

SENATE JUDICIARY COMMITTEE
Senator Thomas Umberg, Chair
2025-2026 Regular Session

SB 517 (Niello)

Version: February 19, 2025

Hearing Date: April 29, 2025

Fiscal: Yes

Urgency: No

AWM

SUBJECT

Home improvement contract requirements: subcontractors

DIGEST

This bill adds several required disclosures that must be made in connection with a home improvement contract, as defined, the aggregate price of which exceeds \$500, relating to subcontractors and mechanics liens.

EXECUTIVE SUMMARY

The Contractors License Law requires contractors – persons who perform building and construction work – to be licensed by the Contractors State License Board (CSLB), through which they are subject to oversight and discipline. California also has a robust consumer protection regime for home improvement contracts over \$500, which are agreements between a contractor and a homeowner or tenant for the improvement of a residential premises. Protections include requiring specified terms to be present in a home improvement loan; requiring notices of specified matters, including the possibility of a mechanics lien being recorded on the property; and, for certain home improvement contracts, a mandatory three-day cancellation period, or a mandatory five-day period for persons aged 65 years and older.

This bill is intended to protect consumers from unscrupulous contractors who enter into a home improvement contract with a consumer, then, unbeknownst to the consumer, turn around and have a subcontractor do most or all of the work. As currently in print, this bill adds an additional piece of information that must be included in a home improvement contract: if the contractor has a subcontractor performing more than 50 percent of the total estimated project cost, the contract shall contain the name and contact information of the subcontractor. To strengthen the bill further, the author proposes to amend the bill to: (1) delete the current disclosure requirement and instead require a home improvement contract to include a checkbox with which the contractor can indicate that subcontractors will be used, and inform the consumer they have the

right to receive specified information about the subcontractors; (2) apply these same requirements to any change order during the project; and (3) clarify that, for purposes of the CSLB's disciplinary authority, the fact that a prime contractor is responsible for completion of the project does not preclude administrative discipline against any subcontractor or home improvement salesperson on a home improvement contract, as specified.

This bill is sponsored by the author and is supported by the National Crime Bureau. The Committee has not received timely opposition to this bill. The Senate Business, Professions and Economic Development Committee passed this bill with a vote of 11-0.

PROPOSED CHANGES TO THE LAW

Existing law:

- 1) Requires contractors to be licensed by the CSLB, established within the Department of Consumer Affairs, and establishes requirements and regulations relating to the business of contracting. (Bus. & Prof. Code, div. 3, ch. 9, §§ 7000 et seq.)
- 2) Defines "contractor," for purposes of 1), as follows:
 - a) A contractor is synonymous with "builder" and is any person who undertakes to, or offers to undertake to, or purports to have the capacity to undertake to, or submits a bid to, or does themselves or by or through others, construct, alter, repair, add to, subtract from, improve, move, wreck, or demolish any building, highway, road, parking facility, railroad, excavation or other structure, project, development, or improvement, or to do any part thereof, including the erection of scaffolding or other structures or works in connection therewith, or the cleaning of grounds or structures in connection therewith, or the preparation and removal of roadway construction zones, lane closures, flagging, or traffic diversions, or the installation, repair, maintenance, or calibration of monitoring equipment for underground storage tanks, and whether or not the performance of work involves addition to, or fabrication into, any structure, project, development or improvement of any material or article of merchandise. (Bus. & Prof. Code, § 7026.)
 - b) "Contractor" includes a subcontractor and a specialty contractor. (Bus. & Prof. Code, § 7026.)
 - c) "Contractor" also includes, under specified conditions, a person who maintains air conditioning, heating, or refrigeration equipment that is a fixed part of the structure to which it is attached; any person, consultant to an owner-builder, firm, or other business entity that undertakes, offers to undertake, purports to undertake, or submits a bid to construct any building or home improvement project or part thereof; a temporary labor service agency, as specified; any person not otherwise exempt who performs tree removal, tree pruning, stump removal, or engages in tree or limb cabling or

- guying, as specified; and any person engaged in the business of drilling, digging, boring, or otherwise constructing, deepening, repairing, reperforming, or abandoning any water well, cathodic protection well, or monitoring well. (Bus. & Prof. Code, § 7026.1(a).)
- d) "Contractor" or "consultant" does not include a common interest development manager, as defined, and a common interest manager is not required to have a contractor's license when performing management services. (Bus. & Prof. Code, § 7026.1(b).)
- 3) Defines the following additional relevant terms:
- a) "Home improvement contractor," including a swimming pool contractor, means a contractor as defined in 2) who is engaged in the business of home improvement either full time or part time. (Bus. & Prof. Code, § 7150.1.)
- b) "Home improvement" means the repairing, remodeling, altering, converting, or modernizing of, or adding to, residential property, as well as the reconstruction, restoration, or rebuilding of residential property damaged or destroyed by a natural disaster, and includes, but is not limited to, the construction, erection, installation, replacement, or improvement of driveways, swimming pools (including spas and hot tubs), terraces, patios, awnings, storm windows, solar energy systems, landscaping, fences, porches, garages, fallout shelters, basements, and other improvements of the structures or the land adjacent to a dwelling house; "home improvement" also means the installation of home improvement goods or the furnishing of home improvement services. (Bus. & Prof. Code, § 7151(a).)
- c) "Home improvement contract" means an agreement, whether written or oral, or contained in one or more documents, between a contractor and an owner or between a contact or tenant, if the work is to be performed on one or more residences or dwelling units, and includes all labor, services, and materials thereunder; and also includes an agreement between a salesperson and an owner or tenant for the sale, installation, or furnishing of home improvement goods or services. (Bus. & Prof. Code, § 7151.2.)
- d) "Home improvement goods or services" means goods and services which are bought in connection with the improvement of real property, and include carpeting, texture coating, fencing, air conditioning or heating equipment, and termite extermination; as well as goods which are to be so affixed to real property as to become a part of real property whether or not severable therefrom. (Bus. & Prof. Code, § 7151(b).)
- e) "Home improvement salesperson" is a person who is registered with the Contractors State License Board and is engaged in the business of soliciting, selling, negotiating, or executing contracts for home improvements, for the sale, installation, or furnishing of home improvement goods or services, or of swimming pools, spas, or hot tubs on behalf of a licensed home improvement contractor, subject to enumerated exceptions. (Bus. & Prof. Code, § 7152.)

- 4) Regulates home improvement contracts offered and entered into by a home improvement contractor or home improvement salesperson, including:
 - a) Limiting when, and how, a home improvement contractor or salesperson may offer compensation for an owner, or receive compensation from third parties, as an inducement to procure additional contracts. (Bus. & Prof. Code, § 7157.)
 - b) Limiting when an extra work or change order is enforceable against a buyer. (Bus. & Prof. Code, § 7159.6.)
- 5) Requires that a home improvement contract for which the aggregate contract price, including all labor, services, and material, is in excess of \$500 be in writing, and imposes requirements on the content such contracts, including:
 - a) Requirements relating to the legibility and font size of the contract.
 - b) Requiring, before the work is started, the contractor to give the buyer a copy of the contract signed and dated by both the contractor and the buyer.
 - c) Requiring specified information to be included in the contract, including certain rights held by the owner or tenant, a clear statement of the contract price and whether a finance charge will be charged, information regarding the downpayment, if any, information relating to the schedule of work, and a list of any other documents incorporated into the contract.
 - d) Requiring specified notices to be provided to the owner or tenant as part of the contract, including notices relating to commercial general liability insurance and worker's compensation insurance.
 - e) Requiring the contract to include a notice reading "MECHANICS LIEN WARNING," which explains, in provided text, that anyone who helps improve the property but is not paid may record a mechanics lien on the property, and that even if the owner or tenant fully pays the contractor, any unpaid subcontractor, laborer, or supplier who helped improve the property may record a mechanics lien.
 - f) A notice of the buyer's right to cancel their contract within three business days, or within five business days if the buyer is aged 65 years or older. (Bus. & Prof. Code, § 7159.)
- 6) Establishes the procedures by which a person who performs authorized work for a work of improvement—including a subcontractor—may record a mechanics lien, and the procedures for collecting pursuant to, or challenging, a mechanics lien, which can result in a forced sale of the property to satisfy the debt owed to the person who performed the work. (Civ. Code, div. 4, tit. 2, ch. 4, §§ 8400 et seq.)

This bill adds, to the list of matters that must be included in a home improvement contract in excess of \$500, the name and contact information of the subcontractor that will be performing work for the contractor, if the subcontractor will be performing more than 50 percent of the total estimated project cost.

COMMENTS

1. Author's comment

According to the author:

SB 517 allows consumers to make an informed decision regarding their home improvement project by requiring a home improvement contract to explicitly name a subcontractor if more than 50% of the work is going to be completed by a subcontractor. There have been instances in which companies don't do construction work themselves; instead, after they sign a contract they try to find subcontractors who will do most or all of the project for them. This is done without the consumer's knowledge. When engaging in a home improvement contract consumers should be informed up front with who will be providing the service. All home improvement contracts should have a box that states "Is 50% or greater of the contract value being assigned to one subcontractor or company?" If checked yes, this subcontracting company information needs to be provided and cannot be labeled as TBD. Consumers have a right to know this information, it is critical in their decision making process.

2. Background on contractors and consumer protections for home improvement contracts

The Contractors License Law requires contractors – persons who perform building and construction work – to be licensed by the CSLB, through which they are subject to oversight and discipline.¹ According to the Senate Business, Professions and Economic Development Committee's analysis of this bill, the CSLB licenses and regulates approximately 315,000 licensees across 44 licensing classifications and 2 certifications. The Contractors License Law "reflects a strong public policy in favor of protecting the public against unscrupulous and incompetent contracting work."²

California also has a robust consumer protection regime for home improvement contracts over \$500, which are agreements between a contractor and a homeowner or tenant for the improvement of a residential premises.³ These protections include:

- Limiting the down payment for a loan to \$1,000 or 10 percent of the contract price, whichever is greater.
- Requiring the contract to state specified key terms in legible text of at least 10-point typeface.
- Notifying the consumer that a contractor may not collect payment for work not yet completed, other than the down payment.

¹ Bus. & Prof. Code, div. 3, ch. 9, §§ 7000 et seq.

² *Home Depot, U.S.A., Inc. v. Contractors' State License Bd.* (1996) 41 Cal.App.4th 1592, 1598.

³ Bus. & Prof. Code, div. 3, ch. 9, art. 10, §§ 7150 et seq.

- A warning about the possibility for a contractor, subcontractor, or laborer to record a mechanics lien on the property, which could result in the consumer being forced to sell their property to pay for the lien amount.⁴

Additionally, for home solicitation contracts – home improvement contracts solicited and executed away from the contractor’s place of business, and usually at the consumer’s home – the law provides a three-day right to cancel the contract with no penalties; persons aged 65 years and older have a five-day cancellation window.⁵

3. This bill is intended to increase protections for consumers entering into home improvement contracts; the author has proposed amendments to strengthen those protections further

This bill is intended to protect consumers from unscrupulous contractors who enter into a home improvement contract with a consumer, then, unbeknownst to the consumer, turn around and have a subcontractor do most or all of the work. This tactic can harm the consumer in a number of ways, including leaving the consumer without a way to contact the party actually doing the work and making it more difficult for consumers to recover for unfinished or shoddy improvements. At the extreme end, a consumer who is unaware that a subcontractor is doing most of the work could ignore a notice of mechanics lien from an unknown subcontractor and end up having to sell their home to satisfy the (surprise) debt to the subcontractor.

As currently in print, this bill adds an additional piece of information that must be included in a home improvement contract: if the contractor has a subcontractor performing more than 50 percent of the total estimated project cost, the contract shall contain the name and contact information of the subcontractor. Members of the Senate Business, Professions and Economic Development Committee expressed concern that this bill does not go far enough to protect consumers, and the author has been working on language to strengthen the bill to ensure that consumers are protected from unethical contractors.

To that end, the author proposes to amend the bill to delete the current disclosure requirement and add three new provisions:

1. Clarifying that, while a prime contractor is responsible for the completion of a home improvement in accordance with a home improvement contract, the CSLB can still take administrative disciplinary action against a subcontractor or home improvement salesperson who violates the Contractors License Law.
2. Requiring a home improvement contract to include a statement regarding whether the contractor will use a subcontractor on a project, including a portion with check boxes for “yes” and “no”; if the “yes” box is checked, the contract must also include a disclaimer stating that the consumer has the right to ask for

⁴ *Id.* § 7159.

⁵ Civ. Code, §§ 1689.5, 1689.6.

the name, contact information, license number, and classification of those subcontractors.

3. Specifying that, if there is a change order during the home improvement project, the same disclaimer in #2 must be included on each change order.

4. Constitutional issues

This bill, as in print and as the author proposed to amend it, technically implicates the First Amendment to the United States Constitution because it compels speech on the part of the contractor. The speech in question, however, is commercial speech, which is entitled to fewer protections than other forms of speech.⁶ A requirement to “disclose ‘purely factual and uncontroversial information’ ” will survive scrutiny if it is “ ‘reasonably related’ to a substantial government interest and [is not] ‘unjustified or unduly burdensome.’ ”⁷ The compelled disclosure subcontractors that will perform work on a home improvement contract seems to fit squarely within these limits, making it very likely that this bill would survive a First Amendment challenge.

5. Arguments in support

According to the National Insurance Crime Bureau:

Contractor fraud continues to be a widespread problem across the country, including in California. Predatory contractors often use the aftermath of major storms or catastrophes to prey upon already vulnerable consumers. This includes inflated and unnecessary billing tactics within home repair or improvement contracts.

SB 517 increases transparency in home improvement contracts, requiring that they explicitly identify if a subcontractor will perform more than 50% of the work. This reform would help combat unscrupulous contractors that have left customers with unfinished projects and other deficient work – tactics that can ultimately lead to increased costs for all.

SUPPORT

National Insurance Crime Bureau

OPPOSITION

None received

⁶ See *Zauderer v. Office of Disciplinary Counsel of Supreme Court of Ohio* (1985) 471 U.S. 626, 637.

⁷ *National Association of Wheat Growers v. Bonta* (9th Cir. 2023) 85 F.4th 1263, 1275.

RELATED LEGISLATION

Pending legislation:

SB 784 (Durazo, 2025) among other things, extends the right to cancel a home improvement contract to five business days, or seven business days if the buyer is a senior citizen, for contracts entered on or after January 1, 2026. SB 784 is pending before this Committee and is set to be heard on the same date as this bill.

AB 1329 (Aguilar-Curry, 2025) requires a buyer's notice of cancellation of a home improvement contract to be deliverable by email, and requires the seller to include in the contract an email address to which cancellations can be sent and a telephone number which customers can call for support in completing a notice of cancellation. AB 1329 is pending before the Assembly Appropriations Committee.

AB 559 (Berman, 2025) includes, within the definition of "home improvement contract," the construction, erection, installation, replacement, or improvement of accessory dwelling units on residentially zoned property; and imposes penalties for a violation of the requirement to include specified downpayment information in a home improvement contract. AB 559 is pending before the Assembly Floor.

Prior legislation:

AB 2993 (Grayson, 2024) was substantially similar to this bill, except that it applies to all lenders, not only those licensed under the California Financing Law, and has a shorter extension of the rescission period. AB 2993 died in this Committee.

SB 601 (McGuire, Ch. 403, Stats. 2023) increased penalties for contractors who violate home improvement contract requirements when the violation occurs in a location damaged by a natural disaster, as specified.

AB 2471 (Maienschein, Ch. 158, Stats. 2020) added the five-day right to cancel home improvement contracts for senior citizens.

PRIOR VOTES:

Senate Business, Professions and Economic Development Committee (Ayes 11, Noes 0)
