

Date of Hearing: July 1, 2025

ASSEMBLY COMMITTEE ON BUSINESS AND PROFESSIONS

Marc Berman, Chair

SB 779 (Archuleta) – As Amended June 17, 2025

SENATE VOTE: 39-0

SUBJECT: Contractors: civil penalties

SUMMARY: Establishes new, and increases existing, minimum civil penalties to be assessed by the Contractors State License Board (CSLB) for a violation of the Contractors State License Law (License Law), authorizes CSLB to increase the minimum civil penalties every five years to account for inflation, and increases the CSLB's revenue fund cap from 6 months of authorized expenditures to 12 months.

EXISTING LAW:

- 1) Establishes, until January 1, 2025, the CSLB under the Department of Consumer Affairs to implement and enforce the 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 CSLB. (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) Specifies that, if upon inspection or investigation, either upon complaint or otherwise, the registrar has probable cause to believe that a person is acting in the capacity of or engaging in the business of a contractor or salesperson within this state without having a license or registration in good standing to so act or engage, and the person is not otherwise exempted from the License Law, the registrar shall issue a citation to that person. Each citation must be in writing and describe with particularity the basis of the citation. Each citation must contain an order of abatement and an assessment of a civil penalty in an amount not less than \$200 nor more than \$15,000. (BPC § 7028.7)
- 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) Requires the CSLB to promulgate regulations covering the assessment of civil penalties that consider the gravity of the violation, the good faith of the licensee or applicant for licensure being charged, and the history of previous violations. Except as otherwise provided, prohibits the CSLB from assessing a civil penalty that exceeds \$8,000. Specifies that the CSLB may assess a civil penalty up to \$30,000 for specified violations (e.g., willful or deliberate disregard and violation of state and local building laws; aiding or abetting an unlicensed person to violate the License Law; entering into a contract with an unlicensed person; and committing workers' compensation insurance fraud). (BPC § 7099.2)
- 8) Requires the CSLB to fix licensing fees to generate revenues sufficient to maintain the CSLB's reserve fund at a level not to exceed approximately six months of annual authorized expenditures. (BPC § 7138.1)

THIS BILL:

- 1) Beginning July 1, 2026, increases from \$200 to \$1,500 the minimum civil penalty for a person believed to be acting in the capacity of or engaging in the business of a contractor or salesperson without a valid license or registration.
- 2) Authorizes the CSLB, beginning July 1, 2026, to adjust the minimum civil penalty for unlicensed activity every five years to account for inflation. The adjustment must be equivalent to the percentage, if any, that the Consumer Price Index at that time exceeds the Consumer Price Index when this bill takes effect. Increases greater than \$100 must be in multiples of \$100.
- 3) Strikes a cross-reference to BPC § 7125.4 in BPC 7099.2(b), which currently caps the amount that the CSLB may assess for workers' compensation violations at \$30,000.
- 4) Establishes a \$1,500 minimum civil penalty for violations of BPC § 7110, 7114, and 7118, and a \$500 minimum civil penalty for all other violations, unless otherwise stated in the License Law, to take effect on July 1, 2026.
- 5) Authorizes the CSLB, beginning July 1, 2026, to adjust all minimum civil penalties (other than for unlicensed activity) every five years to account for inflation. The adjustment must be equivalent to the percentage, if any, that the Consumer Price Index exceeds the Consumer Price Index when this bill takes effect. Increases greater than \$100 but less than \$1,000 must be in multiples of \$100, and increases greater than \$1,000 must be in multiples of \$1,000.
- 6) Increases the maximum level of the CSLB's reserve fund for purposes of calculating fee amounts from 6 to 12 months of reserve.

FISCAL EFFECT: According to the Senate Appropriations Committee, pursuant to Senate Rule 28.8, no significant state costs anticipated.

COMMENTS:

Purpose. This bill is sponsored by the *Contractors State License Board*. According to the author:

The Legislature has recently increased “maximum” fines in statute (for example from \$5,000 to \$8,000 and from \$15,000 to \$30,000 for specified violations) in the last few years. But each time this was done, existing “minimum” amounts remained unchanged. As a result, an administrative law judge must consider a wide range of potential fines between an out-of-date minimum (for example, \$200) and an updated statutory maximum (for example, \$8,000 or \$30,000 for some violations), which often results in greatly reduced fine compared to the originally assessed amount. This is contrary to CSLB’s consumer protection mandate and confounds legislative intent that reflects the seriousness of the violations. [This bill] increases minimum civil penalty (aka enforcement fine) amounts, and establishes minimum civil penalty amounts where they do not currently exist. This will prevent the fines being reduced to nominal amounts and preserve the deterrent effect and corrective intent of the civil penalty.

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 241,000 contractors with an active license in California.

CSLB Citations and Fines. 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.

Under current law, citations for unlicensed activity must be accompanied by a civil penalty between \$200 and \$15,000. This bill would increase the minimum to \$1,500, and authorize the CSLB to adjust that amount every five years for inflation, as specified. BPC § 7099.2 prohibits the CSLB from assessing a civil penalty in excess of \$8,000 for most other violations. The CSLB may assess a civil penalty up to \$30,000 for aiding and abetting an unlicensed person, entering into a contract with an unlicensed person, filing false workers’ compensation materials, and willful or deliberate disregard of state building, labor, and safety laws. This bill would establish a \$500 minimum for violations subject to the \$8,000 cap and a \$1,500 minimum for violations subject to the \$30,000 cap. It would also allow the CSLB to adjust the amount every five years, consistent with increases in the Consumer Price Index.

The majority of the current civil penalty amounts are established by regulation. 16 CCR § 884 establishes ranges for 63 violations of the License Law. The minimum civil penalty for all but five violations is \$500 or less, with the majority being \$100 or \$200. The CSLB last updated the minimum civil penalties in 2007.

When issuing a citation, the CSLB is required by law to consider the gravity of the violation, the good faith of the licensee or applicant for licensure being charged, and the history of previous

violations. Regulations additionally require CSLB to consider whether the citation includes multiple violations; whether the person has a history of the same or similar violations; whether, in the judgment of the registrar, a person has exhibited bad faith or the violation is serious or harmful; if the citation involves a violation or violations perpetuated against a senior citizen or disabled person; and/or whether the citation involves a violation or violations involving a construction project in connection with repairs for damages caused by a natural disaster.

However, a cited individual may appeal the citation. Because the civil penalty minimums are so low, the CSLB has found that administrative law judges (ALJ) often significantly reduce the amount of the civil penalty. According to the CSLB:

Between [Fiscal Year (FY)] 2019/20 and FY 2022/23, CSLB issued 5,597 citations totaling \$18,091,356 in fines. During this time, the average pre-appeal fine per citation was \$3,232. ALJs lowered fine amounts for 2,014 of these citations on appeal to \$1,840, a difference of \$3,706,540. CSLB issued 1,364 citations in FY 2023/24 averaging \$4,817 per citation for a total of \$6,570,450. While some FY 2023/24 citations are still under appeal, CSLB's most recent data indicates that ALJs have lowered fine amounts by 50% on average. These reductions result in fines that are not commensurate with the violation, do not adequately support [CSLB's] workload, do not provide an incentive to comply with the Contractors State License Law and provide minimal ability for the Board to recuperate the cost of litigating an administrative citation.¹

The purpose of the minimums is to deter violations by making the penalty more expensive than compliance. For example, the minimum civil penalty for unlicensed activity is currently \$200. However, the application for a license is \$450, plus miscellaneous other fees. By raising the minimum to \$1,500, unlicensed contractors may be more enticed to obtain a license.

Although the CSLB could raise civil penalty minimums at any time, according to CSLB staff, codifying civil penalty minimums is more expedient than the CSLB's regulatory process. An additional benefit sought under this bill is to establish a definitive process and timeline for raising the minimums in the future. The CSLB proposed establishing/increasing civil penalty minimums in statute during their 2024 Sunset Review, but the proposed changes were not included due to timing.

CSLB Reserve Fund and Licensing Fees. As a special fund agency, the CSLB receives no General Fund support and relies solely on fees assessed from licensees and applicants to fund the CSLB's operations. Since 2020 the CSLB has spent approximately 57% on enforcement; 5% on examinations; 15% on licensing; and 12% on administrative expenses, on average. There are 22 fees assessed by the CSLB, most of which are subject to a fee range codified in BPC § 7137. Fee amounts are determined via the regulatory process. Per 16 CCR § 811, all fees subject to a range are currently set at the statutory minimum.

During the CSLB's Sunset Review in 2019, the CSLB was experiencing declining reserves, which led the CSLB to conduct a fee study and subsequently propose fee increases. In 2019, the CSLB amended its regulations through an emergency rulemaking to increase its license and

¹ Contractors State License Board, *December 12, 2024 Board Meeting Packet*, at 92.

registration renewal fee to their then-statutory maximums. In 2022, SB 607 (Min), Chapter 367, Statutes of 2021, statutorily increased several other fees, implemented a new renewal fee structure based on license entity type, and set new fee ranges. During the CSLB's 2024 Sunset Review, the CSLB anticipated having five months' worth of operating expenses in reserve in FY 2024/25, a steady increase compared to 0.1 months in FY 2019/20. BPC § 7138.1 prohibits the CSLB from maintaining a reserve fund of more than six months. This bill would increase the fund cap to 12 months. According to background materials provided by the author's office:

CSLB anticipates exceeding its current reserve cap next fiscal year. CSLB is projected to have 6.7 months or \$50 million in reserve July 1, 2025, which is above the six-month threshold. This is not unique to CSLB. There has been a recent effort by the Department of Consumer Affairs (DCA) and the Legislature to eliminate individual program reserve caps or increase them to 24 months. Two DCA programs undergoing sunset review this year are either having their caps increased to 24 months or eliminated altogether. It is staff's understanding that once these two programs increase or eliminate their reserve caps, CSLB will be one of only two DCA programs that have a low six-month reserve cap. Given the size of CSLB's reserve fund when compared to other, smaller DCA programs, CSLB staff felt 12 months would be a sufficient increase instead of the 24 months granted to those other DCA programs.

Current Related Legislation. SB 291 (Grayson), as it relates to this bill, would establish minimum civil penalties for workers' compensation insurance violations. *SB 291 is pending in the Assembly Insurance Committee.*

Prior Related Legislation. SB 1079 (Mello), Chapter 774, Statutes of 1990, required the CSLB to issue a citation for unlicensed activity that is between \$200 and \$4,500, and required the CSLB to adopt regulations covering the assessment of a civil penalty which gives due consideration to the gravity of the violation, and any history of previous violations.

AB 3240 (Eastin), Chapter 606, Statutes of 1992, increased the maximum civil penalty for unlicensed activity to \$15,000, and authorized the CSLB to assess a \$15,000 civil penalty for aiding and abetting an unlicensed person and entering into a contract with an unlicensed person.

AB 2494 (Margett), Chapter 282, Statutes of 1996, as it relates to this bill, capped the amount that the CSLB may assess for a civil penalty at \$2,000 and capped the amount that the CSLB may assess as a civil penalty for aiding and abetting an unlicensed person and entering into a contract with an unlicensed person at \$15,000.

AB 1382 (Correa), Chapter 363, Statutes of 2003, in part, increased from \$2,000 to \$5,000 the maximum civil penalty that the CSLB may assess for general violations of the License Law.

AB 569 (Grayson), Chapter 94, Statutes of 2021, increased the maximum civil penalty for general violations of License Law from \$5,000 to \$8,000 and increased the maximum civil penalty from \$15,000 to \$30,000 for violations related to aiding and abetting an unlicensed person, entering into a contract with an unlicensed person, or filing false workers' compensation materials.

AB 1747 (Quirk), Chapter 757, Statutes of 2022, authorized the CSLB to assess a civil penalty up to \$30,000 for the willful or deliberate disregard of state building, labor, and safety laws.

ARGUMENTS IN SUPPORT:

As the sponsor of this bill, the *CSLB* writes in support:

[This bill] establishes minimum enforcement fine amounts commensurate with recent statutory maximum increases and requires future increases to minimum enforcement fine amounts to be based on increases to the Consumer Price Index every five years, as provided. Increases to the minimum enforcement fine amount ensure that the fines are commensurate with the seriousness of the violation and provide an incentive to comply with [the] Contractors Law.

[This bill] also increases CSLB's fund reserve cap from six to 12 months. Increasing CSLB's fund reserve cap to 12 months will help CSLB responsibly manage its resources, proactively respond to emergencies, and fulfill CSLB's consumer protection mandate should license renewals decrease due to a recession or economic downturn.

ARGUMENTS IN OPPOSITION:

There is no opposition on file.

IMPLEMENTATION ISSUES:

Civil Penalties for Workers' Compensation Violations. SB 291 (Grayson) would, in part, codify minimum civil penalty amounts for workers' compensation insurance violations in BPC § 7125.4. Additionally, that bill would repeal the cross-reference to BPC § 7125.4 in BPC 7099.2(b), which currently caps the amount that the CSLB may assess for workers' compensation violations at \$30,000. This bill prematurely deletes the cross-reference to BPC § 7125.4 in BPC § 7099.2(b) in anticipation of SB 219 becoming law. If this bill is signed into law as currently drafted, and SB 219 is not, the civil penalty for workers' compensation violations could be capped at \$8,000 instead of \$30,000.

AMENDMENTS:

To address the implementation issue above, amend the bill as follows:

1. On page 4, in line 32, strike out "or 7118." and insert: 7118, or 7125.4.
2. On page 5, strike out line 12 and insert: 7118, or 7125.4.

REGISTERED SUPPORT:

Contractors State License Board (sponsor)
California Landscape Contractors Association

REGISTERED OPPOSITION:

There is no opposition on file.

Analysis Prepared by: Kaitlin Curry / B. & P. / (916) 319-3301