

AMENDED IN SENATE APRIL 21, 2009

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SENATE BILL

No. 392

Introduced by Senator Florez

February 26, 2009

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, *responsible managing member*, 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 provide for the personal liability of persons within the limited liability company in a certain instance, except 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."

Existing law makes it unlawful for a person who has been a member, officer, director, or responsible managing officer of a licensed organization to individually engage in the business of a contractor without a license.

This bill would extend that prohibition to individuals listed in the personnel of record of the licensed organization and to certain other managing persons in the organization.

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; *and* 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 thereof.

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

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

6 7028.5. It is unlawful for a person who is or has been a partner,
7 officer, director, manager, responsible managing employee,
8 *responsible managing member*, responsible managing manager,
9 or responsible managing officer of, *or an individual who is listed*
10 *in the personnel of record of*, a licensed copartnership, corporation,
11 limited liability company, firm, association or other organization
12 to individually engage in the business or individually act in the
13 capacity of a contractor within this state without having a license
14 in good standing to so engage or act.

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

17 7029. A joint venture license is a license issued to any
18 combination of individuals, corporations, limited liability
19 companies, partnerships, or other joint ventures, each of which
20 holds a current, active license in good standing. A joint venture
21 license may be issued in any classification in which at least one
22 of the entities is licensed. An active joint venture license shall be
23 automatically suspended by operation of law during any period in
24 which any member of the entity does not hold a current, active
25 license in good standing.

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

28 7065. Under rules and regulations adopted by the board and
29 approved by the director, the registrar shall investigate, classify,
30 and qualify applicants for contractors’ licenses by written
31 examination. This examination shall include questions designed
32 to show that the applicant has the necessary degree of knowledge
33 required by Section 7068 and shall include pertinent questions
34 relating to the laws of this state, and the contracting business and
35 trade. Contractors’ licenses are to be issued to individual owners,
36 copartnerships, corporations, and limited liability companies. An
37 individual owner may qualify by examination for a contractor’s
38 license upon the appearance of the owner or a qualifying individual
39 appearing as a responsible managing employee on behalf of the
40 owner. A copartnership may qualify by examination for a

1 contractor's license upon the appearance of a copartner or a
2 qualifying individual appearing as a responsible managing
3 employee on behalf of the copartnership. A corporation may qualify
4 by examination for a contractor's license upon the appearance of
5 a qualifying individual appearing either as a responsible managing
6 officer or a responsible managing employee on behalf of the
7 corporation. A limited liability company may qualify by
8 examination for a contractor's license upon the appearance of a
9 qualifying individual appearing as a responsible managing officer,
10 a responsible managing manager, *responsible managing member*,
11 or a responsible managing employee on behalf of the company.
12 No examination shall be required of a qualifying individual if,
13 within the five-year period immediately preceding the application
14 for licensure, the qualifying individual has either personally passed
15 the written examination for the same classification being applied
16 for, or has served as the qualifying individual for a licensee whose
17 license was in good standing at any time during the five-year period
18 immediately preceding the application for licensure and in the
19 same classification being applied for.

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

22 7065.1. Notwithstanding Section 7065, the registrar may waive
23 the examination for a contractor's license under any of the
24 following circumstances:

25 (a) The qualifying individual has, for five of the seven years
26 immediately preceding the application for licensure, been listed
27 on the official records of the board as a member of the personnel
28 of any licensee who held a license, which was active and in good
29 standing, in the same classification being applied for, and who
30 during the period listed on the license has been actively engaged
31 in a licensee's construction activities in the same classification
32 within which the applicant applies for a license.

33 (b) The qualifying individual is an immediate member of the
34 family of a licensee whose individual license was active and in
35 good standing for five of the seven years immediately preceding
36 the application for licensure, and the qualifying individual is able
37 to show all of the following:

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

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

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

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

9 (1) For five of the seven years immediately preceding the
10 application for licensure, the qualifying individual has been
11 continually employed by the corporation or limited liability
12 company in a supervisory capacity in the same classifications being
13 applied for.

14 (2) For five of the seven years immediately preceding the
15 application for licensure, the corporation or limited liability
16 company has held an active license in good standing in the same
17 classifications being applied for.

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

20 For purposes of this section, employees of a corporation or
21 limited liability company shall include, but not be limited to, the
22 officers of a corporation and the officers and managers of a limited
23 liability company.

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

26 7065.5. No license shall be issued to a minor, nor to any
27 copartnership a partner of which is a minor, nor to any corporation
28 any officer, director or responsible managing employee of which
29 is a minor, nor to any limited liability company any officer,
30 manager, or responsible managing employee of which is a minor,
31 nor to any other kind of business organization in which a minor
32 holds a responsible official position, unless the minor shall first
33 have had a guardian appointed by a court of competent jurisdiction.

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

36 7068. (a) The board shall require an applicant to show the
37 degree of knowledge and experience in the classification applied
38 for, and the general knowledge of the building, safety, health, and
39 lien laws of the state and of the administrative principles of the

1 contracting business that the board deems necessary for the safety
2 and protection of the public.

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

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

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

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

17 (4) If a limited liability company, it shall qualify by the
18 appearance of a responsible managing officer, a responsible
19 managing manager, *responsible managing member*, or a
20 responsible managing employee who is qualified for the same
21 license classification as the classification being applied for.

22 (c) A responsible managing employee for the purpose of this
23 chapter shall mean an individual who is a bona fide employee of
24 the applicant and is actively engaged in the classification of work
25 for which that responsible managing employee is the qualifying
26 person on behalf of the applicant.

27 (d) The board shall, in addition, require an applicant who
28 qualifies by means of a responsible managing employee under
29 either paragraph (1) or (2) of subdivision (b) to show his or her
30 general knowledge of the building, safety, health, and lien laws of
31 the state and of the administrative principles of the contracting
32 business as the board deems necessary for the safety and protection
33 of the public.

34 (e) Except in accordance with Section 7068.1, no person
35 qualifying on behalf of an individual or firm under paragraph (1),
36 (2), (3), or (4) of subdivision (b) shall hold any other active
37 contractor's license while acting in the capacity of a qualifying
38 individual pursuant to this section.

39 (f) At the time of application for renewal of a license, the current
40 qualifying individual shall file a statement with the registrar, on a

1 form prescribed by the registrar, verifying his or her capacity as a
2 qualifying individual to the licensee.

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

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

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

13 7068.1. The person qualifying on behalf of an individual or
14 firm under paragraph (1), (2), (3), or (4) of subdivision (b) of
15 Section 7068 shall be responsible for exercising that direct
16 supervision and control of his or her employer's or principal's
17 construction operations as is necessary to secure full compliance
18 with the provisions of this chapter and the rules and regulations
19 of the board relating to the construction operations. This person
20 shall not act in the capacity of the qualifying person for an
21 additional individual or firm unless one of the following conditions
22 exists:

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

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

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

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

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

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

1 The board shall require every applicant or licensee qualifying
2 by the appearance of a qualifying individual to submit detailed
3 information on the qualifying individual's duties and
4 responsibilities for supervision and control of the applicant's
5 construction operations.

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

8 7068.2. If the responsible managing officer, responsible
9 managing employee, *responsible managing member*, or responsible
10 managing manager, disassociates from the licensed entity, the
11 licensee, or the qualifier shall notify the registrar in writing, and
12 the licensee shall replace the qualifier, within 90 days from the
13 date of disassociation.

14 To replace a responsible managing officer, responsible managing
15 employee, *responsible managing member*, or responsible managing
16 manager, the licensee shall file an application as prescribed by the
17 registrar, accompanied by the fee fixed by this chapter, designating
18 an individual to qualify as required by this chapter.

19 Upon failure to replace the qualifier within 90 days of the
20 disassociation the license shall be automatically suspended or the
21 classification removed at the end of the 90 days.

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

29 Upon failure of the licensee or the qualifier to notify the registrar
30 of the disassociation within 90 days from the date of disassociation,
31 the license shall be automatically suspended or the classification
32 removed and the qualifier removed from the license effective the
33 date the written notification is received at the board's headquarters
34 office.

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

38 Failure of the licensee or the qualifier to notify the registrar of
39 the qualifier's disassociation within 90 days of the disassociation
40 is grounds for disciplinary action.

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

3 7069. (a) An applicant, and each officer, director, partner,
4 manager, associate, and responsible managing employee thereof,
5 shall not have committed acts or crimes that are grounds for denial
6 of licensure under Section 480.

7 (b) As part of an application for a contractor's license, the board
8 shall require an applicant to furnish a full set of fingerprints for
9 purposes of conducting a criminal history record check.
10 Fingerprints furnished pursuant to this subdivision shall be
11 submitted in an electronic format if readily available. Requests for
12 alternative methods of furnishing fingerprints are subject to the
13 approval of the registrar. The board shall use the fingerprints
14 furnished by an applicant to obtain criminal history information
15 on the applicant from the Department of Justice and the United
16 States Federal Bureau of Investigation, and the board may obtain
17 any subsequent arrest information that is available.

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

20 7071. No license shall be issued to a corporation, copartnership,
21 limited liability company, or other combination or organization if
22 a responsible officer or director of the corporation, or other
23 combination or organization, or a partner of the copartnership, or
24 a manager or officer of the limited liability company does not meet
25 the qualifications required of an applicant other than those
26 qualifications relating to knowledge and experience.

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

29 7071.8. (a) This section applies to an application for a license,
30 for renewal or restoration of a license, an application to change
31 officers of a corporation or a limited liability company, or for
32 continued valid use of a license which has been disciplined,
33 whether or not the disciplinary action has been stayed, made by
34 any of the following persons or firms:

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

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

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

10 (4) A partnership, corporation, limited liability company, firm,
11 or association of which an officer, director, manager, partner, or
12 qualifying person was a manager, officer, director, or partner of a
13 licensee at any time during which cause for disciplinary action
14 occurred resulting in suspension or revocation of the license, and
15 who had knowledge of or participated in the act or omission which
16 was the cause for the disciplinary action.

17 (b) The board shall require as a condition precedent to the
18 issuance, reissuance, renewal, or restoration of a license to the
19 applicant, or to the approval of an application to change officers
20 of a corporation or a limited liability company, or removal of
21 suspension, or to the continued valid use of a license which has
22 been suspended or revoked, but which suspension or revocation
23 has been stayed, that the applicant or licensee file or have on file
24 a contractor's bond in a sum to be fixed by the registrar based upon
25 the seriousness of the violation, but which sum shall not be less
26 than fifteen thousand dollars (\$15,000) nor more than 10 times
27 that amount required by Section 7071.6.

28 (c) The bond is in addition to, may not be combined with, and
29 does not replace any other type of bond required by this chapter.
30 The bond shall remain on file with the registrar for a period of at
31 least two years and for any additional time that the registrar
32 determines. The bond period shall run only while the license is
33 current, active, and in good standing, and shall be extended until
34 the license has been current, active, and in good standing for the
35 required period. Each applicant or licensee shall be required to file
36 only one disciplinary contractor's bond of the type described in
37 this section for each application or license subject to this bond
38 requirement.

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

1 7071.9. (a) If the qualifying individual, as referred to in
2 Sections 7068 and 7068.1, is neither the proprietor, a general
3 partner, nor a joint licensee, he or she shall file or have on file a
4 qualifying individual's bond as provided in Section 7071.10 in the
5 sum of twelve thousand five hundred dollars (\$12,500). This bond
6 is in addition to, and may not be combined with, any contractor's
7 bond required by Sections 7071.5 to 7071.8, inclusive, and is
8 required for the issuance, reinstatement, reactivation, or continued
9 valid use of a license.

10 (b) Excluding the claims brought by the beneficiaries specified
11 in paragraph (1) of subdivision (a) of Section 7071.10, the
12 aggregate liability of a surety on claims brought against the bond
13 required by this section shall not exceed the sum of seven thousand
14 five hundred dollars (\$7,500). The bond proceeds in excess of
15 seven thousand five hundred dollars (\$7,500) shall be reserved
16 exclusively for the claims of the beneficiaries specified in
17 paragraph (1) of subdivision (a) of Section 7071.10. However,
18 nothing in this section shall be construed to prevent any beneficiary
19 specified in paragraph (1) of subdivision (a) of Section 7071.10
20 from claiming or recovering the full measure of the bond required
21 by this section. This bond is in addition to, and may not be
22 combined with, any contractor's bond required by Sections 7071.5
23 to 7071.8, inclusive, and is required for the issuance, reinstatement,
24 reactivation, or continued valid use of a license.

25 (c) The responsible managing officer of a corporation shall not
26 be required to file or have on file a qualifying individual's bond,
27 if he or she owns 10 percent or more of the voting stock of the
28 corporation and certifies to that fact on a form prescribed by the
29 registrar.

30 (d) The qualifying individual for a limited liability company
31 shall not be required to file or have on file a qualifying individual's
32 bond if he or she owns at least a 10 percent membership interest
33 in the limited liability company and certifies to that fact on a form
34 prescribed by the registrar.

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

37 7071.11. (a) The aggregate liability of a surety on a claim for
38 wages and fringe benefits brought against a bond required by this
39 article, other than a bond required by Section 7071.8, shall not
40 exceed the sum of four thousand dollars (\$4,000). If a bond

1 required by this article is insufficient to pay all claims in full, the
2 sum of the bond shall be distributed to all claimants in proportion
3 to the amount of their respective claims.

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

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

11 (1) Within two years after the expiration of the license period
12 during which the act or omission occurred. The provisions of this
13 paragraph shall be applicable only if the license has not been
14 inactivated, canceled, or revoked during the license period for
15 which the bond was posted and accepted by the registrar as
16 specified under Section 7071.7.

17 (2) If the license has been inactivated, canceled, or revoked, an
18 action shall be brought within two years of the date the license of
19 the active licensee would have expired had the license not been
20 inactivated, canceled, or revoked. For the provisions of this
21 paragraph to be applicable, the act or omission for which the action
22 is filed must have occurred prior to the date the license was
23 inactivated, canceled, or revoked.

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

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

34 (e) Whenever the surety makes payment on a claim against a
35 bond required by this article, whether or not payment is made
36 through a court action or otherwise, the surety shall, within 30
37 days of the payment, provide notice to the registrar. The notice
38 required by this subdivision shall provide the following information
39 by declaration on a form prescribed by the registrar:

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

- 1 (2) The surety bond number.
- 2 (3) The amount of payment.
- 3 (4) The statutory basis upon which the claim is made.
- 4 (5) The names of the person or persons to whom payments have
- 5 been made.
- 6 (6) Whether or not the payments were the result of a good faith
- 7 action by the surety.

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

10 (f) Prior to the settlement of a claim through a good faith
11 payment by the surety, a licensee shall have not less than 15 days
12 in which to provide a written protest. This protest shall instruct
13 the surety not to make payment from the bond on the licensee's
14 account upon the specific grounds that the claim is opposed by the
15 licensee, and provide the surety a specific and reasonable basis for
16 the licensee's opposition to payment.

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

23 (2) A licensee that fails to file a protest as specified in this
24 subdivision shall have 90 days from the date of notification by the
25 board to submit proof of payment of the actual amount owed to
26 the surety and, if applicable, proof of payment of any judgment or
27 admitted claim in excess of the amount of the bond or, by operation
28 of law, the license shall be suspended at the end of the 90 days. A
29 license suspension pursuant to this subdivision shall be disclosed
30 indefinitely as a failure to settle outstanding final liabilities in
31 violation of this chapter. The disclosure specified by this
32 subdivision shall also be applicable to all licenses covered by the
33 provisions of subdivision (g).

34 (g) No license may be renewed, reissued, or reinstated while a
35 surety remains unreimbursed for a loss or expense sustained on a
36 bond issued for the licensee or for an entity of which an officer,
37 director, partner, manager, or qualifying person was an officer,
38 director, partner, manager, or qualifying person of the licensee
39 while the licensee was subject to suspension or disciplinary action
40 under this section.

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

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

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

11 7071.17. (a) Notwithstanding any other provision of law, the
12 board shall require, as a condition precedent to accepting an
13 application for licensure, renewal, reinstatement, or to change
14 officers or other personnel of record, that an applicant, previously
15 found to have failed or refused to pay a contractor, subcontractor,
16 consumer, materials supplier, or employee based on an unsatisfied
17 final judgment, file or have on file with the board a bond sufficient
18 to guarantee payment of an amount equal to the unsatisfied final
19 judgment or judgments. The applicant shall have 90 days from the
20 date of notification by the board to file the bond or the application
21 shall become void and the applicant shall reapply for issuance,
22 reinstatement, or reactivation of a license. The board may not issue,
23 reinstate, or reactivate a license until the bond is filed with the
24 board. The bond required by this section is in addition to the
25 contractor's bond. The bond shall be on file for a minimum of one
26 year, after which the bond may be removed by submitting proof
27 of satisfaction of all debts. The applicant may provide the board
28 with a notarized copy of any accord, reached with any individual
29 holding an unsatisfied final judgment, to satisfy a debt in lieu of
30 filing the bond. The board shall include on the license application
31 for issuance, reinstatement, or reactivation, a statement, to be made
32 under penalty of perjury, as to whether there are any unsatisfied
33 judgments against the applicant on behalf of contractors,
34 subcontractors, consumers, materials suppliers, or the applicant's
35 employees. Notwithstanding any other provision of law, if it is
36 found that the applicant falsified the statement then the license
37 will be retroactively suspended to the date of issuance and the
38 license will stay suspended until the bond, satisfaction of judgment,
39 or notarized copy of any accord applicable under this section is
40 filed.

1 (b) Notwithstanding any other provision of law, all licensees
2 shall notify the registrar in writing of any unsatisfied final judgment
3 imposed on the licensee. If the licensee fails to notify the registrar
4 in writing within 90 days, the license shall be automatically
5 suspended on the date that the registrar is informed, or is made
6 aware of the unsatisfied final judgment. The suspension shall not
7 be removed until proof of satisfaction of the judgment, or in lieu
8 thereof, a notarized copy of an accord is submitted to the registrar.
9 If the licensee notifies the registrar in writing within 90 days of
10 the imposition of any unsatisfied final judgment, the licensee shall,
11 as a condition to the continual maintenance of the license, file or
12 have on file with the board a bond sufficient to guarantee payment
13 of an amount equal to all unsatisfied judgments applicable under
14 this section. The licensee has 90 days from date of notification by
15 the board to file the bond or at the end of the 90 days the license
16 shall be automatically suspended. In lieu of filing the bond required
17 by this section, the licensee may provide the board with a notarized
18 copy of any accord reached with any individual holding an
19 unsatisfied final judgment.

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

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

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

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

34 (g) Except as otherwise provided, the bond shall remain in full
35 force in the amount posted until the entire debt is satisfied. If, at
36 the time of renewal, the licensee submits proof of partial
37 satisfaction of the financial obligations covered by this section,
38 the board may authorize the bond to be reduced to the amount of
39 the unsatisfied portion of the outstanding judgment. When the

1 licensee submits proof of satisfaction of all debts, the bond
2 requirement may be removed.

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

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

10 (j) The qualifying person and any partner of the licensee or
11 personnel of the licensee named as a judgment debtor in an
12 unsatisfied final judgment shall be automatically prohibited from
13 serving as an officer, director, associate, partner, owner, manager,
14 qualifying individual, or other personnel of record of another
15 licensee. This prohibition shall cause the license of any other
16 existing renewable licensed entity with any of the same personnel
17 of record as the judgment debtor licensee to be suspended until
18 the license of the judgment debtor is reinstated or until those same
19 personnel of record disassociate themselves from the renewable
20 licensed entity.

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

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

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

28 7071.19. (a) As a condition of the issuance, reinstatement,
29 reactivation, or continued valid use of a license under this chapter,
30 in addition to any bond required under this article, a limited liability
31 company shall be required to provide security for claims as
32 described in this section. For claims based upon acts, errors, or
33 omissions arising out of the contracting services it provides, the
34 limited liability company shall comply with one, or pursuant to
35 subdivision (b) some combination, of the following:

36 (1) Maintain a policy or policies of insurance against liability
37 imposed on or against it by law for damages arising out of claims.
38 ~~The total aggregate limit of liability under the policy or policies~~
39 ~~of insurance shall be not less than one million dollars (\$1,000,000).~~
40 *However, the total aggregate limit of liability under the policy or*

1 *policies of insurance for a limited liability company that employs*
2 *five or fewer licensed persons shall not be less than one million*
3 *dollars (\$1,000,000), and for a limited liability company that*
4 *employs more than five licensees rendering professional services*
5 *on behalf of the company, an additional one hundred thousand*
6 *dollars (\$100,000) of insurance shall be obtained for each licensee*
7 *except that the maximum amount of insurance is not required to*
8 *exceed five million dollars (\$5,000,000) in any one designated*
9 *period, less amounts paid in defending, settling, or discharging*
10 *claims as set forth in this paragraph. The policy or policies may*
11 *be issued on a claims-made or occurrence basis, and shall cover:*
12 *(A) in the case of a claims-made policy, claims initially asserted*
13 *in the designated period, and (B) in the case of an occurrence*
14 *policy, occurrences during the designated period. For purposes of*
15 *this paragraph, “designated period” means a policy year or any*
16 *other period designated in the policy that is not greater than 12*
17 *months. The impairment or exhaustion of the aggregate limit of*
18 *liability by amounts paid under the policy in connection with the*
19 *settlement, discharge, or defense of claims applicable to a*
20 *designated period shall not require the company to acquire*
21 *additional insurance coverage for that designated period. The policy*
22 *or policies of insurance may be in a form reasonably available in*
23 *the commercial insurance market and may be subject to those*
24 *terms, conditions, exclusions, and endorsements that are typically*
25 *contained in those policies. A policy or policies of insurance*
26 *maintained pursuant to this subparagraph may be subject to a*
27 *deductible or self-insured retention.*

28 Upon the dissolution and winding up of the company, the
29 company shall, with respect to any insurance policy or policies
30 then maintained pursuant to this paragraph, maintain or obtain an
31 extended reporting period endorsement or equivalent provision in
32 the maximum total aggregate limit of liability required to comply
33 with this paragraph for a minimum of three years if reasonably
34 available from the insurer.

35 (2) Maintain in trust or bank escrow, cash, bank certificates of
36 deposit, United States Treasury obligations, bank letters of credit,
37 or bonds of insurance or surety companies as security for payment
38 of liabilities imposed by law for damages arising out of all ~~claims~~
39 ~~in an amount of at least five hundred thousand dollars (\$500,000).~~
40 *claims. However, the maximum amount of security for a limited*

1 *liability company that employs five or fewer licensed persons shall*
2 *not be less than one million dollars (\$1,000,000), and for a limited*
3 *liability company that employs more than five licensees rendering*
4 *professional services on behalf of the company, an additional one*
5 *hundred thousand dollars (\$100,000) of security shall be obtained*
6 *for each licensee except that the maximum amount of security is*
7 *not required to exceed five million dollars (\$5,000,000). The*
8 company remains in compliance with this section during a calendar
9 year notwithstanding amounts paid during that calendar year from
10 the accounts, funds, Treasury obligations, letters of credit, or bonds
11 in defending, settling, or discharging claims of the type described
12 in this paragraph, provided that the amount of those accounts,
13 funds, Treasury obligations, letters of credit, or bonds were at least
14 the amount specified in the preceding sentence as of the first
15 business day of that calendar year. Notwithstanding the pendency
16 of other claims against the company, a limited liability company
17 shall be deemed to be in compliance with this paragraph as to a
18 claim if within 30 days after the time that a claim is initially
19 asserted through service of a summons, complaint, or comparable
20 pleading in a judicial or administrative proceeding, the company
21 has provided the required amount of security by designating and
22 segregating funds in compliance with the requirements of this
23 paragraph.

24 (b) For purposes of satisfying the security requirements of this
25 section, a limited liability company may aggregate the security
26 provided by it pursuant to paragraphs (1) and (2) of subdivision
27 (a).

28 (c) At the time of licensing pursuant to this article, a limited
29 liability company shall file with the registrar information, in the
30 manner prescribed by the registrar, and accompanied by all
31 documentation requested by the registrar, demonstrating
32 compliance with the financial security requirements of this section.

33 (d) If the security requirements of this section are satisfied
34 wholly, or in part, with an insurance policy, then a certification of
35 coverage shall be submitted to the commissioner by the licensee
36 or applicant, and signed by an authorized agent or employee of
37 the insurer. The certification of coverage shall be in a form
38 prescribed by the registrar.

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

1 7072.5. (a) Upon the issuance of a license, a plasticized pocket
2 card of a size, design, and content as may be determined by the
3 registrar shall be issued at no cost to each licensee, or to the
4 partners, managers, officers, or responsible managing officers of
5 licensees licensed as other than individuals, which card shall be
6 evidence that the licensee is duly licensed pursuant to this chapter.
7 All cards issued shall be surrendered upon the suspension,
8 revocation, or denial of renewal of the license, and shall be mailed
9 or delivered to the board within five days of the suspension,
10 revocation, or denial.

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

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

18 7075.1. (a) No license, regardless of type or classification,
19 shall be transferable to any other person or entity under any
20 circumstances.

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

24 (1) To an individual upon application.

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

27 (3) To a corporation upon application if there is no change in
28 the status of the corporation as registered with the Secretary of
29 State.

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

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

35 (1) To a corporation when the parent corporation has merged
36 or created a subsidiary, the subsidiary has merged into the parent
37 corporation, or the corporation has changed its filing status with
38 the Secretary of State from a domestic corporation to a foreign
39 corporation or from a foreign corporation to a domestic corporation,

1 and the new entity is being formed to continue the business of the
2 formerly licensed corporation.

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

12 (3) To an individual when the individual is an immediate family
13 member of a licensed individual who is deceased or absent and
14 the license is required to continue an existing family contracting
15 business.

16 (4) To a corporation or limited liability company when created
17 by immediate members of an individual licensee's family to
18 continue an existing deceased or absent individual licensee's
19 contracting business.

20 (5) To a corporation or limited liability company when the
21 corporation or limited liability company is formed by an individual
22 licensee and the individual licensee maintains ownership directly
23 or indirectly of shares or membership interests evidencing more
24 than 50 percent of the voting power.

25 (6) To a corporation or limited liability company that acquires
26 a licensee pursuant to an asset sale provided that the corporation
27 or limited liability company has a qualifier as required by Section
28 7068.

29 For purposes of this section, an immediate family member of a
30 deceased or absent licensed individual is either a spouse, father,
31 mother, brother, sister, son, daughter, stepson, stepdaughter,
32 grandson, granddaughter, ~~grandfather, grandmother~~, son-in-law,
33 or daughter-in-law.

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

36 7076. (a) An individual license shall be canceled upon the
37 death of a person licensed as an individual. An immediate member
38 of the family of the deceased licensee may request a continuance
39 of the license to complete projects in progress and undertake new
40 work for a reasonable amount of time to be determined by rules

1 of the board. The request for a continuance must be made in writing
2 and received at the board's headquarters office within 90 days
3 after the death. Approval of the continuance of an individual license
4 may be contingent upon meeting the bond requirements of Sections
5 7071.5 and 7071.6 within 90 days of notification by the board of
6 that requirement. The immediate member of the family must apply
7 for and obtain his or her own license to continue contracting after
8 the continuance expires.

9 (b) A partnership license shall be canceled upon the death of a
10 general partner. The remaining partner or partners shall notify the
11 registrar in writing within 90 days of the death of a general partner.
12 Failure to notify the registrar within 90 days of the death is grounds
13 for disciplinary action.

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

22 (c) A partnership license shall be canceled upon the
23 disassociation of a general partner or upon the dissolution of the
24 partnership. The disassociating partner or the remaining partner
25 or partners shall notify the registrar in writing within 90 days of
26 the disassociation of a general partner or dissolution of the
27 partnership. Failure to notify the registrar of the disassociation or
28 dissolution within 90 days shall cause the license to be canceled
29 effective the date the written notification is received at the board's
30 headquarters office. Failure to notify the registrar within 90 days
31 of the disassociation or dissolution is grounds for disciplinary
32 action. The remaining general partner or partners may request a
33 continuance of the license to complete projects contracted for or
34 in progress prior to the date of disassociation or dissolution for a
35 reasonable length of time to be determined by rules of the board.
36 The request for a continuance must be made in writing and received
37 at the board's headquarters office within 90 days after the
38 disassociation or dissolution. The remaining general partner or
39 partners must apply for and obtain a new license to undertake new
40 work and to continue contracting after the continuance expires.

1 (d) The general partner or partners shall notify the registrar in
2 writing within 90 days of the death of a limited partner. Failure to
3 notify the registrar within 90 days of the death is grounds for
4 disciplinary action.

5 The death of a limited partner will not affect the partnership
6 license unless the partnership license has only one limited partner.
7 In this case, the license will be canceled upon the death of the
8 limited partner unless a new limited partner is added to the license
9 within 90 days of the death.

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

18 (e) The general partner or partners shall notify the registrar in
19 writing within 90 days of the disassociation of a limited partner.
20 Failure to notify the registrar of the disassociation, within 90 days,
21 shall cause the disassociation to be effective the date the written
22 notification is received at the board's headquarters office. Failure
23 to notify the registrar within 90 days of the disassociation is
24 grounds for disciplinary action.

25 The disassociation of a limited partner will not affect the
26 partnership license unless the partnership license has only one
27 limited partner. In this case, the license will be canceled upon the
28 disassociation of the limited partner unless a new limited partner
29 is added to the license within 90 days of the disassociation. If the
30 license is canceled, the remaining general partner or partners may
31 request a continuance of the license to complete projects contracted
32 for or in progress prior to the date of disassociation for a reasonable
33 amount of time to be determined by rules of the board. The request
34 for a continuance must be made in writing and received at the
35 board's headquarters office within 90 days after the death. The
36 remaining general partner or partners must apply for and obtain a
37 new license to undertake new work and to continue contracting
38 after the continuance expires.

39 (f) A joint venture license shall be canceled upon the
40 cancellation, revocation, or disassociation of any of its entity

1 licenses or upon the dissolution of the joint venture. The registrar
2 shall be notified in writing within 90 days of the disassociation of
3 a joint venture entity or dissolution of the joint venture. Failure to
4 notify the registrar of the disassociation or dissolution within 90
5 days shall cause the license to be canceled effective the date the
6 written notification is received at the board's headquarters office.
7 Failure to notify the registrar within 90 days of the disassociation
8 or dissolution is grounds for disciplinary action.

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

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

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

34 (i) A limited liability company license shall be canceled upon
35 the company's dissolution, merger, or surrender of its right to do
36 business in this state. The limited liability company shall notify
37 the registrar in writing within 90 days of the dissolution, merger,
38 or surrender. Failure to notify the registrar of the dissolution,
39 merger, or surrender within 90 days shall cause the license to be
40 canceled effective the date written notification is received at the

1 board's headquarters office. If the limited liability company fails
2 to notify the board of the dissolution, merger, or surrender, the
3 limited liability company license shall be canceled 60 days after
4 the board's discovery when researching the records of the Secretary
5 of State. Failure to notify the registrar within 90 days of the
6 dissolution, merger, or surrender is grounds for disciplinary action.

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

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

13 7076.2. (a) Notwithstanding any other provision of law, the
14 failure of a contractor licensed to do business as a corporation or
15 limited liability company in this state to be registered and in good
16 standing with the Secretary of State after notice from the registrar
17 shall result in the automatic suspension of the license by operation
18 of law. The registrar shall notify the licensee in writing of its failure
19 to be registered and in good standing with the Secretary of State
20 and that the licensee shall be suspended 30 days from the date of
21 the notice if the licensee does not provide proof satisfactory to the
22 registrar that it is properly registered and in good standing with
23 the Secretary of State. Reinstatement may be made at any time
24 following the suspension by providing proof satisfactory to the
25 registrar that the license is properly registered and in good standing.

26 (b) *Where the license of a limited liability company is suspended*
27 *pursuant to subdivision (a), each person within the company*
28 *identified in Section 7028.5 shall be personally liable up to one*
29 *million dollars (\$1,000,000) each for damages resulting to third*
30 *parties in connection with the company's performance, during the*
31 *period of suspension, of any act or contract where a license is*
32 *required by this chapter. This personal liability shall not apply*
33 *where there has been substantial compliance with the licensure*
34 *requirements, as described in subdivision (e) of Section 7031.*

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

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

1 (2) The registrar shall notify the licensee by certified mail of
2 the failure to comply with the arbitrator's award, and that the
3 license shall be automatically suspended 30 calendar days from
4 the date of that notice.

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

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

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

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

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

37 7090.1. (a) (1) Notwithstanding any other provisions of law,
38 the failure to pay a civil penalty, or to comply with an order of
39 correction or an order to pay a specified sum to an injured party
40 in lieu of correction once the order has become final, shall result

1 in the automatic suspension of a license by operation of law 30
2 days after noncompliance with the terms of the order.

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

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

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

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

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

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

1 7096. For the purposes of this chapter, the term “licensee” shall
2 include an individual, copartnership, corporation, limited liability
3 company, joint venture, or any combination or organization
4 licensed under this chapter, and shall also include any named
5 responsible managing officer, responsible managing manager,
6 *responsible managing member*, or personnel of that licentiate
7 whose appearance has qualified the licentiate under the provisions
8 of Section 7068.

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

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

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

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

1 any of the prohibited acts for which the citation was issued. Section
2 7121 shall apply to a partner, officer, director, manager, or
3 associate of a licensee that fails to comply with a citation after it
4 is final.

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

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

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

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

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

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

26 (3) The individual is not eligible for reinstatement for licensure
27 under Section 7102.

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

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

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

37 (3) The individual is not eligible for reinstatement for licensure
38 under Section 7102.

39 (c) A violation of this section is a misdemeanor punishable by
40 a fine of not less than four thousand five hundred dollars (\$4,500),

1 by imprisonment in a county jail for not less than 90 days nor more
2 than one year, or by both the fine and imprisonment. The penalty
3 provided by this subdivision is cumulative to the penalties available
4 under other laws of this state.

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

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

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

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

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

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

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

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

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

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

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

16 7137. The board shall set fees by regulation. These fees shall
17 not exceed the following schedule:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22 7138. Notwithstanding any other provision of law, a fee paid
23 in connection with a service or application covered by Section
24 7137 shall accrue to the Contractors' License Fund as an earned
25 fee and shall not be refunded.

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

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

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

36 (1) An officer of record of a corporation licensed pursuant to
37 this chapter, or a manager of record of a limited liability company
38 licensed pursuant to this chapter.

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

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

2 (4) A salesperson whose sales are all made pursuant to
3 negotiations between the parties if the negotiations are initiated
4 by the prospective buyer at or with a general merchandise retail
5 establishment that operates from a fixed location where goods or
6 services are offered for sale.

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

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

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

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

22 7159. (a) (1) This section identifies the projects for which a
23 home improvement contract is required, outlines the contract
24 requirements, and lists the items that shall be included in the
25 contract, or may be provided as an attachment.

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

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

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

38 (5) Failure by the licensee, his or her agent or salesperson, or
39 by a person subject to be licensed under this chapter, to provide
40 the specified information, notices, and disclosures in the contract,

1 or to otherwise fail to comply with any provision of this section,
2 is cause for discipline.

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

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

26 (1) The writing shall be legible.

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

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

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

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

1 (ii) The name and address of the contractor to which the
2 applicable “Notice of Cancellation” is to be mailed, immediately
3 preceded by a statement advising the buyer that the “Notice of
4 Cancellation” may be sent to the contractor at the address noted
5 on the contract.

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

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

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

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

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

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

33 (1) The name, business address, and license number of the
34 contractor.

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

37 (3) The following heading on the contract form that identifies
38 the type of contract in at least 10-point boldface type: “Home
39 Improvement.”

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

5 (5) The heading: “Contract Price,” followed by the amount of
6 the contract in dollars and cents.

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

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

18 (8) If a downpayment will be charged, the details of the
19 downpayment shall be expressed in substantially the following
20 form, and shall include the text of the notice as specified in
21 subparagraph (C):

22 (A) The heading: “Downpayment.”

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

24 (C) The following statement in at least 12-point boldface type:
25 “THE DOWNPAYMENT MAY NOT EXCEED \$1,000 OR 10
26 PERCENT OF THE CONTRACT PRICE, WHICHEVER IS
27 LESS.”

28 (9) If payments, other than the downpayment, are to be made
29 before the project is completed, the details of these payments,
30 known as progress payments, shall be expressed in substantially
31 the following form, and shall include the text of the statement as
32 specified in subparagraph (C):

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

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

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

1 “The schedule of progress payments must specifically describe
2 each phase of work, including the type and amount of work or
3 services scheduled to be supplied in each phase, along with the
4 amount of each proposed progress payment. IT IS AGAINST THE
5 LAW FOR A CONTRACTOR TO COLLECT PAYMENT FOR
6 WORK NOT YET COMPLETED, OR FOR MATERIALS NOT
7 YET DELIVERED. HOWEVER, A CONTRACTOR MAY
8 REQUIRE A DOWNPAYMENT.”

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

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

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

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

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

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

18 (B) The approximate date of completion.

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

22 (13) The heading: “Note About Extra Work and Change Orders,”
23 followed by the following statement:

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

30 (e) Except as provided in paragraph (8) of subdivision (a) of
31 Section 7159.5, all of the following notices shall be provided to
32 the owner as part of the contract form as specified or, if otherwise
33 authorized under this subdivision, may be provided as an
34 attachment to the contract:

35 (1) (A) A notice concerning commercial general liability
36 insurance. This notice may be provided as an attachment to the
37 contract if the contract includes the following statement: “A notice
38 concerning commercial general liability insurance is attached to
39 this contract.” The notice shall include the heading “Commercial

1 General Liability Insurance (CGL),” followed by whichever of
2 the following statements is both relevant and correct:

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

5 (B) “(The name on the license or ‘This contractor’) carries
6 commercial general liability insurance written by (the insurance
7 company). You may call (the insurance company) at _____
8 to check the contractor’s insurance coverage.”

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

11 (D) “(The name on the license or ‘This contractor’) is a limited
12 liability company that carries liability insurance or maintains other
13 security as required by law. You may call (the insurance company
14 or trust company or bank) at ____ to check on the contractor’s
15 insurance coverage or security.”

16 (2) A notice concerning workers’ compensation insurance. This
17 notice may be provided as an attachment to the contract if the
18 contract includes the statement: “A notice concerning workers’
19 compensation insurance is attached to this contract.” The notice
20 shall include the heading “Workers’ Compensation Insurance”
21 followed by whichever of the following statements is correct:

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

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

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

29 (A) A statement that the buyer may not require a contractor to
30 perform extra or change-order work without providing written
31 authorization prior to the commencement of work covered by the
32 new change order.

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

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

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

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

1 (C) A statement informing the buyer that the contractor’s failure
2 to comply with the requirements of this paragraph does not
3 preclude the recovery of compensation for work performed based
4 upon legal or equitable remedies designed to prevent unjust
5 enrichment.

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

8 **“MECHANICS’ LIEN WARNING:**

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

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

19 To preserve their right to record a lien, each subcontractor and
20 material supplier must provide you with a document called a
21 ‘20-day Preliminary Notice.’ This notice is not a lien. The purpose
22 of the notice is to let you know that the person who sends you the
23 notice has the right to record a lien on your property if he or she
24 is not paid.

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

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

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

39 **PAY WITH JOINT CHECKS.** One way to protect yourself is
40 to pay with a joint check. When your contractor tells you it is time

1 to pay for the work of a subcontractor or supplier who has provided
2 you with a Preliminary Notice, write a joint check payable to both
3 the contractor and the subcontractor or material supplier.

4 For other ways to prevent liens, visit CSLB's Internet Web site
5 at www.cslb.ca.gov or call CSLB at 800-321-CSLB (2752).

6 REMEMBER, IF YOU DO NOTHING, YOU RISK HAVING
7 A LIEN PLACED ON YOUR HOME. This can mean that you
8 may have to pay twice, or face the forced sale of your home to pay
9 what you owe."

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

12 "Information about the Contractors' State License Board (CSLB):
13 CSLB is the state consumer protection agency that licenses and
14 regulates construction contractors.

15 Contact CSLB for information about the licensed contractor you
16 are considering, including information about disclosable
17 complaints, disciplinary actions, and civil judgments that are
18 reported to CSLB.

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

26 For more information:

27 Visit CSLB's Internet Web site at www.cslb.ca.gov

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

29 Write CSLB at P.O. Box 26000, Sacramento, CA 95826."

30 (6) (A) The notice set forth in subparagraph (B) and entitled
31 "Three-Day Right to Cancel," shall be provided to the buyer unless
32 the contract is:

33 (i) Negotiated at the contractor's place of business.

34 (ii) Subject to the "Seven-Day Right to Cancel," as set forth in
35 paragraph (7).

36 (iii) Subject to licensure under the Alarm Company Act (Chapter
37 11.6 (commencing with Section 7590)), provided the alarm
38 company licensee complies with Sections 1689.5, 1689.6, and
39 1689.7 of the Civil Code, as applicable.

40 (B) "Three-Day Right to Cancel

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

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

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

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

1 detachable, and which shall contain the following statement written
2 in the same language, e.g., Spanish, as used in the contract:

3
4
5
6
7
8

“Notice of Cancellation”

/enter date of transaction/

(Date)

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

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

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

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

28

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

31 to _____,

32 /name of seller/

33 at _____

34 /address of seller’s place of business/

35 not later than midnight of _____.

36 (Date)

37 I hereby cancel this transaction. _____

38 (Date)

39 _____

40 (Buyer’s signature)

1 (7) (A) The following notice entitled “Seven-Day Right to
2 Cancel” shall be provided to the buyer for any contract that is
3 written for the repair or restoration of residential premises damaged
4 by any sudden or catastrophic event for which a state of emergency
5 has been declared by the President of the United States or the
6 Governor, or for which a local emergency has been declared by
7 the executive officer or governing body of any city, county, or city
8 and county:

9 “Seven-Day Right to Cancel

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

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

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

- 33 (i) The text of the notice is at least 12-point boldface type.
- 34 (ii) The notice is in immediate proximity to a space reserved
35 for the owner’s signature.
- 36 (iii) The owner acknowledges receipt of the notice by signing
37 and dating the notice form in the signature space.
- 38 (iv) The notice is written in the same language, e.g., Spanish,
39 as that principally used in any oral sales presentation.

1 (v) The notice may be attached to the contract if the contract
 2 includes, in at least 12-point boldface type, a checkbox with the
 3 following statement: “The law requires that the contractor give
 4 you a notice explaining your right to cancel. Initial the checkbox
 5 if the contractor has given you a ‘Notice of the Seven-Day Right
 6 to Cancel.’”

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

12
 13 “Notice of Cancellation”

14 /enter date of transaction/
 15 _____

16 (Date)
 17

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

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

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

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

37
 38 To cancel this transaction, mail or deliver a signed and dated copy of this
 39 cancellation notice, or any other written notice, or send a telegram
 40 to _____,

1 1689.7 of the Civil Code, regardless of the aggregate contract
2 price.

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

6 (d) Every service and repair contract described in subdivision
7 (a) shall include, or otherwise comply with, all of the following:

8 (1) The contract, any changes to the contract, and any
9 attachments shall be in writing and signed or acknowledged by
10 the parties as set forth in this section, and shall be written in the
11 same language (for example Spanish) as principally used in the
12 oral sales presentation.

13 (2) The writing shall be legible.

14 (3) Any printed form shall be readable. Unless a larger typeface
15 is specified in this article, the text shall be in at least 10-point
16 typeface and the headings shall be in at least 10-point boldface
17 type.

18 (4) Before any work is started, the contractor shall give the
19 buyer a copy of the contract signed and dated by the buyer and by
20 the contractor or the contractor's representative.

21 (5) The name, business address, and license number of the
22 contractor.

23 (6) The date the contract was signed.

24 (7) (A) A notice concerning commercial general liability
25 insurance. This notice may be provided as an attachment to the
26 contract if the contract includes the statement, "A notice concerning
27 commercial general liability insurance is attached to this contract."
28 The notice shall include the heading "Commercial General Liability
29 Insurance (CGL)" followed by whichever of the following
30 statements is both relevant and correct:

31 (A) "(The name on the license or 'This contractor') does not
32 carry commercial general liability insurance."

33 (B) "(The name on the license or 'This contractor') carries
34 commercial general liability insurance written by (the insurance
35 company). You may call the (insurance company) at ____ to check
36 the contractor's insurance coverage."

37 (C) "(The name on the license or 'This contractor') is
38 self-insured."

39 (D) "(The name on the license or 'This contractor') is a limited
40 liability company that carries liability insurance or maintains other

1 security as required by law. You may call (the insurance company
2 or trust company or bank) at ____ to check on the contractor's
3 insurance coverage or security."

4 (8) A notice concerning workers' compensation insurance. This
5 notice may be provided as an attachment to the contract if the
6 contract includes the statement "A notice concerning workers'
7 compensation insurance is attached to this contract." The notice
8 shall include the heading "Workers' Compensation Insurance"
9 followed by whichever of the following statements is both relevant
10 and correct:

11 (A) "(The name on the license or 'This contractor') has no
12 employees and is exempt from workers' compensation
13 requirements."

14 (B) "(The name on the license or 'This contractor') carries
15 workers' compensation insurance for all employees."

16 (e) Every service and repair contract described in subdivision
17 (a) shall provide the following information, notices, and disclosures
18 in the contract:

19 (1) Notice of the type of contract in at least 10-point boldface
20 type: "Service and Repair."

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

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

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

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

31 (D) No payment is due and the contractor may not accept any
32 payment until the work is completed."

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

36 (4) If applicable, the heading "List of Documents to be
37 Incorporated into the Contract," followed by the list of documents
38 to be incorporated into the contract.

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

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

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

16 (8) The heading: “Description of the Project and Materials to
17 be Used and Equipment to be Installed” followed by a description
18 of the project and materials to be used and equipment to be
19 installed.

20 (9) The statement: “The law requires that the contractor offer
21 you any parts that were replaced during the service call. If you do
22 not want the parts, initial the checkbox labeled ‘OK for contractor
23 to take replaced parts.’”

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

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

30 (12) (A) The contract, or an attachment to the contract as
31 specified under subparagraph (C) of this paragraph, must include,
32 in immediate proximity to the space reserved for the buyer’s
33 signature, the following statement, in at least 12-point boldface
34 type, which shall be dated and signed by the buyer:

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

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

- 37 1. You receive a copy of this contract signed and dated by you
38 and the contractor; and
- 39 2. The contractor starts work.

1 (B) However, even if the work has begun you, the buyer, may
2 still cancel the contract for any of the reasons specified in items 1
3 through 4 of this paragraph. If any of these reasons occur, you may
4 cancel the contract within three business days of signing the
5 contract for normal service and repairs, or within seven business
6 days of signing a contract to repair or correct conditions resulting
7 from any sudden or catastrophic event for which a state of
8 emergency has been declared by the President of the United States
9 or the Governor, or for which a local emergency has been declared
10 by the executive officer or governing body of any city, county, or
11 city and county:

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

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

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

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

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

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

1 you remain liable for performance of all obligations under the
2 contract.”

3 (B) This paragraph does not apply to home improvement
4 contracts entered into by a person who holds an alarm company
5 operator’s license issued pursuant to Chapter 11.6 (commencing
6 with Section 7590), provided the person complies with Sections
7 1689.5, 1689.6, and 1689.7 of the Civil Code, as applicable.

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

12 (i) “The law requires that the contractor give you a notice
13 explaining your right to cancel. Initial the checkbox if the
14 contractor has given you a ‘Notice of Your Right to Cancel.’”

15 (ii) “The law requires that the contractor give you a notice
16 explaining your right to cancel contracts for the repair or restoration
17 of residential premises damaged by a disaster. Initial the checkbox
18 if the contractor has given you a ‘Notice of Your Right to Cancel.’”

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

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

25 SEC. 37. Section 17002 of the Corporations Code is amended
26 to read:

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

33 (b) Notwithstanding subdivision (a) and as specifically provided
34 in this subdivision, a limited liability company may operate as a
35 health care service plan licensed pursuant to Chapter 2.2
36 (commencing with Section 1340) of Division 2 of the Health and
37 Safety Code if the limited liability company is a subsidiary of a
38 health care service plan licensed pursuant to those provisions and
39 the limited liability company is established to serve an existing
40 line of business of the parent health care service plan.

1 Notwithstanding any other provision of law, the tort or contract
2 liability of a limited liability company created to operate as a health
3 care service plan under this subdivision and its members is not
4 limited or restricted in any manner because of the limited liability
5 company status of the health care service plan.

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

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

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