of improvement.
 - b) A commercial construction project.
 - c) An institutional construction project.
 - d) Construction of a common interest development, as defined in Section 4100 of the Civil Code.
 - e) Construction of a multifamily residential project consisting of four or more units if a tenant or resident is not a party to the contract.

FISCAL EFFECT:

According to the Assembly Appropriations Committee:

- 1) The Contractors State License Board (CSLB) estimates minor and absorbable costs (special fund). Recent amendments substantially narrowed the bill to contracts for public works. CSLB indicates public works matters represent only a small portion of their complaint and enforcement caseload. They estimate receiving 45 complaints a year, with each complaint taking 16 hours to complete. Actual costs will depend on, among other things, the volume of complaints received and the complexity of any subsequent investigations.
- 2) Cost pressures (Trial Court Trust Fund, General Fund) of an unknown amount, but potentially greater than \$150,0000 annually, to the courts to adjudicate any additional filings by contractors and others to collect or recover compensation for work performed on projects of public works. 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. This backfill was \$117.3 million in 2025-26.

COMMENTS:

Purpose. This bill is sponsored by the *California Conference of Carpenters*. According to the author, “[this bill] strikes a balance between maintaining consumer protections and ensuring that contractors are not unduly punished for administrative missteps. By modernizing California’s contractor licensing laws, this bill supports a fairer business environment while upholding the integrity of the licensing system.”

Background.

The CSLB is responsible for implementing and enforcing the License Law, which governs the licensure, practice, and discipline of contractors in California. A license is required for construction projects valued at \$1,000 or more, including labor and materials. The CSLB issues licenses to business entities and sole proprietors. Each license requires a qualifying individual (a “qualifier”) who satisfies the experience and examination requirements for licensure and directly supervises and controls construction work performed under the license. The CSLB issues four types of licenses: “A” General Engineering Contractor; “B” General Building Contractor; “B-2” Residential Remodeling Contractor; and “C” Specialty Contractor, of which there are 42 classifications. Each licensing classification (i.e., electrical, drywall, painting, plumbing, roofing, and fencing) authorizes a specific type of construction work. At the time of this writing, there are more than 244,500 contractors with an active license in California.

A contractor is prohibited from bringing an action to recover compensation for work performed unless the contractor was licensed at all times during the performance of a contract. A person who hires an unlicensed contractor may bring an action to recover all compensation paid to an unlicensed contractor. Additionally, any lien that a contractor records to secure payment for work performed is unenforceable unless the contractor was duly licensed at all times during the performance of the contract. These laws are intended to protect consumers and prevent unjust enrichment of unlicensed contractors. Nonetheless, the court is authorized to determine that there has been substantial compliance with licensure requirements of the License Law if it is shown at an evidentiary hearing that the person who engaged in the business or acted in the capacity of a contractor (1) had been duly licensed as a contractor in this state prior to the performance of the act or contract, (2) acted reasonably and in good faith to maintain proper licensure, and (3) acted promptly and in good faith to remedy the failure to comply with the licensure requirements upon learning of the failure. The judicial doctrine of substantial compliance appears to address lapses in licensure exceeding 90 days, provided the contractor is not acting nefariously.

SB 1793 (Holden), Chapter 244, Statutes of 2026, sought to repeal the “at all times” requirement but was ultimately amended to restore it due to concerns about diminishing consumer protections and limiting the severity of consequences for contracting without a license. This issue was revisited in 2020 during the CSLB’s sunset review,¹ and SB 1474 (Committee on Business, Professions and Economic Development), Chapter 312, Statutes of 2020, required CSLB to

¹ Each year, the Assembly Committee on Business and Professions and the Senate Committee on Business, Professions and Economic Development hold joint sunset review oversight hearings to review the licensing entities under the DCA. The sunset review process provides an opportunity for the Legislature, DCA, boards and bureaus, and stakeholders to discuss the licensing entity's performance and make recommendations for improvement.

retroactively reinstate any license if a corrected/complete license renewal is received within 90 days of the license expiration date. It resurfaced again in 2024 during the CSLB's most recent sunset review. At the time, the Associated General Contractors suggested that "it might be better to require that the contractor be prohibited from collecting construction fees/costs for ONLY the specific days of non-licensure, not the entire project." SB 1455 (Ashby), Chapter 485, Statutes of 2024, the CSLB's sunset bill, did not amend BPC § 7031.

This bill creates an exception from the all-or-nothing rule for compensation arising from a contract for a public work of improvement, a commercial construction project, an institutional construction project, construction of a common interest development, as defined, or construction of a multifamily residential project consisting of four or more units if a tenant or resident is not a party to the contract. For compensation relating to those construction contracts, a contractor could recover compensation for work performed while licensed. Furthermore, a person could recover compensation paid to an unlicensed contractor for the portion of the work performed while the contractor was unlicensed.

Prior Related Legislation. SB 1474 (Committee on Business, Professions and Economic Development), Chapter 312, Statutes of 2020, required CSLB to grant retroactive renewal of a contractor's license within 90 days of the expiration date if certain requirements are met and removed a previous requirement for the contractor to demonstrate that the renewal was late due to circumstances beyond their control.

AB 1793 (Holden), Chapter 244, Statutes of 2016, initially sought to repeal the requirement for contractors to be a duly licensed contractor "at all times" during performance of the contract to file an action to recover compensation, but was amended to instead delete the requirement for a contractor to provide evidence that they did not know or reasonably should not have known that there were not duly licensed when performance of the act or contract commenced for the judicial doctrine of substantial compliance to apply.

SB 263 (Monning) of 2013 would have provided that a contractor may pursue payment for any work on the contract while duly licensed, but preclude payment for work performed in a classification in which the contractor was not licensed, was under license suspension, or was under an expired or inactive license when the work was performed. That bill was substantially amended to address an unrelated topic.

AB 1386 (Horton), Chapter 289, Statutes of 2003, authorized a court to apply the judicial doctrine of substantial compliance to allow an action for recovery to proceed where a previously licensed contractor: (1) acted reasonably and in good faith to maintain proper licensure; (2) did not know or reasonably should not have known that he or she was not duly licensed when performance of the act or contract commenced; and (3) acted promptly and in good faith to reinstate his or her license upon learning it was invalid.

AB 2693 (Wyman) of 2002 would have provided that an action against an unlicensed contractor for recovery of monies paid to the unlicensed contractor is limited to payments made for work performed while the contractor was unlicensed.

AB 678 (Papan), Chapter 226, Statutes of 2001, authorized people who use the services of an unlicensed contractor to bring an action to recover all compensation paid to the unlicensed contractor for performance of any act or contract.

ARGUMENTS IN SUPPORT:

As the sponsor, the *California Conference of Carpenters* writes in support:

California Business & Professions Code Section 7031 is currently set up to prohibit contractors with a gap in a contractor's license, no matter how brief, from using the courts to collect against claims and costs incurred on construction project and potentially have to remit back to the project owner all money paid for work conducted on a project, even if the project is completed in full. For example, a contractor could be compelled to return 100% of the contract payments received on a project due to a 1% gap period in the license, with the project's owner receiving the windfall of a free project. This is true even if the gap is for a single day on a multi-year project for an administrative reason, i.e., a renewal application is a day late. The attached proposed modified version of Section 7031 would make a modest but important change. It would simply make any penalty proportional to the period of unlicensed performance. It would correct a problem that leads to inequitable and often absurd results.

ARGUMENTS IN OPPOSITION:

In opposition, the *Los Angeles Unified School District* writes:

SB 342 would represent a dramatic change in the law for public entities and commercial developers authorizing unlicensed contractors to recover payments for any period during which they were properly licensed and file lawsuits for compensation despite their unlicensed status. At its worst, SB 342 would allow unlicensed contractors to recover compensation for work that actually leads to the revocation of their licenses. SB 342 would allow contractors whose licenses are revoked by the Contractors State License Board, for such violations as project abandonment, failing to pay workers or suppliers, committing financial fraud, or failing to maintain required workers' compensation insurance or surety bonds, to be compensated for work prior to the revocation, despite this conduct serving as the basis for revocation. California should not allow contractors whose licenses are subsequently revoked to be compensated for their violations of the licensing laws. Existing law serves a deterrent to this exploitive conduct and should not be altered.

POLICY ISSUES:

Need for the bill. Current law requires the CSLB to grant a contractor a retroactive license renewal if the contractor applies for renewal within 90 days of the license's expiration. It is unclear why a contractor would not be aware of a licensing lapse lasting more than 90 days. Nonetheless, a court may determine that there has been substantial compliance with licensure requirements if the contractor had been licensed prior to the performance of the contract, acted reasonably and in good faith to maintain licensure, and acted properly and in good faith to

remedy license delinquency. Any contractor making a reasonable effort to comply with this state's licensing laws is presumably already protected by law.

Weakens Consumer Protection and Incentivizes Unlicensed Activity. This bill reduces the amount of compensation a consumer can recover from an unlicensed contractor, which may lead fewer consumers to pursue this option. Furthermore, by allowing contractors to profit while unlicensed, this bill reduces the incentive to obtain a license. There is very little that CSLB can do to bring an unlicensed contractor into compliance. The CSLB may cite and fine the person, but an unlicensed contractor has little incentive to pay, unless they wish to obtain a license. The CSLB largely relies on local law enforcement and district attorneys to assist with enforcement. In contrast, the CSLB is authorized to take disciplinary action against licensed contractors who have violated the License Law and is empowered to impose an escalating range of penalties, from citations and fines to license suspension or revocation. Additionally, the CSLB may order a contractor to pay restitution, and a consumer may file a claim against a contractor's bond, which is a condition of licensure. These options are not available to consumers when issues arise with unlicensed contractors.

AMENDMENTS:

The author intends to amend the bill as follows to account for individuals who pay for a home to be built or rebuilt in a common interest development:

7031. (a) (1) Except as provided in paragraph (2) or subdivision (e), no person engaged in the business or acting in the capacity of a contractor may bring or maintain any action, or recover in law or equity in any action, in any court of this state for the collection of compensation for the performance of any act or contract where a license is required by this chapter without alleging that they were a duly licensed contractor at all times during the performance of that act or contract, regardless of the merits of the cause of action brought by the person.

(2) Paragraph (1) shall not apply to either of the following:

(A) Any contractor who is individually licensed under this chapter but who fails to comply with Section 7029.

(B) (i) An action for compensation arising from a contract for any of the following:

(I) A public work of improvement.

(II) A commercial construction project.

(III) An institutional construction project.

(IV) Construction of a common interest development, as defined in Section 4100 of the Civil Code, *if a tenant or resident is not a party to the contract.*

(V) Construction of a multifamily residential project consisting of four or more units if a tenant or resident is not a party to the contract.

(ii) A person may maintain an action for compensation under this subparagraph if the person was a duly licensed contractor at the time the contract was executed and during the portion of the performance of the contract for which compensation is sought, without regard to the underlying merits of the cause of action.

(b) (1) Except as provided in paragraph (2) or subdivision (e), a person who utilizes the services of an unlicensed contractor may bring an action in any court of competent jurisdiction in this state to recover all compensation paid to the unlicensed contractor for performance of any act or contract.

(2) (A) Paragraph (1) does not apply to an action for compensation arising from a contract for any of the following:

(i) A public work of improvement.

(ii) A commercial construction project.

(iii) An institutional construction project.

(iv) Construction of a common interest development, as defined in Section 4100 of the Civil Code, *if a tenant or resident is not a party to the contract*.

(v) Construction of a multifamily residential project consisting of four or more units if a tenant or resident is not a party to the contract.

(B) A person may bring an action under this paragraph to recover the portion of compensation paid to the unlicensed contractor for work performed during the time in which the contractor was unlicensed.

(c) A security interest taken to secure any payment for the performance of any act or contract for which a license is required by this chapter is unenforceable if the person performing the act or contract was not a duly licensed contractor at all times during the performance of the act or contract.

(d) If licensure or proper licensure is controverted, then proof of licensure pursuant to this section shall be made by production of a verified certificate of licensure from the Contractors State License Board which establishes that the individual or entity bringing the action was duly licensed in the proper classification of contractors at all times during the performance of any act or contract covered by the action. Nothing in this subdivision shall require any person or entity controverting licensure or proper licensure to produce a verified certificate. When licensure or proper licensure is controverted, the burden of proof to establish licensure or proper licensure shall be on the licensee.

(e) The judicial doctrine of substantial compliance shall not apply under this section where the person who engaged in the business or acted in the capacity of a contractor has never been a duly licensed contractor in this state. However, notwithstanding subdivision (b) of Section 143, the court may determine that there has been substantial compliance with licensure requirements under this section if it is shown at an evidentiary hearing that the

person who engaged in the business or acted in the capacity of a contractor (1) had been duly licensed as a contractor in this state prior to the performance of the act or contract, (2) acted reasonably and in good faith to maintain proper licensure, and (3) acted promptly and in good faith to remedy the failure to comply with the licensure requirements upon learning of the failure.

(f) The exceptions to the prohibition against the application of the judicial doctrine of substantial compliance found in subdivision (e) shall apply to all contracts entered into on or after January 1, 1992, and to all actions or arbitrations arising therefrom, except that the amendments to subdivisions (e) and (f) enacted during the 1994 portion of the 1993–94 Regular Session of the Legislature shall not apply to either of the following:

(1) Any legal action or arbitration commenced prior to January 1, 1995, regardless of the date on which the parties entered into the contract.

(2) Any legal action or arbitration commenced on or after January 1, 1995, if the legal action or arbitration was commenced prior to January 1, 1995, and was subsequently dismissed.

REGISTERED SUPPORT:

California Conference of Carpenters
California Legislative Conference of Plumbing, Heating & Piping Industry
Construction Employers' Association
Finishing Contractors Association of Southern California
National Electrical Contractors Association
Northern California Allied Trades
Northern California Floor Covering Association
Southern California Glass Management Association
United Contractors
Wall and Ceiling Alliance
Western Electrical Contractors Association
Western Line Constructors
Western Painting and Coating Contractors Association
Western Wall and Ceiling Contractors Association

REGISTERED OPPOSITION:

Association of California School Administrators
California Coalition for Adequate School Housing
California Special Districts Association
California State Association of Counties
League of California Cities
Los Angeles Unified School District
San Bernardino County Transportation Authority

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