

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

AB 559 (Berman)  
Version: March 27, 2025  
Hearing Date: July 8, 2025  
Fiscal: Yes  
Urgency: No  
AWM

**SUBJECT**

Professions and vocations: contractors: home improvement contracts: prohibited  
business practices

**DIGEST**

This bill (1) clarifies that accessory dwelling units (ADUs) are “home improvements” under the Contractors Licensing Law, and (2) increases the penalties that the Contractors State License Board (CSLB) can impose for certain violations that result in a financial loss to a consumer greater than 10 percent of the contract amount.

**EXECUTIVE SUMMARY**

The Contractors State License Law (CSLL) 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 an agreement to be in writing and include the amount of the contract; prohibiting a contractor from charging a downpayment in excess of \$1,000 or 10 percent of the value, whichever is less; and prohibiting a contractor from accepting payment that exceeds the value of the work performed or material delivered. The CSLB has the authority to punish contractors, or unlicensed persons performing contracting work, with civil penalties, licensure suspension or revocation, and citations; certain violations are also a misdemeanor.

According to the author and the CSLB, the bill’s sponsor, the increased popularity of ADUs has led to a corresponding rise in consumer complaints to the CSLB about contractors performing ADU-related work. Many of these complaints alleged that a company accepted payment for ADUs that went unfinished, leaving consumers with substantial losses. This bill is intended to strengthen the CSLB’s ability penalize unscrupulous ADU contractors by (1) clarifying that the definition of “home

improvement” includes work related to an ADU, and (2) increasing the penalties for violations of the provisions capping the size of a downpayment and prohibiting a contractor from requesting or accepting payment in excess of the value of the work performed or the material delivered.

This bill is sponsored by the CSLB and is supported by the Associated General Contractors of California and the California Low-Income Consumer Coalition. This bill is opposed by the Casita Coalition. The Senate Business, Professions and Economic Development Committee passed this bill with a vote of 10-0.

### **PROPOSED CHANGES TO THE LAW**

Existing law:

- 1) Establishes the CSLB, which requires contractors to be licensed by the CSLB, established within the Department of Consumer Affairs, and sets forth requirements and regulations relating to the business of contracting. (Bus. & Prof. Code, div. 3, ch. 9, §§ 7000 et seq.)
- 2) Authorizes the CSLB to appoint a registrar of contractors to carry out the administrative duties delegated to it by the CSLB. (Bus. & Prof. Code, § 7011.)
- 3) Defines the following relevant terms:
  - a) “Contractor” is synonymous with “builder” and includes a subcontractor and specialty contractor, and means any person who undertakes, offers to undertake, or purports to have the capacity to perform specified work with respect to building, development, and construction projects. (Bus. & Prof. Code, §§ 7026, 7026.1.)
  - b) “Home improvement contractor,” including a swimming pool contractor, means a contractor as defined in (a) who is engaged in the business of home improvement either full time or part time. (Bus. & Prof. Code, § 7150.1.)
  - 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.)
- 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) Provides that specified failures by a contractor, or a person required to be licensed by a contractor, to comply with requirements relating to home improvement contracts are cause for discipline from the CSLB, including:
- a) Failing to execute a contract in writing that includes the agreed amount in dollars and cents.
  - b) Charging a downpayment in excess of \$1,000 or 10 percent of the contract amount, whichever is less.
  - c) Requesting or accepting payment, other than a downpayment, for payments to be made prior to completion of the work, that exceeds the value of the work performed or material delivered; this includes advance payment in whole or in part from any lender or financier for the performance or sale of home improvement goods. (Bus. & Prof. Code, § 7159.5.(a).)
- 7) Provides that a violation of the requirements in 6) is a misdemeanor punishable by a fine of not less than \$100 and not more than \$5,000, or by imprisonment in a county

jail not exceeding one year, or both; if the violation occurs in a location damaged by a natural disaster, the court shall impose the maximum fine. (Bus. & Prof. Code, § 7159.5(b).)

- 8) Requires the CSLB to promulgate regulations covering the assessment of civil penalties by the CSLB, as follows:
  - a) The penalties shall give due consideration to the gravity of the violation, the good faith of the licensee or applicant for licensure being charged, and the history of previous violations.
  - b) Except as otherwise provided, a civil penalty shall not be assessed in an amount greater than \$8,000, or in the amount of \$30,000 for specified violations. (Bus. & Prof. Code, §7099.2.)

This bill:

- 1) Clarifies that the definition of “home improvement,” for purposes of a home improvement contract, includes accessory dwelling units on residentially zoned property.
- 2) Expands the civil penalties that the CSLB can administratively assess against a contractor for violations, as follows:
  - a) A licensee, or their agent or salesperson, who charges an excessive downpayment or accepts or requests payment that exceeds the value of the work performed or materials delivered, or both, resulting in financial loss to a consumer greater than 10 percent of the contract amount, is subject to revocation of their license by the registrar and a civil penalty of at least \$10,000 assessed by the CSLB.
  - b) A person who is required to be licensed by the CSLB, or their agent or salesperson, who charges an excessive downpayment or accepts or requests payment that exceeds the value of the work performed or materials delivered, or both, resulting in financial loss to a consumer greater than 10 percent of the contract amount, is subject citation by the registrar and a civil penalty of at least \$10,000 assessed by the CSLB.
- 3) Makes nonsubstantive technical and conforming changes.

### COMMENTS

#### 1. Author’s comment

According to the author:

A recent high-profile case in which a contractor defrauded homeowners out of hundreds of thousands of dollars for uncompleted ADUs shed light on the need

to strengthen payment rules for ADUs and toughen penalties for crooked contractors. AB 559 responds directly to the more than 400 complaints received by the Contractors State License Board by prohibiting ADU builders from charging more than a \$1,000 downpayment and accepting payment for work or materials that have not been completed or delivered. AB 559 will also stiffen penalties for violating these rules.

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

The CSLL requires contractors – persons who perform building and construction work – to be licensed by the CSLB, through which they are subject to oversight and discipline.<sup>1</sup> 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 CSLL “reflects a strong public policy in favor of protecting the public against unscrupulous and incompetent contracting work.”<sup>2</sup>

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.<sup>3</sup> 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.
- 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.<sup>4</sup>

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.<sup>5</sup>

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<sup>1</sup> Bus. & Prof. Code, div. 3, ch. 9, §§ 7000 et seq.

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

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

<sup>4</sup> *Id.* § 7159.

<sup>5</sup> Civ. Code, §§ 1689.5, 1689.6.

3. This bill clarifies that ADU-related work is considered a home improvement and increases certain penalties for home-improvement-related violations

The CSLB reports that, as ADUs have become more popular, it has seen a significant increase in complaints filed by other consumers relating to contractors performing ADU-related work. This bill is intended to clarify the law and add heightened penalties for certain violations that result in a loss to a consumer.

First, the bill adds “accessory dwelling units on residentially zoned property” to the definition of “home improvement.” While the definition arguably is already broad enough to cover ADUs—the definition is both expansive and not limited to the specific examples cited—this change will eliminate any ambiguity.<sup>6</sup>

Second, this bill permits the CSLB to impose harsher penalties against contractors, or persons required to be licensed as contractors, for (1) charging a downpayment in excess of \$1,000 or 10 percent of the contract amount, whichever is less, and (2) requesting or accepting payment that exceeds the value of the work performed or the material delivered, when the violation results in a financial loss to a consumer greater than 10 percent of the contract amount. Under the bill, the CSLB would be able to punish these violations by assessing a civil penalty of at least \$10,000, and with license revocation (if the violator is a licensed contractor) or a citation (if the violator is performing contracting work without a license).

The Casita Coalition, writing in opposition, expresses concern that adding ADUs to the definition of “home improvement” would make the current business model for factory-built, or pre-fabricated, ADUs unworkable because of the limitations on downpayments and payments received before the materials arrive at the property. First, as noted above, it seems likely that ADUs are already included in the definition. Second, the CSLB has exemptions for the business model the Casita Coalition describes: the CSLB does not apply to suppliers of materials that are not fabricated, or consumed into, the work of the contractor,<sup>7</sup> and a contractor working on a home improvement contract is exempt from the downpayment and payment scheduling restrictions if they post a performance and payment bond approved by the registrar.<sup>8</sup> These measures, together, leave the pre-fab ADU business model intact while still protecting consumers. The Casita Coalition’s requested solution, on the other hand, would entirely exempt pre-fab ADUs—and all ADUs detached from the main home—from the protections for home improvement contracts. This requested amendment would leave consumers without protection against the very problem the CSLB is trying to address: ADU builders who commence a contract and then halt work, leaving the consumer with little or no recourse.

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<sup>6</sup> Bus. & Prof. Code, § 7151(a).

<sup>7</sup> *Id.*, § 7052.

<sup>8</sup> *Id.*, § 7159.5(a)(8).

4. Arguments in support

According to the CSLB:

AB 559 would add accessory dwelling units on residentially zoned property into the existing definition of “Home Improvement” in Contractors State License Law and would increase penalties on contractors who violate progress payment provisions resulting in consumer harm. This bill clarifies that contractors engaging in ADU construction projects are subject to progress payment rules and will discourage contractors from failing to complete construction projects despite receiving payment.

With the demand for the construction of ADUs rising in recent years, CSLB has received a significant increase in the number of consumer-filed complaints against contractors for failing to complete ADU construction projects. Most of the complaints allege considerable financial harm because the contractor abandoned the project after requesting and accepting payment for work that was not completed and materials that were not delivered.

5. Arguments in opposition

According to the Casita Coalition:

Fundamentally, we want to affirm that we agree with the central push of your bill. Casita Coalition wants consumers to have faith in the ADU industry in California, and consumer protections such as those your bill proposes are a core necessity to earning that trust. Casita Coalition’s education work to improve outcomes for homeowners includes webinars, guidebooks and handouts, as well as developing a recurring workshop on selecting and engaging with ADU professionals, arming them with the tools to be savvy consumers and sharing best practices on navigating the building process.

We also recently published a list of important consumer protections that Dwell Magazine shared in May.

The following concern ranks as our highest with the bill’s current approach:

- Full service prefab and modular builders would be required to carry labor and material costs for each ADU under construction for many months, as home improvement law forbids further payments until materials are delivered and attached to the property. With only a \$1,000 deposit, a customer cancelling an ADU order with a factory builder after months of construction and labor costs would be disastrous. Multiply that risk times multiple ADUs under production at any one time, and it quickly becomes infeasible.

- Detached ADU builders using traditional construction methods will face different, more burdensome rules than home builders building primary homes of the same size –essentially identical products. Local, family ADU builders and emerging developers will face the most challenging barriers if they’re required to follow home improvement rules instead of standard existing homebuilding contract rules (as is current practice.)

### **SUPPORT**

CSLB (sponsor)

Associated General Contractors of California

California Low-Income Consumer Coalition

### **OPPOSITION**

Casita Coalition

### **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 SB 779 (Archuleta, 2025) increases the amount of certain penalties that the CSLB may assess against a licensee, and removes the CSLB’s authorization to assess a civil penalty related to worker’s compensation insurance. SB 784 is pending before the Assembly Banking and Finance Committee.

SB 517 (Niello, 2025) requires a home improvement contract to disclose whether a subcontractor will be used on the project, and provides that, if a subcontractor will be used on the project, a notice informing consumers that the subcontractor’s information must be provided to them upon request. SB 517 is pending before the Assembly Judiciary Committee.

AB 1327 (Aguiar-Curry) authorizes a buyer of home improvement services, when the contractor does not provide the applicable “notice of cancellation” with the home improvement contract, to file a complaint with the CSLB. AB 1327 is pending before the Assembly Appropriations Committee.



Prior legislation:

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 10, Noes 0)

Assembly Floor (Ayes 76, Noes 0)

Assembly Appropriations Committee (Ayes 15, Noes 0)

Assembly Judiciary Committee (Ayes 12, Noes 0)

Assembly Business and Professions Committee (Ayes 17, Noes 0)

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