

AMENDED IN SENATE APRIL 20, 2009

**SENATE BILL**

**No. 392**

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**Introduced by Senator Florez**

February 26, 2009

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An act to amend Sections 7025, 7028.5, 7029, 7065, 7065.1, 7065.5, 7068, 7068.1, 7068.2, 7069, 7071, 7071.8, 7071.9, 7071.11, 7071.17, 7072.5, 7075.1, 7076, 7076.2, 7085.6, 7090.1, 7096, 7121, 7121.1, 7121.5, 7121.6, 7122, 7122.1, 7122.2, 7122.5, 7137, 7138, 7152, 7159, and 7159.10 of, and to add Section 7071.19 to, the Business and Professions Code, and to amend Section 17002 of the Corporations Code, relating to contractors, and making an appropriation therefor.

LEGISLATIVE COUNSEL'S DIGEST

SB 392, as amended, Florez. Contractors: limited liability companies.

Existing law, the Beverly-Killea Limited Liability Company Act, authorizes a limited liability company to engage in any lawful business activity, except as specified, but prohibits construing the act to permit a limited liability company to render professional services, as defined.

Existing law, the Contractors' State License Law, provides for the licensure and regulation of contractors by the Contractors' State License Board. Existing law authorizes the issuance of contractors' licenses to individual owners, copartnerships, and corporations and authorizes those persons and entities to qualify for a license by the appearance of specified individuals. Existing law authorizes the board to set application, licensure, and renewal fees, among others, and provides for the deposit of those fees in the Contractors' License Fund, a continuously appropriated fund. Existing law prohibits licensed contractors from performing specified acts and makes a violation of certain of those provisions a crime.

This bill would authorize a limited liability company to render services lawfully rendered only pursuant to a specified license, certificate, or registration if the provisions governing that license, certificate, or registration authorize a limited liability company to hold that license, certificate, or registration. The bill would authorize the issuance of a contractor's license to a limited liability company and would authorize the responsible managing manager, responsible managing officer, or responsible managing employee of the limited liability company to qualify for that license. The bill would require the limited liability company to provide security for claims against it, as specified, as a condition of licensure, and would require the licensed limited liability company to provide a notice concerning that security in certain contracts, as specified. The bill would also enact related, conforming provisions. Because the bill would impose various fees on limited liability companies that apply for and obtain a contractor's license, the bill would increase the amount of revenue deposited in the Contractors' License Fund, thereby making an appropriation. In addition, because a violation of specified provisions of the Contractors' State License Law by a limited liability company licensed pursuant to these provisions would be a crime, the bill would impose a state-mandated local program.

Existing law makes various provisions of the Contractors' State License Law applicable to the member, officer, or director, among others, of a licensed contractor.

This bill would delete the term "member" from those provisions and, in specified instances, insert the term "partner."

Under existing law, at the time of application for renewal of a license, the responsible managing individual of a licensee must file a statement with the registrar verifying his or her capacity as a responsible managing individual to the licensee.

This bill would make that requirement applicable to the current qualifying individual for a licensee.

Existing law allows a contractor's license number to be reissued or reassigned to a corporation in specified instances.

This bill would allow a contractor's license number to be reissued or reassigned to a corporation or limited liability company that acquires a licensee pursuant to an asset sale if the corporation or limited liability company has a qualifier, as specified.

Existing law also allows a contractor's license number to be reissued or reassigned to an immediate family member of a licensed individual who is deceased or absent if the license is required to continue an

existing family contracting business or to a corporation created by immediate family members of a licensed individual to continue an existing deceased or absent individual licensee’s contracting business. Existing law defines an immediate family member to include a spouse, brother, sister, son, daughter, grandson, or granddaughter, among others.

This bill would specify that an immediate family member includes a father, mother, grandfather, and grandmother.

The bill would make other technical, nonsubstantive changes.

*The bill would become operative on January 1, 2011.*

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority. Appropriation: yes. Fiscal committee: yes. State-mandated local program: yes.

*The people of the State of California do enact as follows:*

1 SECTION 1. Section 7025 of the Business and Professions  
2 Code is amended to read:

3 7025. (a) “Person” as used in this chapter includes an  
4 individual, a firm, copartnership, corporation, limited liability  
5 company, association or other organization, or any combination  
6 of any thereof.

7 (b) “Qualifying person,” “qualifying individual,” or “qualifier,”  
8 as used in this chapter, means a person who qualifies for a license  
9 pursuant to Section 7068.

10 SEC. 2. Section 7028.5 of the Business and Professions Code  
11 is amended to read:

12 7028.5. It is unlawful for a person who is or has been a partner,  
13 officer, director, manager, responsible managing employee,  
14 responsible managing manager, or responsible managing officer  
15 of a licensed copartnership, corporation, limited liability company,  
16 firm, association or other organization to individually engage in  
17 the business or individually act in the capacity of a contractor  
18 within this state without having a license in good standing to so  
19 engage or act.

20 SEC. 3. Section 7029 of the Business and Professions Code is  
21 amended to read:

1 7029. A joint venture license is a license issued to any  
2 combination of individuals, corporations, limited liability  
3 companies, partnerships, or other joint ventures, each of which  
4 holds a current, active license in good standing. A joint venture  
5 license may be issued in any classification in which at least one  
6 of the entities is licensed. An active joint venture license shall be  
7 automatically suspended by operation of law during any period in  
8 which any member of the entity does not hold a current, active  
9 license in good standing.

10 SEC. 4. Section 7065 of the Business and Professions Code is  
11 amended to read:

12 7065. Under rules and regulations adopted by the board and  
13 approved by the director, the registrar shall investigate, classify,  
14 and qualify applicants for contractors' licenses by written  
15 examination. This examination shall include questions designed  
16 to show that the applicant has the necessary degree of knowledge  
17 required by Section 7068 and shall include pertinent questions  
18 relating to the laws of this state, and the contracting business and  
19 trade. Contractors' licenses are to be issued to individual owners,  
20 copartnerships, corporations, and limited liability companies. An  
21 individual owner may qualify by examination for a contractor's  
22 license upon the appearance of the owner or a qualifying individual  
23 appearing as a responsible managing employee on behalf of the  
24 owner. A copartnership may qualify by examination for a  
25 contractor's license upon the appearance of a copartner or a  
26 qualifying individual appearing as a responsible managing  
27 employee on behalf of the copartnership. A corporation may qualify  
28 by examination for a contractor's license upon the appearance of  
29 a qualifying individual appearing either as a responsible managing  
30 officer or a responsible managing employee on behalf of the  
31 corporation. A limited liability company may qualify by  
32 examination for a contractor's license upon the appearance of a  
33 qualifying individual appearing as a responsible managing officer,  
34 a responsible managing manager, or a responsible managing  
35 employee on behalf of the company. No examination shall be  
36 required of a qualifying individual if, within the five-year period  
37 immediately preceding the application for licensure, the qualifying  
38 individual has either personally passed the written examination  
39 for the same classification being applied for, or has served as the  
40 qualifying individual for a licensee whose license was in good

1 standing at any time during the five-year period immediately  
2 preceding the application for licensure and in the same  
3 classification being applied for.

4 SEC. 5. Section 7065.1 of the Business and Professions Code  
5 is amended to read:

6 7065.1. Notwithstanding Section 7065, the registrar may waive  
7 the examination for a contractor's license under any of the  
8 following circumstances:

9 (a) The qualifying individual has, for five of the seven years  
10 immediately preceding the application for licensure, been listed  
11 on the official records of the board as a member of the personnel  
12 of any licensee who held a license, which was active and in good  
13 standing, in the same classification being applied for, and who  
14 during the period listed on the license has been actively engaged  
15 in a licensee's construction activities in the same classification  
16 within which the applicant applies for a license.

17 (b) The qualifying individual is an immediate member of the  
18 family of a licensee whose individual license was active and in  
19 good standing for five of the seven years immediately preceding  
20 the application for licensure, and the qualifying individual is able  
21 to show all of the following:

22 (1) The qualifying individual has been actively engaged in the  
23 licensee's business for five of the seven years immediately  
24 preceding the application for licensure.

25 (2) The license is required to continue the existing family  
26 business in the event of the absence or death of the licensee.

27 (3) An application is made for a new license in the same  
28 classifications in which the licensee is or was licensed.

29 (c) The qualifying individual is an employee of a corporation  
30 or a limited liability company seeking to replace its former  
31 qualifying individual and has been employed by that corporation  
32 or limited liability company under the following conditions:

33 (1) For five of the seven years immediately preceding the  
34 application for licensure, the qualifying individual has been  
35 continually employed by the corporation or limited liability  
36 company in a supervisory capacity in the same classifications being  
37 applied for.

38 (2) For five of the seven years immediately preceding the  
39 application for licensure, the corporation or limited liability

1 company has held an active license in good standing in the same  
2 classifications being applied for.

3 The corporation or limited liability company has not requested  
4 a waiver under this subdivision within the past five years.

5 For purposes of this section, employees of a corporation or  
6 limited liability company shall include, but not be limited to, the  
7 officers of a corporation and the officers and managers of a limited  
8 liability company.

9 SEC. 6. Section 7065.5 of the Business and Professions Code  
10 is amended to read:

11 7065.5. No license shall be issued to a minor, nor to any  
12 copartnership a partner of which is a minor, nor to any corporation  
13 any officer, director or responsible managing employee of which  
14 is a minor, nor to any limited liability company any officer,  
15 manager, or responsible managing employee of which is a minor,  
16 nor to any other kind of business organization in which a minor  
17 holds a responsible official position, unless the minor shall first  
18 have had a guardian appointed by a court of competent jurisdiction.

19 SEC. 7. Section 7068 of the Business and Professions Code is  
20 amended to read:

21 7068. (a) The board shall require an applicant to show the  
22 degree of knowledge and experience in the classification applied  
23 for, and the general knowledge of the building, safety, health, and  
24 lien laws of the state and of the administrative principles of the  
25 contracting business that the board deems necessary for the safety  
26 and protection of the public.

27 (b) An applicant shall qualify in regard to his or her experience  
28 and knowledge in one of the following ways:

29 (1) If an individual, he or she shall qualify by personal  
30 appearance or by the appearance of his or her responsible managing  
31 employee who is qualified for the same license classification as  
32 the classification being applied for.

33 (2) If a copartnership or a limited partnership, it shall qualify  
34 by the appearance of a general partner or by the appearance of a  
35 responsible managing employee who is qualified for the same  
36 license classification as the classification being applied for.

37 (3) If a corporation, or any other combination or organization,  
38 it shall qualify by the appearance of a responsible managing officer  
39 or responsible managing employee who is qualified for the same  
40 license classification as the classification being applied for.

1 (4) If a limited liability company, it shall qualify by the  
2 appearance of a responsible managing officer, a responsible  
3 managing manager, or a responsible managing employee who is  
4 qualified for the same license classification as the classification  
5 being applied for.

6 (c) A responsible managing employee for the purpose of this  
7 chapter shall mean an individual who is a bona fide employee of  
8 the applicant and is actively engaged in the classification of work  
9 for which that responsible managing employee is the qualifying  
10 person ~~in~~ on behalf of the applicant.

11 (d) The board shall, in addition, require an applicant who  
12 qualifies by means of a responsible managing employee under  
13 either paragraph (1) or (2) of subdivision (b) to show his or her  
14 general knowledge of the building, safety, health, and lien laws of  
15 the state and of the administrative principles of the contracting  
16 business as the board deems necessary for the safety and protection  
17 of the public.

18 (e) Except in accordance with Section 7068.1, no person  
19 qualifying on behalf of an individual or firm under paragraph (1),  
20 (2), (3), or (4) of subdivision (b) shall hold any other active  
21 contractor's license while acting in the capacity of a qualifying  
22 individual pursuant to this section.

23 (f) At the time of application for renewal of a license, the current  
24 qualifying individual shall file a statement with the registrar, on a  
25 form prescribed by the registrar, verifying his or her capacity as a  
26 qualifying individual to the licensee.

27 (g) Statements made by or on behalf of an applicant as to the  
28 applicant's experience in the classification applied for shall be  
29 verified by a qualified and responsible person. In addition, the  
30 registrar shall, as specified by board regulation, randomly review  
31 a percentage of such statements for their veracity.

32 (h) The registrar shall review experience gained by applicants  
33 from other states to determine whether all of that experience was  
34 gained in a lawful manner in that state.

35 SEC. 8. Section 7068.1 of the Business and Professions Code  
36 is amended to read:

37 7068.1. The person qualifying on behalf of an individual or  
38 firm under paragraph (1), (2), (3), or (4) of subdivision (b) of  
39 Section 7068 shall be responsible for exercising that direct  
40 supervision and control of his or her employer's or principal's

1 construction operations as is necessary to secure full compliance  
2 with the provisions of this chapter and the rules and regulations  
3 of the board relating to the construction operations. This person  
4 shall not act in the capacity of the qualifying person for an  
5 additional individual or firm unless one of the following conditions  
6 exists:

7 (a) There is a common ownership of at least 20 percent of the  
8 equity of each individual or firm for which the person acts in a  
9 qualifying capacity.

10 (b) The additional firm is a subsidiary of or a joint venture with  
11 the first. "Subsidiary," as used in this subdivision, means any firm  
12 at least 20 percent of the equity of which is owned by the other  
13 firm.

14 (c) With respect to a firm under paragraph (2), (3), or (4) of  
15 subdivision (b) of Section 7068, the majority of the partners,  
16 officers, or managers are the same.

17 (d) Notwithstanding subdivisions (a), (b), and (c), a qualifying  
18 individual may act as the qualifier for no more than three firms in  
19 any one-year period.

20 "Firm," as used in this section, means a copartnership, a limited  
21 partnership, a corporation, a limited liability company, or any other  
22 combination or organization described in Section 7068.

23 "Person," as used in this section, is limited to natural persons,  
24 notwithstanding the definition of "person" in Section 7025.

25 The board shall require every applicant or licensee qualifying  
26 by the appearance of a qualifying individual to submit detailed  
27 information on the qualifying individual's duties and  
28 responsibilities for supervision and control of the applicant's  
29 construction operations.

30 SEC. 9. Section 7068.2 of the Business and Professions Code  
31 is amended to read:

32 7068.2. If the responsible managing officer, responsible  
33 managing employee, or responsible managing manager,  
34 disassociates from the licensed entity, the licensee, or the qualifier  
35 shall notify the registrar in writing, and the licensee shall replace  
36 the qualifier, within 90 days from the date of disassociation.

37 To replace a responsible managing officer, responsible managing  
38 employee, or responsible managing manager, the licensee shall  
39 file an application as prescribed by the registrar, accompanied by



1 the fee fixed by this chapter, designating an individual to qualify  
2 as required by this chapter.

3 Upon failure to replace the qualifier within 90 days of the  
4 disassociation the license shall be automatically suspended or the  
5 classification removed at the end of the 90 days.

6 The registrar may review and accept the petition of a licensee  
7 who disputes the date of disassociation or who has failed to notify  
8 and replace the qualifier within the prescribed time, upon a showing  
9 of good cause by the contractor. This petition shall be received  
10 within 90 days from the date of the board's notice that the license  
11 will be suspended if the qualifier is not replaced. The registrar may  
12 grant only one 90-day extension to replace the qualifier.

13 Upon failure of the licensee or the qualifier to notify the registrar  
14 of the disassociation within 90 days from the date of disassociation,  
15 the license shall be automatically suspended or the classification  
16 removed and the qualifier removed from the license effective the  
17 date the written notification is received at the board's headquarters  
18 office.

19 The person qualifying on behalf of a licensee under Section 7068  
20 shall be responsible for the licensee's construction operations until  
21 the board receives the written notification of disassociation.

22 Failure of the licensee or the qualifier to notify the registrar of  
23 the qualifier's disassociation within 90 days of the disassociation  
24 is grounds for disciplinary action.

25 SEC. 10. Section 7069 of the Business and Professions Code  
26 is amended to read:

27 7069. (a) An applicant, and each officer, director, partner,  
28 manager, associate, and responsible managing employee thereof,  
29 shall not have committed acts or crimes that are grounds for denial  
30 of licensure under Section 480.

31 (b) As part of an application for a contractor's license, the board  
32 shall require an applicant to furnish a full set of fingerprints for  
33 purposes of conducting a criminal history record check.  
34 Fingerprints furnished pursuant to this subdivision shall be  
35 submitted in an electronic format if readily available. Requests for  
36 alternative methods of furnishing fingerprints are subject to the  
37 approval of the registrar. The board shall use the fingerprints  
38 furnished by an applicant to obtain criminal history information  
39 on the applicant from the Department of Justice and the United

1 States Federal Bureau of Investigation, and the board may obtain  
2 any subsequent arrest information that is available.

3 SEC. 11. Section 7071 of the Business and Professions Code  
4 is amended to read:

5 7071. No license shall be issued to a corporation, copartnership,  
6 limited liability company, or other combination or organization if  
7 a responsible officer or director of the corporation, or other  
8 combination or organization, or a partner of the copartnership, or  
9 a manager or officer of the limited liability company does not meet  
10 the qualifications required of an applicant other than those  
11 qualifications relating to knowledge and experience.

12 SEC. 12. Section 7071.8 of the Business and Professions Code  
13 is amended to read:

14 7071.8. (a) This section applies to an application for a license,  
15 for renewal or restoration of a license, an application to change  
16 officers of a corporation or a limited liability company, or for  
17 continued valid use of a license which has been disciplined,  
18 whether or not the disciplinary action has been stayed, made by  
19 any of the following persons or firms:

20 (1) A person whose license has been suspended or revoked as  
21 a result of disciplinary action, or a person who was a qualifying  
22 individual for a licensee at any time during which cause for  
23 disciplinary action occurred resulting in suspension or revocation  
24 of the licensee's license, whether or not the qualifying individual  
25 had knowledge or participated in the prohibited act or omission.

26 (2) A person who was an officer, director, manager, or partner  
27 of a licensee at any time during which cause for disciplinary action  
28 occurred resulting in suspension or revocation of the licensee's  
29 license and who had knowledge of or participated in the act or  
30 omission which was the cause for the disciplinary action.

31 (3) A partnership, corporation, limited liability company, firm,  
32 or association of which an existing or new officer, director,  
33 manager, partner, or qualifying person has had a license suspended  
34 or revoked as a result of disciplinary action.

35 (4) A partnership, corporation, limited liability company, firm,  
36 or association of which an officer, director, manager, partner, or  
37 qualifying person was a manager, officer, director, or partner of a  
38 licensee at any time during which cause for disciplinary action  
39 occurred resulting in suspension or revocation of the license, and

1 who had knowledge of or participated in the act or omission which  
2 was the cause for the disciplinary action.

3 (b) The board shall require as a condition precedent to the  
4 issuance, reissuance, renewal, or restoration of a license to the  
5 applicant, or to the approval of an application to change officers  
6 of a corporation or a limited liability company, or removal of  
7 suspension, or to the continued valid use of a license which has  
8 been suspended or revoked, but which suspension or revocation  
9 has been stayed, that the applicant or licensee file or have on file  
10 a contractor's bond in a sum to be fixed by the registrar based upon  
11 the seriousness of the violation, but which sum shall not be less  
12 than fifteen thousand dollars (\$15,000) nor more than 10 times  
13 that amount required by Section 7071.6.

14 (c) The bond is in addition to, may not be combined with, and  
15 does not replace any other type of bond required by this chapter.  
16 The bond shall remain on file with the registrar for a period of at  
17 least two years and for any additional time that the registrar  
18 determines. The bond period shall run only while the license is  
19 current, active, and in good standing, and shall be extended until  
20 the license has been current, active, and in good standing for the  
21 required period. Each applicant or licensee shall be required to file  
22 only one disciplinary contractor's bond of the type described in  
23 this section for each application or license subject to this bond  
24 requirement.

25 SEC. 13. Section 7071.9 of the Business and Professions Code  
26 is amended to read:

27 7071.9. (a) If the qualifying individual, as referred to in  
28 Sections 7068 and 7068.1, is neither the proprietor, a general  
29 partner, nor a joint licensee, he or she shall file or have on file a  
30 qualifying individual's bond as provided in Section 7071.10 in the  
31 sum of twelve thousand five hundred dollars (\$12,500). This bond  
32 is in addition to, and may not be combined with, any contractor's  
33 bond required by Sections 7071.5 to 7071.8, inclusive, and is  
34 required for the issuance, reinstatement, reactivation, or continued  
35 valid use of a license.

36 (b) Excluding the claims brought by the beneficiaries specified  
37 in paragraph (1) of subdivision (a) of Section 7071.10, the  
38 aggregate liability of a surety on claims brought against the bond  
39 required by this section shall not exceed the sum of seven thousand  
40 five hundred dollars (\$7,500). The bond proceeds in excess of

1 seven thousand five hundred dollars (\$7,500) shall be reserved  
 2 exclusively for the claims of the beneficiaries specified in  
 3 paragraph (1) of subdivision (a) of Section 7071.10. However,  
 4 nothing in this section shall be construed to prevent any beneficiary  
 5 specified in paragraph (1) of subdivision (a) of Section 7071.10  
 6 from claiming or recovering the full measure of the bond required  
 7 by this section. This bond is in addition to, and may not be  
 8 combined with, any contractor’s bond required by Sections 7071.5  
 9 to 7071.8, inclusive, and is required for the issuance, reinstatement,  
 10 reactivation, or continued valid use of a license.

11 (c) The responsible managing officer of a corporation shall not  
 12 be required to file or have on file a qualifying individual’s bond,  
 13 if he or she owns 10 percent or more of the voting stock of the  
 14 corporation and certifies to that fact on a form prescribed by the  
 15 registrar.

16 (d) The qualifying individual for a limited liability company  
 17 shall not be required to file or have on file a qualifying individual’s  
 18 bond if he or she owns at least a 10 percent membership interest  
 19 in the limited liability company and certifies to that fact on a form  
 20 prescribed by the registrar.

21 SEC. 14. Section 7071.11 of the Business and Professions  
 22 Code is amended to read:

23 7071.11. (a) The aggregate liability of a surety on a claim for  
 24 wages and fringe benefits brought against a bond required by this  
 25 article, other than a bond required by Section 7071.8, shall not  
 26 exceed the sum of four thousand dollars (\$4,000). If a bond  
 27 required by this article is insufficient to pay all claims in full, the  
 28 sum of the bond shall be distributed to all claimants in proportion  
 29 to the amount of their respective claims.

30 (b) No license may be renewed, reissued, or reinstated while a  
 31 judgment or admitted claim in excess of the amount of the bond  
 32 remains unsatisfied.

33 (c) Except for claims covered by subdivision (d), any action  
 34 against a bond required under this article, excluding the judgment  
 35 bond specified under Section 7071.17, shall be brought in  
 36 accordance with the following:

37 (1) Within two years after the expiration of the license period  
 38 during which the act or omission occurred. The provisions of this  
 39 paragraph shall be applicable only if the license has not been  
 40 inactivated, canceled, or revoked during the license period for

1 which the bond was posted and accepted by the registrar as  
2 specified under Section 7071.7.

3 (2) If the license has been inactivated, canceled, or revoked, an  
4 action shall be brought within two years of the date the license of  
5 the active licensee would have expired had the license not been  
6 inactivated, canceled, or revoked. For the provisions of this  
7 paragraph to be applicable, the act or omission for which the action  
8 is filed must have occurred prior to the date the license was  
9 inactivated, canceled, or revoked.

10 (3) An action against a disciplinary bond filed by an active  
11 licensee pursuant to Section 7071.8 shall be brought in accordance  
12 with the provisions of paragraph (1) or (2), as applicable, or within  
13 two years after the last date for which a disciplinary bond filed  
14 pursuant to Section 7071.8 was required, whichever date is first.

15 (d) A claim to recover wages or fringe benefits shall be brought  
16 within six months from the date that the wage or fringe benefit  
17 delinquencies were discovered, but in no event shall a civil action  
18 thereon be brought later than two years from the date the wage or  
19 fringe benefit contributions were due.

20 (e) Whenever the surety makes payment on a claim against a  
21 bond required by this article, whether or not payment is made  
22 through a court action or otherwise, the surety shall, within 30  
23 days of the payment, provide notice to the registrar. The notice  
24 required by this subdivision shall provide the following information  
25 by declaration on a form prescribed by the registrar:

26 (1) The name and license number of the contractor.

27 (2) The surety bond number.

28 (3) The amount of payment.

29 (4) The statutory basis upon which the claim is made.

30 (5) The names of the person or persons to whom payments have  
31 been made.

32 (6) Whether or not the payments were the result of a good faith  
33 action by the surety.

34 The notice shall also clearly indicate whether or not the licensee  
35 filed a protest in accordance with this section.

36 (f) Prior to the settlement of a claim through a good faith  
37 payment by the surety, a licensee shall have not less than 15 days  
38 in which to provide a written protest. This protest shall instruct  
39 the surety not to make payment from the bond on the licensee's  
40 account upon the specific grounds that the claim is opposed by the

1 licensee, and provide the surety a specific and reasonable basis for  
2 the licensee's opposition to payment.

3 (1) Whenever a licensee files a protest in accordance with this  
4 subdivision, the board shall investigate the matter and file  
5 disciplinary action as set forth under this chapter if there is  
6 evidence that the surety has sustained a loss as the result of a good  
7 faith payment made for the purpose of mitigating any damages  
8 incurred by any person or entity covered under Section 7071.5.

9 (2) A licensee that fails to file a protest as specified in this  
10 subdivision shall have 90 days from the date of notification by the  
11 board to submit proof of payment of the actual amount owed to  
12 the surety and, if applicable, proof of payment of any judgment or  
13 admitted claim in excess of the amount of the bond or, by operation  
14 of law, the license shall be suspended at the end of the 90 days. A  
15 license suspension pursuant to this subdivision shall be disclosed  
16 indefinitely as a failure to settle outstanding final liabilities in  
17 violation of this chapter. The disclosure specified by this  
18 subdivision shall also be applicable to all licenses covered by the  
19 provisions of subdivision (g).

20 (g) No license may be renewed, reissued, or reinstated while a  
21 surety remains unreimbursed for a loss or expense sustained on a  
22 bond issued for the licensee or for an entity of which an officer,  
23 director, partner, manager, or qualifying person was an officer,  
24 director, partner, manager, or qualifying person of the licensee  
25 while the licensee was subject to suspension or disciplinary action  
26 under this section.

27 (h) The licensee may provide the board with a notarized copy  
28 of an accord, reached with the surety to satisfy the debt in lieu of  
29 full payment. By operation of law, failure to abide by the accord  
30 shall result in the automatic suspension of a license to which this  
31 section applies. A license that is suspended for failure to abide by  
32 the accord may only be renewed or reinstated when proof of  
33 satisfaction of all debts is made.

34 (i) Legal fees may not be charged against the bond by the board.

35 SEC. 15. Section 7071.17 of the Business and Professions  
36 Code is amended to read:

37 7071.17. (a) Notwithstanding any other provision of law, the  
38 board shall require, as a condition precedent to accepting an  
39 application for licensure, renewal, reinstatement, or to change  
40 officers or other personnel of record, that an applicant, previously

1 found to have failed or refused to pay a contractor, subcontractor,  
2 consumer, materials supplier, or employee based on an unsatisfied  
3 final judgment, file or have on file with the board a bond sufficient  
4 to guarantee payment of an amount equal to the unsatisfied final  
5 judgment or judgments. The applicant shall have 90 days from the  
6 date of notification by the board to file the bond or the application  
7 shall become void and the applicant shall reapply for issuance,  
8 reinstatement, or reactivation of a license. The board may not issue,  
9 reinstate, or reactivate a license until the bond is filed with the  
10 board. The bond required by this section is in addition to the  
11 contractor's bond. The bond shall be on file for a minimum of one  
12 year, after which the bond may be removed by submitting proof  
13 of satisfaction of all debts. The applicant may provide the board  
14 with a notarized copy of any accord, reached with any individual  
15 holding an unsatisfied final judgment, to satisfy a debt in lieu of  
16 filing the bond. The board shall include on the license application  
17 for issuance, reinstatement, or reactivation, a statement, to be made  
18 under penalty of perjury, as to whether there are any unsatisfied  
19 judgments against the applicant on behalf of contractors,  
20 subcontractors, consumers, materials suppliers, or the applicant's  
21 employees. Notwithstanding any other provision of law, if it is  
22 found that the applicant falsified the statement then the license  
23 will be retroactively suspended to the date of issuance and the  
24 license will stay suspended until the bond, satisfaction of judgment,  
25 or notarized copy of any accord applicable under this section is  
26 filed.

27 (b) Notwithstanding any other provision of law, all licensees  
28 shall notify the registrar in writing of any unsatisfied final judgment  
29 imposed on the licensee. If the licensee fails to notify the registrar  
30 in writing within 90 days, the license shall be automatically  
31 suspended on the date that the registrar is informed, or is made  
32 aware of the unsatisfied final judgment. The suspension shall not  
33 be removed until proof of satisfaction of the judgment, or in lieu  
34 thereof, a notarized copy of an accord is submitted to the registrar.  
35 If the licensee notifies the registrar in writing within 90 days of  
36 the imposition of any unsatisfied final judgment, the licensee shall,  
37 as a condition to the continual maintenance of the license, file or  
38 have on file with the board a bond sufficient to guarantee payment  
39 of an amount equal to all unsatisfied judgments applicable under  
40 this section. The licensee has 90 days from date of notification by

1 the board to file the bond or at the end of the 90 days the license  
2 shall be automatically suspended. In lieu of filing the bond required  
3 by this section, the licensee may provide the board with a notarized  
4 copy of any accord reached with any individual holding an  
5 unsatisfied final judgment.

6 (c) By operation of law, failure to maintain the bond or failure  
7 to abide by the accord shall result in the automatic suspension of  
8 any license to which this section applies.

9 (d) A license that is suspended for failure to comply with the  
10 provisions of this section can only be reinstated when proof of  
11 satisfaction of all debts is made, or when a notarized copy of an  
12 accord has been filed as set forth under this section.

13 (e) This section applies only with respect to an unsatisfied final  
14 judgment that is substantially related to the construction activities  
15 of a licensee licensed under this chapter, or to the qualifications,  
16 functions, or duties of the license.

17 (f) Except as otherwise provided, this section shall not apply to  
18 an applicant or licensee when the financial obligation covered by  
19 this section has been discharged in a bankruptcy proceeding.

20 (g) Except as otherwise provided, the bond shall remain in full  
21 force in the amount posted until the entire debt is satisfied. If, at  
22 the time of renewal, the licensee submits proof of partial  
23 satisfaction of the financial obligations covered by this section,  
24 the board may authorize the bond to be reduced to the amount of  
25 the unsatisfied portion of the outstanding judgment. When the  
26 licensee submits proof of satisfaction of all debts, the bond  
27 requirement may be removed.

28 (h) The board shall take the actions required by this section  
29 upon notification by any party having knowledge of the outstanding  
30 judgment upon a showing of proof of the judgment.

31 (i) For the purposes of this section, the term “judgment” also  
32 includes any final arbitration award where the time to file a petition  
33 for a trial de novo or a petition to vacate or correct the arbitration  
34 award has expired, and no petition is pending.

35 (j) The qualifying person and any partner of the licensee or  
36 personnel of the licensee named as a judgment debtor in an  
37 unsatisfied final judgment shall be automatically prohibited from  
38 serving as an officer, director, associate, partner, owner, manager,  
39 qualifying individual, or other personnel of record of another  
40 licensee. This prohibition shall cause the license of any other



1 existing renewable licensed entity with any of the same personnel  
2 of record as the judgment debtor licensee to be suspended until  
3 the license of the judgment debtor is reinstated or until those same  
4 personnel of record disassociate themselves from the renewable  
5 licensed entity.

6 (k) For purposes of this section, a cash deposit may be submitted  
7 in lieu of the bond.

8 (l) Notwithstanding subdivision (f), the failure of a licensee to  
9 notify the registrar of an unsatisfied final judgment in accordance  
10 with this section is cause for disciplinary action.

11 SEC. 16. Section 7071.19 is added to the Business and  
12 Professions Code, to read:

13 7071.19. (a) As a condition of the issuance, reinstatement,  
14 reactivation, or continued valid use of a license under this chapter,  
15 in addition to any bond required under this article, a limited liability  
16 company shall be required to provide security for claims as  
17 described in this section. For claims based upon acts, errors, or  
18 omissions arising out of the contracting services it provides, the  
19 limited liability company shall comply with one, or pursuant to  
20 subdivision (b) some combination, of the following:

21 (1) Maintain a policy or policies of insurance against liability  
22 imposed on or against it by law for damages arising out of claims.  
23 The total aggregate limit of liability under the policy or policies  
24 of insurance shall be not less than one million dollars (\$1,000,000).  
25 The policy or policies may be issued on a claims-made or  
26 occurrence basis, and shall cover: (A) in the case of a claims-made  
27 policy, claims initially asserted in the designated period, and (B)  
28 in the case of an occurrence policy, occurrences during the  
29 designated period. For purposes of this paragraph, “designated  
30 period” means a policy year or any other period designated in the  
31 policy that is not greater than 12 months. The impairment or  
32 exhaustion of the aggregate limit of liability by amounts paid under  
33 the policy in connection with the settlement, discharge, or defense  
34 of claims applicable to a designated period shall not require the  
35 company to acquire additional insurance coverage for that  
36 designated period. The policy or policies of insurance may be in  
37 a form reasonably available in the commercial insurance market  
38 and may be subject to those terms, conditions, exclusions, and  
39 endorsements that are typically contained in those policies. A  
40 policy or policies of insurance maintained pursuant to this

1 subparagraph may be subject to a deductible or self-insured  
2 retention.

3 Upon the dissolution and winding up of the company, the  
4 company shall, with respect to any insurance policy or policies  
5 then maintained pursuant to this paragraph, maintain or obtain an  
6 extended reporting period endorsement or equivalent provision in  
7 the maximum total aggregate limit of liability required to comply  
8 with this paragraph for a minimum of three years if reasonably  
9 available from the insurer.

10 (2) Maintain in trust or bank escrow, cash, bank certificates of  
11 deposit, United States Treasury obligations, bank letters of credit,  
12 or bonds of insurance or surety companies as security for payment  
13 of liabilities imposed by law for damages arising out of all claims  
14 in an amount of at least five hundred thousand dollars (\$500,000).  
15 The company remains in compliance with this section during a  
16 calendar year notwithstanding amounts paid during that calendar  
17 year from the accounts, funds, Treasury obligations, letters of  
18 credit, or bonds in defending, settling, or discharging claims of  
19 the type described in this paragraph, provided that the amount of  
20 those accounts, funds, Treasury obligations, letters of credit, or  
21 bonds were at least the amount specified in the preceding sentence  
22 as of the first business day of that calendar year. Notwithstanding  
23 the pendency of other claims against the company, a limited  
24 liability company shall be deemed to be in compliance with this  
25 paragraph as to a claim if within 30 days after the time that a claim  
26 is initially asserted through service of a summons, complaint, or  
27 comparable pleading in a judicial or administrative proceeding,  
28 the company has provided the required amount of security by  
29 designating and segregating funds in compliance with the  
30 requirements of this paragraph.

31 (b) For purposes of satisfying the security requirements of this  
32 section, a limited liability company may aggregate the security  
33 provided by it pursuant to paragraphs (1) and (2) of subdivision  
34 (a).

35 (c) At the time of licensing pursuant to this article, a limited  
36 liability company shall file with the registrar information, in the  
37 manner prescribed by the registrar, and accompanied by all  
38 documentation requested by the registrar, demonstrating  
39 compliance with the financial security requirements of this section.

1 (d) If the security requirements of this section are satisfied  
2 wholly, or in part, with an insurance policy, then a certification of  
3 coverage shall be submitted to the commissioner by the licensee  
4 or applicant, and signed by an authorized agent or employee of  
5 the insurer. The certification of coverage shall be in a form  
6 prescribed by the registrar.

7 SEC. 17. Section 7072.5 of the Business and Professions Code  
8 is amended to read:

9 7072.5. (a) Upon the issuance of a license, a plasticized pocket  
10 card of a size, design, and content as may be determined by the  
11 registrar shall be issued at no cost to each licensee, or to the  
12 partners, managers, officers, or responsible managing officers of  
13 licensees licensed as other than individuals, which card shall be  
14 evidence that the licensee is duly licensed pursuant to this chapter.  
15 All cards issued shall be surrendered upon the suspension,  
16 revocation, or denial of renewal of the license, and shall be mailed  
17 or delivered to the board within five days of the suspension,  
18 revocation, or denial.

19 (b) When a person to whom a card is issued terminates his or  
20 her position, office, or association with a licensee that is licensed  
21 as other than an individual, that person shall surrender his or her  
22 card to the licensee and within five days thereafter the card shall  
23 be mailed or delivered by the licensee to the board for cancellation.

24 SEC. 18. Section 7075.1 of the Business and Professions Code  
25 is amended to read:

26 7075.1. (a) No license, regardless of type or classification,  
27 shall be transferable to any other person or entity under any  
28 circumstances.

29 (b) A license number may be reissued after cancellation,  
30 revocation, suspension, or expiration beyond the renewal period  
31 specified in Section 7141, only under the following circumstances:

32 (1) To an individual upon application.

33 (2) To a partnership upon application if there is no change in  
34 the partners or partnership structure.

35 (3) To a corporation upon application if there is no change in  
36 the status of the corporation as registered with the Secretary of  
37 State.

38 (4) To a limited liability company upon application if there is  
39 no change in the status of the company as registered with the  
40 Secretary of State.

1 (c) A license number may be reissued or reassigned to a different  
2 entity only under the following conditions:

3 (1) To a corporation when the parent corporation has merged  
4 or created a subsidiary, the subsidiary has merged into the parent  
5 corporation, or the corporation has changed its filing status with  
6 the Secretary of State from a domestic corporation to a foreign  
7 corporation or from a foreign corporation to a domestic corporation,  
8 and the new entity is being formed to continue the business of the  
9 formerly licensed corporation.

10 (2) To a limited liability company when the parent limited  
11 liability company has merged or created a subsidiary, the subsidiary  
12 has merged into the parent limited liability company, or the limited  
13 liability company has changed its filing status with the Secretary  
14 of State from a domestic limited liability company to a foreign  
15 limited liability company or from a foreign limited liability  
16 company to a domestic limited liability company, and the new  
17 entity is being formed to continue the business of the formerly  
18 licensed limited liability company.

19 (3) To an individual when the individual is an immediate family  
20 member of a licensed individual who is deceased or absent and  
21 the license is required to continue an existing family contracting  
22 business.

23 (4) To a corporation or limited liability company when created  
24 by immediate members of an individual licensee's family to  
25 continue an existing deceased or absent individual licensee's  
26 contracting business.

27 (5) To a corporation or limited liability company when the  
28 corporation or limited liability company is formed by an individual  
29 licensee and the individual licensee maintains ownership directly  
30 or indirectly of shares or membership interests evidencing more  
31 than 50 percent of the voting power.

32 (6) To a corporation or limited liability company that acquires  
33 a licensee pursuant to an asset sale provided that the corporation  
34 or limited liability company has a qualifier as required by Section  
35 7068.

36 For purposes of this section, an immediate family member of a  
37 deceased or absent licensed individual is either a spouse, father,  
38 mother, brother, sister, son, daughter, stepson, stepdaughter,  
39 grandson, granddaughter, grandfather, grandmother, son-in-law,  
40 or daughter-in-law.

1 SEC. 19. Section 7076 of the Business and Professions Code  
2 is amended to read:

3 7076. (a) An individual license shall be canceled upon the  
4 death of a person licensed as an individual. An immediate member  
5 of the family of the deceased licensee may request a continuance  
6 of the license to complete projects in progress and undertake new  
7 work for a reasonable amount of time to be determined by rules  
8 of the board. The request for a continuance must be made in writing  
9 and received at the board's headquarters office within 90 days  
10 after the death. Approval of the continuance of an individual license  
11 may be contingent upon meeting the bond requirements of Sections  
12 7071.5 and 7071.6 within 90 days of notification by the board of  
13 that requirement. The immediate member of the family must apply  
14 for and obtain his or her own license to continue contracting after  
15 the continuance expires.

16 (b) A partnership license shall be canceled upon the death of a  
17 general partner. The remaining partner or partners shall notify the  
18 registrar in writing within 90 days of the death of a general partner.  
19 Failure to notify the registrar within 90 days of the death is grounds  
20 for disciplinary action.

21 The remaining general partner or partners may request a  
22 continuance of the license to complete projects in progress and  
23 undertake new work for a reasonable amount of time to be  
24 determined by rules of the board. The request for a continuance  
25 must be made in writing and received at the board's headquarters  
26 office within 90 days after the death. The remaining general partner  
27 or partners must apply for and obtain a new license to continue  
28 contracting after the continuance expires.

29 (c) A partnership license shall be canceled upon the  
30 disassociation of a general partner or upon the dissolution of the  
31 partnership. The disassociating partner or the remaining partner  
32 or partners shall notify the registrar in writing within 90 days of  
33 the disassociation of a general partner or dissolution of the  
34 partnership. Failure to notify the registrar of the disassociation or  
35 dissolution within 90 days shall cause the license to be canceled  
36 effective the date the written notification is received at the board's  
37 headquarters office. Failure to notify the registrar within 90 days  
38 of the disassociation or dissolution is grounds for disciplinary  
39 action. The remaining general partner or partners may request a  
40 continuance of the license to complete projects contracted for or

1 in progress prior to the date of disassociation or dissolution for a  
2 reasonable length of time to be determined by rules of the board.  
3 The request for a continuance must be made in writing and received  
4 at the board's headquarters office within 90 days after the  
5 disassociation or dissolution. The remaining general partner or  
6 partners must apply for and obtain a new license to undertake new  
7 work and to continue contracting after the continuance expires.

8 (d) The general partner or partners shall notify the registrar in  
9 writing within 90 days of the death of a limited partner. Failure to  
10 notify the registrar within 90 days of the death is grounds for  
11 disciplinary action.

12 The death of a limited partner will not affect the partnership  
13 license unless the partnership license has only one limited partner.  
14 In this case, the license will be canceled upon the death of the  
15 limited partner unless a new limited partner is added to the license  
16 within 90 days of the death.

17 If the license is canceled, the remaining general partner or  
18 partners may request a continuance of the license to complete  
19 projects in progress and to undertake new work for a reasonable  
20 amount of time to be determined by rules of the board. The request  
21 for a continuance must be made in writing and received at the  
22 board's headquarters office within 90 days after the death. The  
23 remaining general partner or partners must apply for and obtain a  
24 new license to continue contracting after the continuance expires.

25 (e) The general partner or partners shall notify the registrar in  
26 writing within 90 days of the disassociation of a limited partner.  
27 Failure to notify the registrar of the disassociation, within 90 days,  
28 shall cause the disassociation to be effective the date the written  
29 notification is received at the board's headquarters office. Failure  
30 to notify the registrar within 90 days of the disassociation is  
31 grounds for disciplinary action.

32 The disassociation of a limited partner will not affect the  
33 partnership license unless the partnership license has only one  
34 limited partner. In this case, the license will be canceled upon the  
35 disassociation of the limited partner unless a new limited partner  
36 is added to the license within 90 days of the disassociation. If the  
37 license is canceled, the remaining general partner or partners may  
38 request a continuance of the license to complete projects contracted  
39 for or in progress prior to the date of disassociation for a reasonable  
40 amount of time to be determined by rules of the board. The request

1 for a continuance must be made in writing and received at the  
2 board's headquarters office within 90 days after the death. The  
3 remaining general partner or partners must apply for and obtain a  
4 new license to undertake new work and to continue contracting  
5 after the continuance expires.

6 (f) A joint venture license shall be canceled upon the  
7 cancellation, revocation, or disassociation of any of its entity  
8 licenses or upon the dissolution of the joint venture. The registrar  
9 shall be notified in writing within 90 days of the disassociation of  
10 a joint venture entity or dissolution of the joint venture. Failure to  
11 notify the registrar of the disassociation or dissolution within 90  
12 days shall cause the license to be canceled effective the date the  
13 written notification is received at the board's headquarters office.  
14 Failure to notify the registrar within 90 days of the disassociation  
15 or dissolution is grounds for disciplinary action.

16 Any remaining entity or entities may request a continuance of  
17 the license to complete projects contracted for or in progress prior  
18 to the date of disassociation or dissolution for a reasonable amount  
19 of time to be determined by rules of the board. The request for a  
20 continuance must be made in writing and received at the board's  
21 headquarters office within 90 days of the disassociation or  
22 dissolution. The remaining entity or entities must apply for and  
23 obtain a new license to undertake new work and to continue  
24 contracting after the continuance expires.

25 (g) Any individual, partnership, or joint venture license  
26 continued in accordance with this section is subject to all other  
27 provisions of this chapter.

28 (h) A corporation license shall be canceled upon the  
29 corporation's dissolution, merger, or surrender of its right to do  
30 business in this state. The corporation shall notify the registrar in  
31 writing within 90 days of the dissolution, merger, or surrender.  
32 Failure to notify the registrar of the dissolution, merger, or  
33 surrender within 90 days shall cause the license to be canceled  
34 effective the date written notification is received at the board's  
35 headquarters office. If the corporation fails to notify the board of  
36 the dissolution, merger, or surrender, the corporation license shall  
37 be canceled 60 days after the board's discovery when researching  
38 the corporate records of the Secretary of State. Failure to notify  
39 the registrar within 90 days of the dissolution, merger, or surrender  
40 is grounds for disciplinary action.

1 (i) A limited liability company license shall be canceled upon  
2 the company's dissolution, merger, or surrender of its right to do  
3 business in this state. The limited liability company shall notify  
4 the registrar in writing within 90 days of the dissolution, merger,  
5 or surrender. Failure to notify the registrar of the dissolution,  
6 merger, or surrender within 90 days shall cause the license to be  
7 canceled effective the date written notification is received at the  
8 board's headquarters office. If the limited liability company fails  
9 to notify the board of the dissolution, merger, or surrender, the  
10 limited liability company license shall be canceled 60 days after  
11 the board's discovery when researching the records of the Secretary  
12 of State. Failure to notify the registrar within 90 days of the  
13 dissolution, merger, or surrender is grounds for disciplinary action.

14 (j) The registrar shall review and accept the petition of a licensee  
15 who disputes the date of cancellation upon a showing of good  
16 cause. This petition shall be received within 90 days of the board's  
17 official notice of cancellation.

18 SEC. 20. Section 7076.2 of the Business and Professions Code  
19 is amended to read:

20 7076.2. Notwithstanding any other provision of law, the failure  
21 of a contractor licensed to do business as a corporation or limited  
22 liability company in this state to be registered and in good standing  
23 with the Secretary of State after notice from the registrar shall  
24 result in the automatic suspension of the license by operation of  
25 law. The registrar shall notify the licensee in writing of its failure  
26 to be registered and in good standing with the Secretary of State  
27 and that the licensee shall be suspended 30 days from the date of  
28 the notice if the licensee does not provide proof satisfactory to the  
29 registrar that it is properly registered and in good standing with  
30 the Secretary of State. Reinstatement may be made at any time  
31 following the suspension by providing proof satisfactory to the  
32 registrar that the license is properly registered and in good standing.

33 SEC. 21. Section 7085.6 of the Business and Professions Code  
34 is amended to read:

35 7085.6. (a) (1) The failure of a licensee to comply with an  
36 arbitration award rendered under this article shall result in the  
37 automatic suspension of a license by operation of law.

38 (2) The registrar shall notify the licensee by certified mail of  
39 the failure to comply with the arbitrator's award, and that the



1 license shall be automatically suspended 30 calendar days from  
2 the date of that notice.

3 (3) The licensee may appeal the suspension for noncompliance  
4 within 15 calendar days after service of the notice by written notice  
5 to the registrar.

6 (4) Reinstatement may be made at any time following the  
7 suspension by complying with the arbitrator's award and the final  
8 order of the registrar. If no reinstatement of the license is made  
9 within 90 days of the date of the automatic suspension, the license  
10 and any other ~~contractors'~~ *contractor's* license issued to the  
11 licensee shall be automatically revoked by operation of law for a  
12 period to be determined by the registrar pursuant to Section 7102.

13 (5) The registrar may delay, for good cause, the revocation of  
14 a contractor's license for failure to comply with the arbitration  
15 award. The delay in the revocation of the license shall not exceed  
16 one year. When seeking a delay of the revocation of his or her  
17 license, a licensee shall apply to the registrar in writing prior to  
18 the date of the revocation of the licensee's license by operation of  
19 law and state the reasons that establish good cause for the delay.  
20 The registrar's power to grant a delay of the revocation shall expire  
21 upon the effective date of the revocation of the licensee's license  
22 by operation of law.

23 (b) The licensee shall be automatically prohibited from serving  
24 as an officer, director, associate, partner, manager, or qualifying  
25 individual of another licensee, for the period determined by the  
26 registrar and the employment, election, or association of that person  
27 by another licensee shall constitute grounds for disciplinary action.  
28 A qualifier disassociated pursuant to this section shall be replaced  
29 within 90 days from the date of disassociation. Upon failure to  
30 replace the qualifier within 90 days of the disassociation, the  
31 license of the other licensee shall be automatically suspended or  
32 the qualifier's classification removed at the end of the 90 days.

33 SEC. 22. Section 7090.1 of the Business and Professions Code  
34 is amended to read:

35 7090.1. (a) (1) Notwithstanding any other provisions of law,  
36 the failure to pay a civil penalty, or to comply with an order of  
37 correction or an order to pay a specified sum to an injured party  
38 in lieu of correction once the order has become final, shall result  
39 in the automatic suspension of a license by operation of law 30  
40 days after noncompliance with the terms of the order.

1 (2) The registrar shall notify the licensee in writing of the failure  
2 to comply with the final order and that the license shall be  
3 suspended 30 days from the date of the notice.

4 (3) The licensee may contest the determination of  
5 noncompliance within 15 days after service of the notice, by written  
6 notice to the registrar. Upon receipt of the written notice, the  
7 registrar may reconsider the determination and after reconsideration  
8 may affirm or set aside the suspension.

9 (4) Reinstatement may be made at any time following the  
10 suspension by complying with the final order of the citation. If no  
11 reinstatement of the license is made within 90 days of the date of  
12 the automatic suspension, the cited license and any other  
13 ~~contractors'~~ *contractor's* license issued to the licensee shall be  
14 automatically revoked by operation of law for a period to be  
15 determined by the registrar pursuant to Section 7102.

16 (5) The registrar may delay, for good cause, the revocation of  
17 a contractor's license for failure to comply with the final order of  
18 the citation. The delay in the revocation of the license shall not  
19 exceed one year. When seeking a delay of the revocation of his or  
20 her license, a licensee shall apply to the registrar in writing prior  
21 to the date of the revocation of the licensee's license by operation  
22 of law and state the reasons that establish good cause for the delay.  
23 The registrar's power to grant a delay of the revocation shall expire  
24 upon the effective date of the revocation of the licensee's license  
25 by operation of law.

26 (b) The cited licensee shall also be automatically prohibited  
27 from serving as an officer, director, associate, partner, manager,  
28 or qualifying individual of another licensee, for the period  
29 determined by the registrar, and the employment, election, or  
30 association of that person by a licensee shall constitute grounds  
31 for disciplinary action. A qualifier disassociated pursuant to this  
32 section shall be replaced within 90 days of the date of  
33 disassociation. Upon failure to replace the qualifier within 90 days  
34 of the prohibition, the license of the other licensee shall be  
35 automatically suspended or the qualifier's classification removed  
36 at the end of the 90 days.

37 SEC. 23. Section 7096 of the Business and Professions Code  
38 is amended to read:

39 7096. For the purposes of this chapter, the term "licensee" shall  
40 include an individual, copartnership, corporation, limited liability

1 company, joint venture, or any combination or organization  
2 licensed under this chapter, and shall also include any named  
3 responsible managing officer, responsible managing manager, or  
4 personnel of that licentiate whose appearance has qualified the  
5 licentiate under the provisions of Section 7068.

6 SEC. 24. Section 7121 of the Business and Professions Code  
7 is amended to read:

8 7121. A person who has been denied a license for a reason  
9 other than failure to document sufficient satisfactory experience  
10 for a supplemental classification for an existing license, or who  
11 has had his or her license revoked, or whose license is under  
12 suspension, or who has failed to renew his or her license while it  
13 was under suspension, or who has been a partner, officer, director,  
14 manager, or associate of any partnership, corporation, limited  
15 liability company, firm, or association whose application for a  
16 license has been denied for a reason other than failure to document  
17 sufficient satisfactory experience for a supplemental classification  
18 for an existing license, or whose license has been revoked, or  
19 whose license is under suspension, or who has failed to renew a  
20 license while it was under suspension, and while acting as a partner,  
21 officer, director, manager, or associate had knowledge of or  
22 participated in any of the prohibited acts for which the license was  
23 denied, suspended, or revoked, shall be prohibited from serving  
24 as an officer, director, associate, partner, manager, or qualifying  
25 individual of a licensee, and the employment, election, or  
26 association of this type of person by a licensee in any capacity  
27 other than as a nonsupervising bona fide employee shall constitute  
28 grounds for disciplinary action.

29 SEC. 25. Section 7121.1 of the Business and Professions Code  
30 is amended to read:

31 7121.1. Notwithstanding any other provision of this chapter,  
32 the disassociation of a partner, officer, director, manager, or  
33 associate from the license of a partnership, corporation, limited  
34 liability company, firm, or association whose license has been  
35 cited pursuant to Section 7099 shall not relieve the partner, officer,  
36 director, manager, or associate from responsibility for complying  
37 with the citation if he or she had knowledge of, or participated in,  
38 any of the prohibited acts for which the citation was issued. Section  
39 7121 shall apply to a partner, officer, director, manager, or

1 associate of a licensee that fails to comply with a citation after it  
2 is final.

3 SEC. 26. Section 7121.5 of the Business and Professions Code  
4 is amended to read:

5 7121.5. A person who was the qualifying individual on a  
6 revoked license, or of a license under suspension, or of a license  
7 that was not renewed while it was under suspension, shall be  
8 prohibited from serving as an officer, director, associate, partner,  
9 manager, or qualifying individual of a licensee, whether or not the  
10 individual had knowledge of or participated in the prohibited acts  
11 or omissions for which the license was revoked, or suspended, and  
12 the employment, election, or association of that person by a  
13 licensee shall constitute grounds for disciplinary action.

14 SEC. 27. Section 7121.6 of the Business and Professions Code  
15 is amended to read:

16 7121.6. (a) An individual who meets all of the following  
17 criteria shall not perform any act regulated under this chapter for  
18 or on behalf of a licensee, other than as a bona fide nonsupervising  
19 employee:

20 (1) The individual was an officer, director, owner, manager, or  
21 partner of a license that was revoked.

22 (2) The individual had knowledge of or participated in any act  
23 or omission for which the license was revoked.

24 (3) The individual is not eligible for reinstatement for licensure  
25 under Section 7102.

26 (b) An individual who meets all of the following criteria shall  
27 not perform any act regulated under this chapter for or on behalf  
28 of a licensee, other than as a bona fide nonsupervising employee:

29 (1) The individual furnished the qualifications for licensure, as  
30 set forth under Section 7068, and that license was revoked.

31 (2) The individual served in the capacity of the qualifying  
32 individual during the commission or omission of any of the acts  
33 that resulted in the revocation of the license, whether or not he or  
34 she had knowledge of or participated in those acts.

35 (3) The individual is not eligible for reinstatement for licensure  
36 under Section 7102.

37 (c) A violation of this section is a misdemeanor punishable by  
38 a fine of not less than four thousand five hundred dollars (\$4,500),  
39 by imprisonment in a county jail for not less than 90 days nor more  
40 than one year, or by both the fine and imprisonment. The penalty

1 provided by this subdivision is cumulative to the penalties available  
2 under other laws of this state.

3 (d) Notwithstanding any other provision of law to the contrary,  
4 an indictment for any violation of this section shall be found or an  
5 information or complaint filed within four years from the  
6 performance of any act that is prohibited under this section.

7 SEC. 28. Section 7122 of the Business and Professions Code  
8 is amended to read:

9 7122. The performance by an individual, partnership,  
10 corporation, limited liability company, firm, or association of an  
11 act or omission constituting a cause for disciplinary action, likewise  
12 constitutes a cause for disciplinary action against a licensee other  
13 than the individual qualifying on behalf of the individual or entity,  
14 if the licensee was a partner, officer, director, manager, or associate  
15 of that individual, partnership, corporation, limited liability  
16 company, firm, or association at the time the act or omission  
17 occurred, and had knowledge of or participated in the prohibited  
18 act or omission.

19 SEC. 29. Section 7122.1 of the Business and Professions Code  
20 is amended to read:

21 7122.1. Notwithstanding Section 7068.2 or any other provision  
22 of this chapter, the disassociation of a qualifying individual from  
23 a license after the act or omission has occurred that resulted in a  
24 citation pursuant to Section 7099 shall not relieve the qualifying  
25 individual from responsibility for complying with the citation.  
26 Section 7122.5 shall apply to a qualifying individual of a licensee  
27 that fails to comply with a citation after it is final.

28 SEC. 30. Section 7122.2 of the Business and Professions Code  
29 is amended to read:

30 7122.2. (a) Notwithstanding Section 7068.2 or any other  
31 provisions of this chapter, the disassociation of a qualifying  
32 individual from a license that has been referred to arbitration  
33 pursuant to Section 7085 shall not relieve the qualifying individual  
34 from the responsibility of complying with an arbitration award  
35 rendered as a result of acts or omissions committed while acting  
36 as the qualifying individual for the license as provided under  
37 Sections 7068 and 7068.1.

38 (b) Section 7122.5 shall apply to a qualifying individual of a  
39 licensee that fails to comply with an arbitration award once it is  
40 rendered.

1 SEC. 31. Section 7122.5 of the Business and Professions Code  
2 is amended to read:

3 7122.5. The performance by an individual, partnership,  
4 corporation, limited liability company, firm, or association of an  
5 act or omission constituting a cause for disciplinary action, likewise  
6 constitutes a cause for disciplinary action against a licensee who  
7 at the time that the act or omission occurred was the qualifying  
8 individual of that individual, partnership, corporation, limited  
9 liability company, firm, or association, whether or not he or she  
10 had knowledge of or participated in the prohibited act or omission.

11 SEC. 32. Section 7137 of the Business and Professions Code  
12 is amended to read:

13 7137. The board shall set fees by regulation. These fees shall  
14 not exceed the following schedule:

15 (a) The application fee for an original license in a single  
16 classification shall not be more than three hundred dollars (\$300).

17 The application fee for each additional classification applied for  
18 in connection with an original license shall not be more than  
19 seventy-five dollars (\$75).

20 The application fee for each additional classification pursuant  
21 to Section 7059 shall not be more than seventy-five dollars (\$75).

22 The application fee to replace a responsible managing officer,  
23 responsible managing manager, or responsible managing employee  
24 pursuant to Section 7068.2 shall not be more than seventy-five  
25 dollars (\$75).

26 (b) The fee for rescheduling an examination for an applicant  
27 who has applied for an original license, additional classification,  
28 a change of responsible managing officer, responsible managing  
29 manager, or responsible managing employee, or for an asbestos  
30 certification or hazardous substance removal certification, shall  
31 not be more than sixty dollars (\$60).

32 (c) The fee for scheduling or rescheduling an examination for  
33 a licensee who is required to take the examination as a condition  
34 of probation shall not be more than sixty dollars (\$60).

35 (d) The initial license fee for an active or inactive license shall  
36 not be more than one hundred eighty dollars (\$180).

37 (e) The renewal fee for an active license shall not be more than  
38 three hundred sixty dollars (\$360).

39 The renewal fee for an inactive license shall not be more than  
40 one hundred eighty dollars (\$180).

1 (f) The delinquency fee is an amount equal to 50 percent of the  
2 renewal fee, if the license is renewed after its expiration.

3 (g) The registration fee for a home improvement salesperson  
4 shall not be more than seventy-five dollars (\$75).

5 (h) The renewal fee for a home improvement salesperson  
6 registration shall not be more than seventy-five dollars (\$75).

7 (i) The application fee for an asbestos certification examination  
8 shall not be more than seventy-five dollars (\$75).

9 (j) The application fee for a hazardous substance removal or  
10 remedial action certification examination shall not be more than  
11 seventy-five dollars (\$75).

12 (k) In addition to any other fees charged to C-10 and C-7  
13 contractors, the board may charge a fee not to exceed twenty dollars  
14 (\$20), which shall be used by the board to enforce provisions of  
15 the Labor Code related to electrician certification.

16 SEC. 33. Section 7138 of the Business and Professions Code  
17 is amended to read:

18 7138. Notwithstanding any other provision of law, a fee paid  
19 in connection with a service or application covered by Section  
20 7137 shall accrue to the Contractors' License Fund as an earned  
21 fee and shall not be refunded.

22 SEC. 34. Section 7152 of the Business and Professions Code  
23 is amended to read:

24 7152. (a) "Home improvement salesperson" is a person  
25 employed by a home improvement contractor licensed under this  
26 chapter to solicit, sell, negotiate, or execute contracts for home  
27 improvements, for the sale, installation or furnishing of home  
28 improvement goods or services, or of swimming pools, spas, or  
29 hot tubs.

30 (b) The following shall not be required to be registered as home  
31 improvement salespersons:

32 (1) An officer of record of a corporation licensed pursuant to  
33 this chapter, or a manager of record of a limited liability company  
34 licensed pursuant to this chapter.

35 (2) A general partner listed on the license record of a partnership  
36 licensed pursuant to this chapter.

37 (3) A qualifying person, as defined in Section 7025.

38 (4) A salesperson whose sales are all made pursuant to  
39 negotiations between the parties if the negotiations are initiated  
40 by the prospective buyer at or with a general merchandise retail

1 establishment that operates from a fixed location where goods or  
2 services are offered for sale.

3 (5) A person who contacts the prospective buyer for the  
4 exclusive purpose of scheduling appointments for a registered  
5 home improvement salesperson.

6 (6) A bona fide service repairperson who is in the employ of a  
7 licensed contractor and whose repair or service call is limited to  
8 the service, repair, or emergency repair initially requested by the  
9 buyer of the service.

10 (c) The exemption to registration provided under paragraphs  
11 (1), (2), and (3) of subdivision (b) shall apply only to those  
12 individuals who, at the time of the sales transaction, are listed as  
13 personnel of record for the licensee responsible for soliciting,  
14 negotiating, or contracting for a service or improvement that is  
15 subject to regulation under this article.

16 SEC. 35. Section 7159 of the Business and Professions Code  
17 is amended to read:

18 7159. (a) (1) This section identifies the projects for which a  
19 home improvement contract is required, outlines the contract  
20 requirements, and lists the items that shall be included in the  
21 contract, or may be provided as an attachment.

22 (2) This section does not apply to service and repair contracts  
23 that are subject to Section 7159.10, if the contract for the applicable  
24 services complies with Sections 7159.10 to 7159.14, inclusive.

25 (3) This section does not apply to the sale, installation, and  
26 servicing of a fire alarm sold in conjunction with an alarm system,  
27 as defined in subdivision (n) of Section 7590.1, if all costs  
28 attributable to making the fire alarm system operable, including  
29 sale and installation costs, do not exceed five hundred dollars  
30 (\$500), and the licensee complies with the requirements set forth  
31 in Section 7159.9.

32 (4) This section does not apply to any costs associated with  
33 monitoring a burglar or fire alarm system.

34 (5) Failure by the licensee, his or her agent or salesperson, or  
35 by a person subject to be licensed under this chapter, to provide  
36 the specified information, notices, and disclosures in the contract,  
37 or to otherwise fail to comply with any provision of this section,  
38 is cause for discipline.

39 (b) For purposes of this section, “home improvement contract”  
40 means an agreement, whether oral or written, or contained in one



1 or more documents, between a contractor and an owner or between  
2 a contractor and a tenant, regardless of the number of residence  
3 or dwelling units contained in the building in which the tenant  
4 resides, if the work is to be performed in, to, or upon the residence  
5 or dwelling unit of the tenant, for the performance of a home  
6 improvement, as defined in Section 7151, and includes all labor,  
7 services, and materials to be furnished and performed thereunder,  
8 if the aggregate contract price specified in one or more  
9 improvement contracts, including all labor, services, and materials  
10 to be furnished by the contractor, exceeds five hundred dollars  
11 (\$500). “Home improvement contract” also means an agreement,  
12 whether oral or written, or contained in one or more documents,  
13 between a salesperson, whether or not he or she is a home  
14 improvement salesperson, and an owner or a tenant, regardless of  
15 the number of residence or dwelling units contained in the building  
16 in which the tenant resides, which provides for the sale, installation,  
17 or furnishing of home improvement goods or services.

18 (c) In addition to the specific requirements listed under this  
19 section, every home improvement contract and any person subject  
20 to licensure under this chapter or his or her agent or salesperson  
21 shall comply with all of the following:

22 (1) The writing shall be legible.

23 (2) Any printed form shall be readable. Unless a larger typeface  
24 is specified in this article, text in any printed form shall be in at  
25 least 10-point typeface and the headings shall be in at least 10-point  
26 boldface type.

27 (3) (A) Before any work is started, the contractor shall give the  
28 buyer a copy of the contract signed and dated by both the contractor  
29 and the buyer. The buyer’s receipt of the copy of the contract  
30 initiates the buyer’s rights to cancel the contract pursuant to  
31 Sections 1689.5 to 1689.14, inclusive, of the Civil Code.

32 (B) The contract shall contain on the first page, in a typeface  
33 no smaller than that generally used in the body of the document,  
34 both of the following:

35 (i) The date the buyer signed the contract.

36 (ii) The name and address of the contractor to which the  
37 applicable “Notice of Cancellation” is to be mailed, immediately  
38 preceded by a statement advising the buyer that the “Notice of  
39 Cancellation” may be sent to the contractor at the address noted  
40 on the contract.

1 (4) A statement that, upon satisfactory payment being made for  
2 any portion of the work performed, the contractor, prior to any  
3 further payment being made, shall furnish to the person contracting  
4 for the home improvement or swimming pool work a full and  
5 unconditional release from any claim or mechanic's lien pursuant  
6 to Section 3114 of the Civil Code for that portion of the work for  
7 which payment has been made.

8 (5) A change-order form for changes or extra work shall be  
9 incorporated into the contract and shall become part of the contract  
10 only if it is in writing and signed by the parties prior to the  
11 commencement of any work covered by a change order.

12 (6) The contract shall contain, in close proximity to the  
13 signatures of the owner and contractor, a notice stating that the  
14 owner or tenant has the right to require the contractor to have a  
15 performance and payment bond.

16 (7) If the contract provides for a contractor to furnish joint  
17 control, the contractor shall not have any financial or other interest  
18 in the joint control.

19 (8) The provisions of this section are not exclusive and do not  
20 relieve the contractor from compliance with any other applicable  
21 provision of law.

22 (d) A home improvement contract and any changes to the  
23 contract shall be in writing and signed by the parties to the contract  
24 prior to the commencement of work covered by the contract or an  
25 applicable change order and, except as provided in paragraph (8)  
26 of subdivision (a) of Section 7159.5, shall include or comply with  
27 all of the following:

28 (1) The name, business address, and license number of the  
29 contractor.

30 (2) If applicable, the name and registration number of the home  
31 improvement salesperson that solicited or negotiated the contract.

32 (3) The following heading on the contract form that identifies  
33 the type of contract in at least 10-point boldface type: "Home  
34 Improvement."

35 (4) The following statement in at least 12-point boldface type:  
36 "You are entitled to a completely filled in copy of this agreement,  
37 signed by both you and the contractor, before any work may be  
38 started."

39 (5) The heading: "Contract Price," followed by the amount of  
40 the contract in dollars and cents.

1 (6) If a finance charge will be charged, the heading: “Finance  
2 Charge,” followed by the amount in dollars and cents. The finance  
3 charge is to be set out separately from the contract amount.

4 (7) The heading: “Description of the Project and Description  
5 of the Significant Materials to be Used and Equipment to be  
6 Installed,” followed by a description of the project and a description  
7 of the significant materials to be used and equipment to be installed.  
8 For swimming pools, the project description required under this  
9 paragraph also shall include a plan and scale drawing showing the  
10 shape, size, dimensions, and the construction and equipment  
11 specifications.

12 (8) If a downpayment will be charged, the details of the  
13 downpayment shall be expressed in substantially the following  
14 form, and shall include the text of the notice as specified in  
15 subparagraph (C):

16 (A) The heading: “Downpayment.”

17 (B) A space where the actual downpayment appears.

18 (C) The following statement in at least 12-point boldface type:

19 **“THE DOWNPAYMENT MAY NOT EXCEED \$1,000 OR 10**  
20 **PERCENT OF THE CONTRACT PRICE, WHICHEVER IS**  
21 **LESS.”**

22 (9) If payments, other than the downpayment, are to be made  
23 before the project is completed, the details of these payments,  
24 known as progress payments, shall be expressed in substantially  
25 the following form, and shall include the text of the statement as  
26 specified in subparagraph (C):

27 (A) A schedule of progress payments shall be preceded by the  
28 heading: “Schedule of Progress Payments.”

29 (B) Each progress payment shall be stated in dollars and cents  
30 and specifically reference the amount of work or services to be  
31 performed and materials and equipment to be supplied.

32 (C) The section of the contract reserved for the progress  
33 payments shall include the following statement in at least 12-point  
34 boldface type:

35 **“The schedule of progress payments must specifically describe**  
36 **each phase of work, including the type and amount of work or**  
37 **services scheduled to be supplied in each phase, along with the**  
38 **amount of each proposed progress payment. IT IS AGAINST THE**  
39 **LAW FOR A CONTRACTOR TO COLLECT PAYMENT FOR**  
40 **WORK NOT YET COMPLETED, OR FOR MATERIALS NOT**

1 YET DELIVERED. HOWEVER, A CONTRACTOR MAY  
2 REQUIRE A DOWNPAYMENT.”

3 (10) The contract shall address the commencement of work to  
4 be performed in substantially the following form:

5 (A) A statement that describes what constitutes substantial  
6 commencement of work under the contract.

7 (B) The heading: “Approximate Start Date.”

8 (C) The approximate date on which work will be commenced.

9 (11) The estimated completion date of the work shall be  
10 referenced in the contract in substantially the following form:

11 (A) The heading: “Approximate Completion Date.”

12 (B) The approximate date of completion.

13 (12) If applicable, the heading: “List of Documents to be  
14 Incorporated into the Contract,” followed by the list of documents  
15 incorporated into the contract.

16 (13) The heading: “~~Note about~~ *About* Extra Work and Change  
17 Orders,” followed by the following statement:

18 “Extra Work and Change Orders become part of the contract  
19 once the order is prepared in writing and signed by the parties prior  
20 to the commencement of work covered by the new change order.  
21 The order must describe the scope of the extra work or change,  
22 the cost to be added or subtracted from the contract, and the effect  
23 the order will have on the schedule of progress payments.”

24 (e) Except as provided in paragraph (8) of subdivision (a) of  
25 Section 7159.5, all of the following notices shall be provided to  
26 the owner as part of the contract form as specified or, if otherwise  
27 authorized under this subdivision, may be provided as an  
28 attachment to the contract:

29 (1) (A) A notice concerning commercial general liability  
30 insurance. This notice may be provided as an attachment to the  
31 contract if the contract includes the following statement: “A notice  
32 concerning commercial general liability insurance is attached to  
33 this contract.” The notice shall include the heading “Commercial  
34 General Liability Insurance (CGL),” followed by whichever of  
35 the following statements is both relevant and correct:

36 (A) “(The name on the license or ‘This contractor’) does not  
37 carry commercial general liability insurance.”

38 (B) “(The name on the license or ‘This contractor’) carries  
39 commercial general liability insurance written by (the insurance

1 company). You may call (the insurance company) at \_\_\_\_\_  
2 to check the contractor’s insurance coverage.”

3 (C) “(The name on the license or ‘This contractor’) is  
4 self-insured.”

5 (D) “(The name on the license or ‘This contractor’) is a limited  
6 liability company that carries liability insurance or maintains other  
7 security as required by law. You may call (the insurance company  
8 or trust company or bank) at \_\_\_\_ to check on the contractor’s  
9 insurance coverage or security.”

10 (2) A notice concerning workers’ compensation insurance. This  
11 notice may be provided as an attachment to the contract if the  
12 contract includes the statement: “A notice concerning workers’  
13 compensation insurance is attached to this contract.” The notice  
14 shall include the heading “Workers’ Compensation Insurance”  
15 followed by whichever of the following statements is correct:

16 (A) “(The name on the license or ‘This contractor’) has no  
17 employees and is exempt from workers’ compensation  
18 requirements.”

19 (B) “(The name on the license or ‘This contractor’) carries  
20 workers’ compensation insurance for all employees.”

21 (3) A notice that provides the buyer with the following  
22 information about the performance of extra or change-order work:

23 (A) A statement that the buyer may not require a contractor to  
24 perform extra or change-order work without providing written  
25 authorization prior to the commencement of work covered by the  
26 new change order.

27 (B) A statement informing the buyer that extra work or a change  
28 order is not enforceable against a buyer unless the change order  
29 also identifies all of the following in writing prior to the  
30 commencement of work covered by the new change order:

31 (i) The scope of work encompassed by the order.

32 (ii) The amount to be added or subtracted from the contract.

33 (iii) The effect the order will make in the progress payments or  
34 the completion date.

35 (C) A statement informing the buyer that the contractor’s failure  
36 to comply with the requirements of this paragraph does not  
37 preclude the recovery of compensation for work performed based  
38 upon legal or equitable remedies designed to prevent unjust  
39 enrichment.

1 (4) A notice with the heading “Mechanics’ Lien Warning”  
2 written as follows:

3 “MECHANICS’ LIEN WARNING:

4 Anyone who helps improve your property, but who is not paid,  
5 may record what is called a mechanics’ lien on your property. A  
6 mechanics’ lien is a claim, like a mortgage or home equity loan,  
7 made against your property and recorded with the county recorder.

8 Even if you pay your contractor in full, unpaid subcontractors,  
9 suppliers, and laborers who helped to improve your property may  
10 record mechanics’ liens and sue you in court to foreclose the lien.  
11 If a court finds the lien is valid, you could be forced to pay twice  
12 or have a court officer sell your home to pay the lien. Liens can  
13 also affect your credit.

14 To preserve their right to record a lien, each subcontractor and  
15 material supplier must provide you with a document called a  
16 ‘20-day Preliminary Notice.’ This notice is not a lien. The purpose  
17 of the notice is to let you know that the person who sends you the  
18 notice has the right to record a lien on your property if he or she  
19 is not paid.

20 BE CAREFUL. The Preliminary Notice can be sent up to 20  
21 days after the subcontractor starts work or the supplier provides  
22 material. This can be a big problem if you pay your contractor  
23 before you have received the Preliminary Notices.

24 You will not get Preliminary Notices from your prime contractor  
25 or from laborers who work on your project. The law assumes that  
26 you already know they are improving your property.

27 PROTECT YOURSELF FROM LIENS. You can protect  
28 yourself from liens by getting a list from your contractor of all the  
29 subcontractors and material suppliers that work on your project.  
30 Find out from your contractor when these subcontractors started  
31 work and when these suppliers delivered goods or materials. Then  
32 wait 20 days, paying attention to the Preliminary Notices you  
33 receive.

34 PAY WITH JOINT CHECKS. One way to protect yourself is  
35 to pay with a joint check. When your contractor tells you it is time  
36 to pay for the work of a subcontractor or supplier who has provided  
37 you with a Preliminary Notice, write a joint check payable to both  
38 the contractor and the subcontractor or material supplier.

39 For other ways to prevent liens, visit CSLB’s Internet Web site  
40 at [www.cslb.ca.gov](http://www.cslb.ca.gov) or call CSLB at 800-321-CSLB (2752).

1 REMEMBER, IF YOU DO NOTHING, YOU RISK HAVING  
2 A LIEN PLACED ON YOUR HOME. This can mean that you  
3 may have to pay twice, or face the forced sale of your home to pay  
4 what you owe.”

5 (5) The following notice shall be provided in at least 12-point  
6 typeface:

7 “Information about the Contractors’ State License Board (CSLB):  
8 CSLB is the state consumer protection agency that licenses and  
9 regulates construction contractors.

10 Contact CSLB for information about the licensed contractor you  
11 are considering, including information about disclosable  
12 complaints, disciplinary actions, and civil judgments that are  
13 reported to CSLB.

14 Use only licensed contractors. If you file a complaint against a  
15 licensed contractor within the legal deadline (usually four years),  
16 CSLB has authority to investigate the complaint. If you use an  
17 unlicensed contractor, CSLB may not be able to help you resolve  
18 your complaint. Your only remedy may be in civil court, and you  
19 may be liable for damages arising out of any injuries to the  
20 unlicensed contractor or the unlicensed contractor’s employees.

21 For more information:

22 Visit CSLB’s Internet Web site at [www.cslb.ca.gov](http://www.cslb.ca.gov)

23 Call CSLB at 800-321-CSLB (2752)

24 Write CSLB at P.O. Box 26000, Sacramento, CA 95826.”

25 (6) (A) The notice set forth in subparagraph (B) and entitled  
26 “Three-Day Right to Cancel,” shall be provided to the buyer unless  
27 the contract is:

28 (i) Negotiated at the contractor’s place of business.

29 (ii) Subject to the “Seven-Day Right to Cancel,” as set forth in  
30 paragraph (7).

31 (iii) Subject to licensure under the Alarm Company Act (Chapter  
32 11.6 (commencing with Section 7590)), provided the alarm  
33 company licensee complies with Sections 1689.5, 1689.6, and  
34 1689.7 of the Civil Code, as applicable.

35 (B) “Three-Day Right to Cancel

36 You, the buyer, have the right to cancel this contract within three  
37 business days. You may cancel by e-mailing, mailing, faxing, or  
38 delivering a written notice to the contractor at the contractor’s  
39 place of business by midnight of the third business day after you  
40 received a signed and dated copy of the contract that includes this

1 notice. Include your name, your address, and the date you received  
2 the signed copy of the contract and this notice.

3 If you cancel, the contractor must return to you anything you  
4 paid within 10 days of receiving the notice of cancellation. For  
5 your part, you must make available to the contractor at your  
6 residence, in substantially as good condition as you received them,  
7 goods delivered to you under this contract or sale. Or, you may,  
8 if you wish, comply with the contractor’s instructions on how to  
9 return the goods at the contractor’s expense and risk. If you do  
10 make the goods available to the contractor and the contractor does  
11 not pick them up within 20 days of the date of your notice of  
12 cancellation, you may keep them without any further obligation.  
13 If you fail to make the goods available to the contractor, or if you  
14 agree to return the goods to the contractor and fail to do so, then  
15 you remain liable for performance of all obligations under the  
16 contract.”

17 (C) The “Three-Day Right to Cancel” notice required by this  
18 paragraph shall comply with all of the following:

- 19 (i) The text of the notice is at least 12-point boldface type.
- 20 (ii) The notice is in immediate proximity to a space reserved  
21 for the owner’s signature.
- 22 (iii) The owner acknowledges receipt of the notice by signing  
23 and dating the notice form in the signature space.
- 24 (iv) The notice is written in the same language, e.g., Spanish,  
25 as that principally used in any oral sales presentation.
- 26 (v) The notice may be attached to the contract if the contract  
27 includes, in at least 12-point boldface type, a checkbox with the  
28 following statement: “The law requires that the contractor give  
29 you a notice explaining your right to cancel. Initial the checkbox  
30 if the contractor has given you a ‘Notice of the Three-Day Right  
31 to Cancel.’ ”
- 32 (vi) The notice shall be accompanied by a completed form in  
33 duplicate, captioned “Notice of Cancellation,” which also shall be  
34 attached to the agreement or offer to purchase and be easily  
35 detachable, and which shall contain the following statement written  
36 in the same language, e.g., Spanish, as used in the contract:

37  
38 “Notice of Cancellation”

39 /enter date of transaction/  
40 \_\_\_\_\_



(Date)

“You may cancel this transaction, without any penalty or obligation, within three business days from the above date.

If you cancel, any property traded in, any payments made by you under the contract or sale, and any negotiable instrument executed by you will be returned within 10 days following receipt by the seller of your cancellation notice, and any security interest arising out of the transaction will be canceled.

If you cancel, you must make available to the seller at your residence, in substantially as good condition as when received, any goods delivered to you under this contract or sale, or you may, if you wish, comply with the instructions of the seller regarding the return shipment of the goods at the seller’s expense and risk.

If you do make the goods available to the seller and the seller does not pick them up within 20 days of the date of your notice of cancellation, you may retain or dispose of the goods without any further obligation. If you fail to make the goods available to the seller, or if you agree to return the goods to the seller and fail to do so, then you remain liable for performance of all obligations under the contract.”

To cancel this transaction, mail or deliver a signed and dated copy of this cancellation notice, or any other written notice, or send a telegram

to \_\_\_\_\_,  
/name of seller/

at \_\_\_\_\_  
/address of seller’s place of business/

not later than midnight of \_\_\_\_\_.  
(Date)

I hereby cancel this transaction. \_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Buyer’s signature)

(7) (A) The following notice entitled “Seven-Day Right to Cancel” shall be provided to the buyer for any contract that is written for the repair or restoration of residential premises damaged by any sudden or catastrophic event for which a state of emergency has been declared by the President of the United States or the

1 Governor, or for which a local emergency has been declared by  
2 the executive officer or governing body of any city, county, or city  
3 and county:

4 “Seven-Day Right to Cancel

5 You, the buyer, have the right to cancel this contract within seven  
6 business days. You may cancel by e-mailing, mailing, faxing, or  
7 delivering a written notice to the contractor at the contractor’s  
8 place of business by midnight of the seventh business day after  
9 you received a signed and dated copy of the contract that includes  
10 this notice. Include your name, your address, and the date you  
11 received the signed copy of the contract and this notice.

12 If you cancel, the contractor must return to you anything you  
13 paid within 10 days of receiving the notice of cancellation. For  
14 your part, you must make available to the contractor at your  
15 residence, in substantially as good condition as you received them,  
16 goods delivered to you under this contract or sale. Or, you may,  
17 if you wish, comply with the contractor’s instructions on how to  
18 return the goods at the contractor’s expense and risk. If you do  
19 make the goods available to the contractor and the contractor does  
20 not pick them up within 20 days of the date of your notice of  
21 cancellation, you may keep them without any further obligation.  
22 If you fail to make the goods available to the contractor, or if you  
23 agree to return the goods to the contractor and fail to do so, then  
24 you remain liable for performance of all obligations under the  
25 contract.”

26 (B) The “Seven-Day Right to Cancel” notice required by this  
27 subdivision shall comply with all of the following:

- 28 (i) The text of the notice is at least 12-point boldface type.  
29 (ii) The notice is in immediate proximity to a space reserved  
30 for the owner’s signature.  
31 (iii) The owner acknowledges receipt of the notice by signing  
32 and dating the notice form in the signature space.  
33 (iv) The notice is written in the same language, e.g., Spanish,  
34 as that principally used in any oral sales presentation.  
35 (v) The notice may be attached to the contract if the contract  
36 includes, in at least 12-point boldface type, a checkbox with the  
37 following statement: “The law requires that the contractor give  
38 you a notice explaining your right to cancel. Initial the checkbox  
39 if the contractor has given you a ‘Notice of the Seven-Day Right  
40 to Cancel.’”

(vi) The notice shall be accompanied by a completed form in duplicate, captioned "Notice of Cancellation," which shall also be attached to the agreement or offer to purchase and be easily detachable, and which shall contain the following statement written in the same language, e.g., Spanish, as used in the contract:

"Notice of Cancellation"

/enter date of transaction/

(Date)

"You may cancel this transaction, without any penalty or obligation, within seven business days from the above date.

If you cancel, any property traded in, any payments made by you under the contract or sale, and any negotiable instrument executed by you will be returned within 10 days following receipt by the seller of your cancellation notice, and any security interest arising out of the transaction will be canceled.

If you cancel, you must make available to the seller at your residence, in substantially as good condition as when received, any goods delivered to you under this contract or sale, or you may, if you wish, comply with the instructions of the seller regarding the return shipment of the goods at the seller's expense and risk.

If you do make the goods available to the seller and the seller does not pick them up within 20 days of the date of your notice of cancellation, you may retain or dispose of the goods without any further obligation. If you fail to make the goods available to the seller, or if you agree to return the goods to the seller and fail to do so, then you remain liable for performance of all obligations under the contract."

To cancel this transaction, mail or deliver a signed and dated copy of this cancellation notice, or any other written notice, or send a telegram

to \_\_\_\_\_,

/name of seller/

at \_\_\_\_\_

/address of seller's place of business/

not later than midnight of \_\_\_\_\_.

(Date)

I hereby cancel this transaction. \_\_\_\_\_

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\_\_\_\_\_  
(Buyer's signature)

SEC. 36. Section 7159.10 of the Business and Professions Code is amended to read:

7159.10. (a) (1) "Service and repair contract" means an agreement between a contractor or salesperson for a contractor, whether a general contractor or a specialty contractor, who is licensed or subject to be licensed pursuant to this chapter with regard to the transaction, and a homeowner or a tenant, for the performance of a home improvement as defined in Section 7151, that conforms to the following requirements:

(A) The contract amount is seven hundred fifty dollars (\$750) or less.

(B) The prospective buyer initiated contact with the contractor to request the work.

(C) The contractor does not sell the buyer goods or services beyond those reasonably necessary to take care of the particular problem that caused the buyer to contact the contractor.

(D) No payment is due, or accepted by the contractor, until the work is completed.

(2) As used in this subdivision, "the work is completed" means that all of the conditions that caused the buyer to contact the contractor for service and repairs have been fully corrected and, if applicable, the building department has accepted and approved the corrective work.

(b) For any contract written pursuant to subdivision (a) or otherwise presented to the buyer as a service and repair contract, unless all of the conforming requirements for service and repair contracts specified in subdivision (a) are met, the contract requirements for home improvements set forth in subdivisions (c), (d), and (e) of Section 7159 shall be applicable, including any rights to rescind the contract as set forth in Section 1689.6 or 1689.7 of the Civil Code, regardless of the aggregate contract price.

(c) If all of the requirements of subdivision (a) are met, only those notices and other requirements set forth in this section are applicable to the contract.

- 1 (d) Every service and repair contract described in subdivision  
2 (a) shall include, or otherwise comply with, all of the following:
- 3 (1) The contract, any changes to the contract, and any  
4 attachments shall be in writing and signed or acknowledged by  
5 the parties as set forth in this section, and shall be written in the  
6 same language (for example Spanish) as principally used in the  
7 oral sales presentation.
- 8 (2) The writing shall be legible.
- 9 (3) Any printed form shall be readable. Unless a larger typeface  
10 is specified in this article, the text shall be in at least 10-point  
11 typeface and the headings shall be in at least 10-point boldface  
12 type.
- 13 (4) Before any work is started, the contractor shall give the  
14 buyer a copy of the contract signed and dated by the buyer and by  
15 the contractor or the contractor's representative.
- 16 (5) The name, business address, and license number of the  
17 contractor.
- 18 (6) The date the contract was signed.
- 19 (7) (A) A notice concerning commercial general liability  
20 insurance. This notice may be provided as an attachment to the  
21 contract if the contract includes the statement, "A notice concerning  
22 commercial general liability insurance is attached to this contract."  
23 The notice shall include the heading "Commercial General Liability  
24 Insurance (CGL)" followed by whichever of the following  
25 statements is both relevant and correct:
- 26 (A) "(The name on the license or ~~This~~ 'This contractor') does  
27 not carry commercial general liability insurance."
- 28 (B) "(The name on the license or ~~This~~ 'This contractor') carries  
29 commercial general liability insurance written by (the insurance  
30 company). You may call the (insurance company) at \_\_\_\_ to check  
31 the contractor's insurance coverage."
- 32 (C) "(The name on the license or ~~This~~ 'This contractor') is  
33 self-insured."
- 34 (D) "(The name on the license or 'This contractor') is a limited  
35 liability company that carries liability insurance or maintains other  
36 security as required by law. You may call (the insurance company  
37 or trust company or bank) at \_\_\_\_ to check on the contractor's  
38 insurance coverage or security."
- 39 (8) A notice concerning workers' compensation insurance. This  
40 notice may be provided as an attachment to the contract if the

1 contract includes the statement “A notice concerning workers’  
2 compensation insurance is attached to this contract.” The notice  
3 shall include the heading “Workers’ Compensation Insurance”  
4 followed by whichever of the following statements is both relevant  
5 and correct:

6 (A) “(The name on the license or ~~This~~ ‘*This* contractor’) has  
7 no employees and is exempt from workers’ compensation  
8 requirements.”

9 (B) “(The name on the license or ~~This~~ ‘*This* contractor’) carries  
10 workers’ compensation insurance for all employees.”

11 (e) Every service and repair contract described in subdivision  
12 (a) shall provide the following information, notices, and disclosures  
13 in the contract:

14 (1) Notice of the type of contract in at least 10-point boldface  
15 type: “Service and Repair.”

16 (2) A notice in at least 12-point boldface type, signed and dated  
17 by the buyer: “Notice to the Buyer: The law requires that service  
18 and repair contracts must meet all of the following requirements:

19 (A) The price must be no more than seven hundred and fifty  
20 dollars (\$750).

21 (B) You, the buyer, must have initiated contact with the  
22 contractor to request the work.

23 (C) The contractor must not sell you goods or services beyond  
24 those reasonably necessary to take care of the particular problem  
25 that caused you to contact the contractor.

26 (D) No payment is due and the contractor may not accept any  
27 payment until the work is completed.”

28 (3) The notice in at least 12-point boldface type: “Notice to the  
29 Buyer: You are entitled to a completely filled in and signed copy  
30 of this agreement before any work may be started.”

31 (4) If applicable, the heading “List of Documents to be  
32 Incorporated into the Contract,” followed by the list of documents  
33 to be incorporated into the contract.

34 (5) Where the contract is a fixed contract amount, the heading:  
35 “Contract Price” followed by the amount of the contract in dollars  
36 and cents.

37 (6) If a finance charge will be charged, the heading: “Finance  
38 Charge” followed by the amount in dollars and cents. The finance  
39 charge is to be set out separately from the contract amount.

1 (7) Where the contract is estimated by a time and materials  
2 formula, the heading “Estimated Contract Price” followed by the  
3 estimated contract amount in dollars and cents. The contract must  
4 disclose the set rate and the estimated cost of materials. The  
5 contract must also disclose how time will be computed, for  
6 example, in increments of quarter hours, half hours, or hours, and  
7 the statement: “The actual contract amount of a time and materials  
8 contract may not exceed the estimated contract amount without  
9 written authorization from the buyer.”

10 (8) The heading: “Description of the Project and Materials to  
11 be Used and Equipment to be Installed” followed by a description  
12 of the project and materials to be used and equipment to be  
13 installed.

14 (9) The statement: “The law requires that the contractor offer  
15 you any parts that were replaced during the service call. If you do  
16 not want the parts, initial the checkbox labeled ~~OK~~ *OK* for  
17 contractor to take replaced parts.”

18 (10) A checkbox labeled “OK for contractor to take replaced  
19 parts.”

20 (11) If a service charge is charged, the heading “Amount of  
21 Service Charge” followed by the service charge, and the statement  
22 “You may be charged only one service charge, including any trip  
23 charge or inspection fee.”

24 (12) (A) The contract, or an attachment to the contract as  
25 specified under subparagraph (C) of this paragraph, must include,  
26 in immediate proximity to the space reserved for the buyer’s  
27 signature, the following statement, ~~in a size equal at least to~~ *at*  
28 *least* 12-point boldface type, which shall be dated and signed by  
29 the buyer:

30 **“YOUR RIGHTS TO CANCEL BEFORE WORK BEGINS**

31 (A) You, the buyer, have the right to cancel this contract until:

32 1. You receive a copy of this contract signed and dated by you  
33 and the contractor; and

34 2. The contractor starts work.

35 (B) However, even if the work has begun you, the buyer, may  
36 still cancel the contract for any of the reasons specified in items 1  
37 through 4 of this paragraph. If any of these reasons occur, you may  
38 cancel the contract within three business days of signing the  
39 contract for normal service and repairs, or within seven business  
40 days of signing a contract to repair or correct conditions resulting

1 from any sudden or catastrophic event for which a state of  
2 emergency has been declared by the President of the United States  
3 or the Governor, or for which a local emergency has been declared  
4 by the executive officer or governing body of any city, county, or  
5 city and county:

6 1. You may cancel the contract if the price, including all labor  
7 and materials, is more than seven hundred fifty dollars (\$750).

8 2. You may cancel the contract if you did not initiate the contact  
9 with the contractor to request the work.

10 3. You may cancel the contract if the contractor sold you goods  
11 or services beyond those reasonably necessary to take care of the  
12 particular problem that caused you to contact the contractor.

13 4. You may cancel the contract if the payment was due or the  
14 contractor accepted any money before the work was complete.

15 (C) If any of these reasons for canceling occurred, you may  
16 cancel the contract as specified under paragraph (B) above by  
17 e-mailing, mailing, faxing, or delivering a written notice to the  
18 contractor at the contractor's place of business within three  
19 business days or, if applicable, seven business days of the date you  
20 received a signed and dated copy of this contract. Include your  
21 name, your address, and the date you received a signed copy of  
22 the contract and this notice.

23 If you cancel, the contractor must return to you anything you  
24 paid within 10 days of receiving the notice of cancellation. For  
25 your part, you must make available to the contractor at your  
26 residence, in substantially as good condition as you received it,  
27 any goods delivered to you under this contract. Or, you may, if  
28 you wish, comply with the contractor's instructions on how to  
29 return the goods at the contractor's expense and risk. If you make  
30 the goods available to the contractor and the contractor does not  
31 pick them up within 20 days of the date of your notice of  
32 cancellation, you may keep them without any further obligation.  
33 If you fail to make the goods available to the contractor, or if you  
34 agree to return the goods to the contractor and fail to do so, then  
35 you remain liable for performance of all obligations under the  
36 contract."

37 (B) This paragraph does not apply to home improvement  
38 contracts entered into by a person who holds an alarm company  
39 operator's license issued pursuant to Chapter 11.6 (commencing



1 with Section 7590), provided the person complies with Sections  
2 1689.5, 1689.6, and 1689.7 of the Civil Code, as applicable.

3 (C) The notice required in this paragraph may be incorporated  
4 as an attachment to the contract if the contract includes a checkbox  
5 and whichever statement is relevant in at least 12-point boldface  
6 type:

7 (i) “The law requires that the contractor give you a notice  
8 explaining your right to cancel. Initial the checkbox if the  
9 contractor has given you a ~~Notice~~ *Notice of Your Right to*  
10 *Cancel.*”

11 (ii) “The law requires that the contractor give you a notice  
12 explaining your right to cancel contracts for the repair or restoration  
13 of residential premises damaged by a disaster. Initial the checkbox  
14 if the contractor has given you a ~~Notice~~ *Notice of Your Right to*  
15 *Cancel.*”

16 (f) A bona fide service repairperson employed by a licensed  
17 contractor or subcontractor hired by a licensed contractor may  
18 enter into a service and repair contract on behalf of that contractor.

19 (g) The provisions of this section are not exclusive and do not  
20 relieve the contractor from compliance with any other applicable  
21 provision of law.

22 SEC. 37. Section 17002 of the Corporations Code is amended  
23 to read:

24 17002. (a) Subject to any limitations contained in the articles  
25 of organization and to compliance with any other applicable laws,  
26 a limited liability company may engage in any lawful business  
27 activity, whether or not for profit, except the banking business,  
28 the business of issuing policies of insurance and assuming  
29 insurance risks, or the trust company business.

30 (b) Notwithstanding subdivision (a) and as specifically provided  
31 in this subdivision, a limited liability company may operate as a  
32 health care service plan licensed pursuant to Chapter 2.2  
33 (commencing with Section 1340) of Division 2 of the Health and  
34 Safety Code if the limited liability company is a subsidiary of a  
35 health care service plan licensed pursuant to those provisions and  
36 the limited liability company is established to serve an existing  
37 line of business of the parent health care service plan.  
38 Notwithstanding any other provision of law, the tort or contract  
39 liability of a limited liability company created to operate as a health  
40 care service plan under this subdivision and its members is not

1 limited or restricted in any manner because of the limited liability  
2 company status of the health care service plan.

3 (c) Notwithstanding Section 17375, a limited liability company  
4 may render services that may be lawfully rendered only pursuant  
5 to a license, certificate, or registration authorized by the Business  
6 and Professions Code if the applicable provisions of the Business  
7 and Professions Code authorize a limited liability company to hold  
8 that license, certificate, or registration.

9 SEC. 38. No reimbursement is required by this act pursuant to  
10 Section 6 of Article XIII B of the California Constitution because  
11 the only costs that may be incurred by a local agency or school  
12 district will be incurred because this act creates a new crime or  
13 infraction, eliminates a crime or infraction, or changes the penalty  
14 for a crime or infraction, within the meaning of Section 17556 of  
15 the Government Code, or changes the definition of a crime within  
16 the meaning of Section 6 of Article XIII B of the California  
17 Constitution.

18 SEC. 39. *This act shall become operative on July 1, 2011.*