

SENATE THIRD READING
SB 342 (Umbert)
As Amended August 19, 2026
Majority vote

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.

Major Provisions

- 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, if a tenant or resident is not a party to the contract.
 - 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.

COMMENTS

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 always licensed while performing the 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 2016, 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, and SB 1474 (Committee on Business, Professions and Economic Development), Chapter 312, Statutes of 2020, required CSLB to 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 Business and Professions Code Section 7031.

This bill creates a narrow 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, if a tenant or resident is not a party to the contract, 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. Under this bill, a contractor could recover compensation for work performed while licensed. Furthermore, a person could recover compensation paid to an unlicensed contractor only for the portion of the work performed while the contractor was unlicensed.

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."

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.

FISCAL COMMENTS

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.

VOTES**SENATE FLOOR: 39-0-1**

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

ABS, ABST OR NV: Gonzalez

ASM BUSINESS AND PROFESSIONS: 17-0-2

YES: Berman, Johnson, Addis, Ahrens, Alanis, Bauer-Kahan, Chen, Elhawary, Hadwick, Haney, Hart, Irwin, Jackson, Lowenthal, Macedo, Nguyen, Pellerin

ABS, ABST OR NV: Bains, Caloza

ASM APPROPRIATIONS: 11-0-4

YES: Wicks, Arambula, Calderon, Caloza, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache

ABS, ABST OR NV: Hoover, Dixon, Ta, Tangipa

ASM BUSINESS AND PROFESSIONS: 19-0-0

YES: Berman, Johnson, Addis, Ahrens, Alanis, Bains, Bauer-Kahan, Caloza, Chen, Elhawary, Hadwick, Haney, Hart, Irwin, Jackson, Lowenthal, Macedo, Nguyen, Pellerin

UPDATED

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