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**SENATE COMMITTEE ON  
BUSINESS, PROFESSIONS AND ECONOMIC DEVELOPMENT**  
Senator Angelique Ashby, Chair  
2025 - 2026 Regular

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<b>Bill No:</b>	SB 713	<b>Hearing Date:</b>	April 21, 2025
<b>Author:</b>	Valladares		
<b>Version:</b>	February 21, 2025		
<b>Urgency:</b>	No	<b>Fiscal:</b>	Yes
<b>Consultant:</b>	Sarah Mason		

**Subject:** Employee stock ownership plans: contractors: certification

**SUMMARY:** Establishes a process for an Employee Stock Ownership Plan (ESOP) qualified contractor to be certified and beginning January 1, 2027, requires the Department of General Services (DGS) to ensure that a yet to be defined percent of state funded construction contracts and construction-related procurements involve contractors who have received a ESOP contractor certificate.

**NOTE:** This bill is double-referred to the Senate Committee on Transportation, second.

**Existing law:**

- 1) Establishes GO-Biz within the Governor's office for the purpose of serving as the lead state entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth. (Government Code (GC) §§ 12096 et. seq.)
- 2) Requires the Governor to appoint a Small Business Advocate who is Director of the Office of Small Business Advocate (OSBA) and outlines the duties and functions of the Small Business Advocate, including, but not limited to:
  - a) Representing the views and interests of small businesses before other state agencies whose policies and activities may affect small businesses;
  - b) Collaborating with the Office of Small Business and Disabled Veteran Business Enterprise Services in their activities under the Small Business Procurement and Contract Act, including, but not limited to, promoting small business certification and undertaking reasonable means to assist state agencies in improving small business participation. Among other activities, the advocate shall maintain, publicize, and distribute an annual list of persons serving as a small business advocate, designated pursuant to Section 14846, throughout state government;
  - c) Collaborating with the California Disabled Veteran Enterprise Program Advocate, regarding the implementation of the California Disabled Veteran Business Enterprise Program, including, but not limited to, promoting disabled veteran business enterprise certification to veteran entrepreneurs and veteran-owned small businesses and undertaking reasonable means to assist state agencies in improving small business and disabled business enterprise procurement participation. (GC §§ 12098-12098.7)

- 3) Establishes the California Small Business Development Technical Assistance Expansion Act of 2018, which creates the California Small Business Technical Assistance Expansion Program within the Governor's Office of Business and Economic Development, to assist small businesses through free or low-cost one-on-one consulting and low-cost training by entering into grant agreements with one or more federal small business technical assistance centers, as prescribed. (GC § 12100.60 *et seq.*)
- 4) Requires OSBA to establish the California Employee Ownership Hub (EO Hub), administered by a Program Manager who may be responsible for: working with all California state agencies whose regulations and programs affect employee-owned companies, and businesses with the potential to become employee owned, to enhance opportunities and reduce barriers; partnering with grantee partners, and other relevant private, nonprofit, and public organizations including, but not limited to, professional and trade associations, financial institutions, unions, Small Business Development Centers, economic and workforce development organizations, and nonprofit entities to promote employee ownership benefits and succession models; making available materials regarding employee ownership benefits and succession models; providing a referral service to help business owners find appropriate legal, financial, and technical employee ownership resources and services; working with the California Infrastructure and Economic Development Bank, the California Pollution Control Financing Authority, and related entities to shape and implement guidance on lending to broad-based employee ownership vehicles; issuing an annual report on program activities including recommendations for improvement; and reporting employee ownership transition related concerns and recommendations to the Director of GO-Biz. (GC §12100.33)
- 5) Designates DGS as the lead agency implementing the state Small Business Procurement and Contract Act and administrator of the Office of the Small Business and Disabled Veteran Business Enterprise (DVBE) Services, which includes certifying and implementing targeted preference programs for certified small businesses, microbusinesses, and DVBEs, as defined. Requires state agencies to set a small business participation goal consistent with guidelines set by the DGS Office of Small Business and DVBE Procurement. (GC § 14839)
- 6) Establishes the Contractors State License Board (CSLB) under the jurisdiction of the Department of Consumer Affairs (DCA) to license and regulate contractors and home improvement salespersons (HIS), and sunsets the CSLB on January 1, 2029, and its authority to appoint a registrar. (Business and Professions Code (BPC) § 7000 *et seq.*)
- 7) Prohibits a person who is not licensed pursuant to this chapter may advertise for construction work or a work of improvement covered by this chapter only if the aggregate contract price for labor, material, and all other items on a project or undertaking is less than one thousand dollars (\$1,000) and the person states in the advertisement that the person is not licensed under this chapter. (BPC § 7027.2)
- 8) Requires a public works contractor to be registered with the Department of Industrial Relations to be qualified to bid on, be listed in a bid proposal or engage in

the performance of any public work contract and defines qualification for registration as a public works contractor. (Labor Code (LC) § 1725.5)

- 9) Requires a public works contractor to be licensed by the CSLB, if applicable. (LC § 1725.5 (a)(2)(B))

**This bill:**

- 1) For purposes of the EO Program, defines “Qualified contractor” as a business that has a valid license issued by the Contractors State License Board and is currently registered with the Department of Industrial Relations as a public works contractor.
- 2) In addition to other duties the Program Manager may be responsible for, specifies compiling and maintaining a comprehensive bidders list of qualified contractors that have received a certificate from the Department of General Services (DGS) as an Employee Stock Ownership Plan (ESOP) qualified contractor.
- 3) Requires the Director of DGS to issue an ESOP contractor certificate to a qualified contractor with an ESOP that meets all of the following criteria:
  - a) The ESOP has an independent ESOP trustee.
  - b) The ESOP has a trustee, person, or entity that has completed education on ESOP trustee best practices.
  - c) The ESOP employs at least a total of \_\_\_\_ full-time workers.
  - d) The ESOP has a valid and favorable ESOP determination letter from the Internal Revenue Service.
  - e) At least \_\_\_\_ percent of the qualified contractor’s employees participate in the ESOP without any single employee owning more than \_\_\_\_ percent of the total value of the outstanding shares.
- 4) Beginning January 1, 2027, requires DGS to ensure that at least \_\_\_\_ percent of state funded construction contracts and construction-related procurements involve contractors who have received a ESOP contractor certificate.

**FISCAL EFFECT:** Unknown. This bill is keyed fiscal by Legislative Counsel.

**COMMENTS:**

1. **Purpose.** This bill is sponsored by Pavement Recycling Systems, Inc. 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. The legislature should consider more equitable wealth distribution when it comes to construction contracting...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 would be 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, at no charge to the employee. 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. Modeled after California's Small Business Enterprise and Disabled Veterans Business Enterprise programs, SB 713 establishes a participation goal for construction companies that operate employee stock ownership plans which, in turn, will build wealth for construction workers."

## 2. **Background.**

*Employee Stock Ownership Plans (ESOPs).* An employee-owned company is one where employees own part or all shares in a business. While the forms of employee ownership may be different (such as stock grants, worker cooperatives, and stock options), the goal is the same: to promote employee ownership in a business.

ESOPs are the most common form of employee ownership in the United States; they are more or less retirement plans within Employee-Owned Companies because they provide income to employees through the sale of their stock when they retire. In order for an ESOP to work, the company must first establish a trust where it can make annual share contributions to qualifying employees. The company can then use the ESOP trust fund to purchase stock from the selling shareholder or leaving owner. The company can also use the ESOP trust to borrow money for funding a share, sale, or transfer. An owner who wants to transfer ownership will sell their shares to the ESOP trust fund; these shares go to qualified employees and are held safely in the trust. To earn these benefits, a qualified employee must become vested in the program by working in the company for a certain number of years. Qualified employees can only receive benefits when they have become partially or 100% vested.

In this way, ESOPs are a business succession plan for founders and owners because it is a way of transferring company stock to employees without requiring sale of the business to a third party. Not only that, but by ensuring a business succession plan, business owners ensure long-lasting jobs in communities, rather than layoffs when companies close or sell to another company. Additional benefits of ESOPs are: helping to motivate and retain employees to work in and for the company because of employee ownership in company stock; and encouraging employees to support everyone's success, given that when the company does well financially, everyone does well financially. However, setting up an ESOP can be

expensive, with some [estimates](#) between \$60,000 and hundreds of thousands of dollars, even back in 2015.

Other state and cities have embraced the use of ESOPs in their small business communities. Colorado, Massachusetts, Iowa, and other states all have offices or hubs to facilitate (at the very least) the passage of information regarding ESOPs to business owners. For instance, according to its [website](#), the Colorado Employee Ownership Office “establishes a network of technical support and service providers for businesses considering employee ownership structures. The office brings together partners including employee-owned businesses, attorneys, lawmakers, financial and accounting professionals, rural leaders, and other employee ownership organizations.” It goes on to say, “Employee-owned businesses promote a higher quality of life for employee-owners including higher wages, less turnover, access to better benefits, and job security. For the business owner, they get the benefit of a more engaged workforce, a guaranteed succession plan, and a way to attract and retain top talent.”

In 2022, the Governor signed SB 1407 (Becker, Chapter 733, Statutes of 2022) which established the California Employee Ownership Program, within OSBA.

*GO-Biz*. In February 2010, the Little Hoover Commission undertook a review of the state's economic and workforce development programs. In its final report, *Making up for Lost Ground: Creating a Governor's Office of Economic Development*, it analyzed the status and effectiveness of current programs since the 2003 demise of the Technology, Trade and Commerce Agency and recommended the creation of a new governmental entity to fill the void left by the dismantled agency.

The report called for a single entity that would promote greater economic development, foster job creation, serve as a policy advisor and deliver specific services (i.e., permitting, tax, regulatory, and other information) directly to the California business community. In April 2010, Governor Schwarzenegger issued Executive Order S-05-10 as a means to operationalize the report recommendations, including the creation of the Governor's Office of Economic Development (GOED).

In October 2011, the Governor signed AB 29 (John A. Pérez, Chapter 475, Statutes of 2011), which effectively codified GOED and changed its name to GO-Biz. Since its inception, the office has served thousands of businesses, 95 percent of which are small businesses. The most frequent types of assistance include help with permit streamlining, starting a business, relocation and expansion of businesses, and regulatory challenges.

In March 2012, Governor Brown initiated a reorganization process to realign the state's administrative structure. Key changes include dismantling of the Business, Transportation and Housing Agency and the shifting of a number of key programs to GO-Biz including the Small Business Loan Guarantee Program, the California Travel and Tourism Commission, the California Film Commission, the Film California First Program, and the Infrastructure and Economic Development Bank (IBank). Currently, GO-Biz administers the following programs and units:

- Made In California program for the purpose of encouraging consumer product awareness and to foster the purchases of products manufactured in California.
- The California Inclusive Innovation Hub Program (iHub2) to incubate and/or accelerate technology and science-based firms, with a focus on underserved regions and communities.
- The California Competes Tax Credit Program under which “businesses who want to come to California or stay and grow in California” can receive an income tax credit.
- The California Business Investment Services Unit, which provides no-fee, tailored site selection services to employers and others who may be considering California for relocation or expansion.
- The California Business Portal, which provides information to California businesses about common questions, permitting, financial options, and more.
- The California Community Reinvestment Grants Program, which was included in Proposition 64, authorized GO-Biz to award grants to local health departments and certain nonprofit organizations to support communities disproportionately affected by the War on Drugs.
- OSBA which provides information and assistance to small businesses.
- The Zero Emission Vehicles (ZEV) Infrastructure Unit which works to accelerate the deployment of ZEV infrastructure.
- The International Affairs and Business Development Unit, which serves as California’s primary point of contact for expanding international trade and investment relations. This unit focuses on foreign direct investment (services for foreign investors, foreign investment technical assistance, and the EB-5 Investor Visa Program), international trade promotion (STEP program, trade missions, export assistance, and the California-China Trade Office), and international agreements.

*Office of Small Business Advocate.* Since its inception, GO-Biz has served thousands of businesses, 95 percent of which are small businesses. The most frequent types of assistance include help with permit streamlining, starting a business, relocation and expansion of businesses, and regulatory challenges. In addition to economic development programs, GO-Biz is responsible for specialized assistance to small businesses through the OSBA. OSBA directly serves the small business community through hosting summits, forums, and interagency meetings; maintaining resources for technical assistance, financing, and state procurement; holding webinars, and other outreach methods. OSBA oversees the Capital Infusion Program, which enables the California Small Business Development Center Networks to expand their one-to-one, no-cost, confidential consulting to small business owners. From its inception in 2014 to 2016, the Capital Infusion Program resulted in roughly \$379 million in documented capital infusion and served over

20,000 small business owners across the state. In 2015, GO-Biz launched a new California Business Portal; the site includes a Business Navigator feature, which provides custom information regarding permits, licenses, and incentives that relate specifically to the user's business. OSBA also provides emergency preparedness resources on its website, and is involved in facilitating disaster relief financing efforts for small businesses due to California wildfires.

3. **Arguments in Support.** Riverside Construction Company, Inc. writes that "as an employee owner in the construction industry in California, this bill would allow me, my coworkers and thousands of other employee owners in California to experience the benefits and advantages currently provided to the few company owners who qualify for a DBE or similar gram."
4. **Proposed Author's Amendments.** The bill is currently silent on many key provisions necessary for implementation. As such, the Author intends to make numerous changes, including:
  - Deleting the requirement currently in the bill that a qualified contractor have a valid license from the CSLB to expand the definition of a qualified contractor to include non-CSLB licensed businesses which could be material and service suppliers on construction projects or street sweepers.
  - Specifying that a qualified contractor must have an IRS determination to receive a state certification.
  - Requiring DGS to determine the percentage of the ESOP ownership.
  - Replacing the undefined participation goal for ESOP in state contracts with a requirement for DGS, when it prepares a solicitation for a state funded construction contract, including the alteration, demolition, repair or improvement for state facilities, to provide a bid preference to qualified contractors, as follows:
    - Two-percent to a qualified contractor with at least 30 percent of the entity owned by its ESOP.
    - Three-percent to a qualified contractor with at least 75 percent of the entity owned by its ESOP.
    - Four-percent to a qualified contractor with 100 percent of the entity owned by its ESOP.
    - An additional one-percent for qualified contractors that include employees covered by a collective bargaining agreement or master labor agreement.
  - Specifying that the total amount of a bid preference shall not exceed five-percent and that the bid preference shall not be awarded to a noncompliant bidder and shall not be used to achieve any applicable minimum requirements.

## **SUPPORT AND OPPOSITION:**

Support:

Riverside Construction Company, Inc.

Opposition:

None received

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