

Date of Hearing: June 22, 2026

ASSEMBLY COMMITTEE ON TRANSPORTATION

Lori D. Wilson, Chair

SB 1174 (Valladares) – As Amended June 15, 2026

SENATE VOTE: 33-0

SUBJECT: Public contracts: Department of Transportation: bid preferences: employee stock ownership plans.

SUMMARY: Requires the California Department of Transportation (Caltrans), on or after January 1, 2028, to provide a bid preference, up to 5%, for state-funded construction projects, to qualified contractors offering employees an Employee Stock Ownership Plan. Specifically, **this bill:**

- 1) Defines the terms “contractor” and “subcontractor”.
- 2) Defines “employee stock ownership plan (ESOP)” by referencing a federal definition in the Internal Revenue Code, as of January 1, 2022. In essence, it is a way for employees to gradually become part-owners of their company through their retirement benefits, with the government setting rules to make sure the plan is fair and properly managed.
- 3) Defines an “ESOP contractor” to mean a contractor or subcontractor that presents the following documentation at the time of bid: an attestation by an independent, certified public accountant, as defined in Section 5033 of the Business and Professions Code, of a percentage equal to or greater than 30 percent of the issued and outstanding shares of the contractor that is owned by its ESOP at the time of bid.
- 4) Requires Caltrans, on or after January 1, 2028, to provide bid preferences for a state-funded construction contract to each ESOP contractor that bids on a state-funded construction project as follows:
 - a) 2% to a qualified contractor with 30 to 49% of the entity owned by its ESOP.
 - b) 3% to a qualified contractor with 50 to 99% of the entity owned by its ESOP.
 - c) 4% to a qualified contractor with 100% of the entity owned by its ESOP.
 - d) An additional 1% for a qualified contractor that is a signatory to a collective bargaining agreement or master labor agreement.
- 5) Prohibits the award of bid preferences to a noncompliant bidder or to achieve applicable minimum requirements.
- 6) Provides that it is unlawful for a person, contractor or subcontractor to willfully or knowingly commit fraud regarding ESOP qualification, provide false statements to a state official regarding ESOP acceptance, obstruct or impede an investigation of the qualifications of an ESOP contractor, fraudulently obtaining public moneys, and cooperate in the establishment of a contractor found to have violated the foregoing prohibitions.

- 7) Makes a person, contractor or subcontractor who violates the prohibitions above liable for a civil penalty not to exceed \$5,000 for the first violation, and a civil penalty not to exceed \$20,000 for each additional or subsequent violation. Anyone who fails to pay a penalty is prohibited from bidding on any contract with Caltrans for a specified period or until the penalties are satisfied.
- 8) In addition to civil penalty fines, a person, contractor or subcontractor who is found in violation of the above-mentioned actions is required to be suspended from bidding or participating as either a contractor, subcontractor, or supplier, in any contract or project for Caltrans for a period between one month to one year, as specified.
- 9) Prohibits Caltrans from entering a contract with a suspended contractor or subcontractor and requires it to report an alleged violation to the Attorney General.

EXISTING LAW:

- 1) Establishes Caltrans with various powers and duties, including but not limited to, planning, designing, constructing, operating, and maintaining the State's highway system (Government Code (Gov Code) §14001, et seq.).
- 2) Establishes bid preferences in state agency contracting for certain types of bidders, including, but not limited to, small business, microbusiness, and disabled veteran business enterprise bidders (Gov Code §14835 et seq; Military & Veterans Code §999 et seq.).
- 3) Requires Caltrans to achieve, at a minimum, an overall rate of 25% certified small business participation and 3% for disabled veteran business enterprises in state-funded contracts and procurement (Gov Code §14110.3).
- 4) Consistent with federal and state requirements, requires Caltrans to develop a plan by January 1, 2020, to increase by up to 100% the dollar value of contracts and procurements awarded to small businesses, disadvantaged, business enterprises, and disabled veteran business enterprises (Gov Code §14110).
- 5) Requires Caltrans to submit to the Legislature, by January 1, 2019, a detailed outreach plan intended to increase procurement opportunities for small business enterprises, including, but not limited to, those owned by women, minority, disabled veterans, LGBT, and other disadvantaged groups, in all transportation programs managed by Caltrans (Gov Code §14110.1).
- 6) Makes certain legislative findings and declarations of the Legislature under the California Employee Ownership Act, including that employees becoming owners would create opportunities for wealth-building and community stability. It would also help California create a more inclusive, equitable, and stable economy, supported by the studies of employee-owned businesses and their success and resiliency during the Great Recession and the COVID-19 pandemic (Gov Code § 12100.31.).

FISCAL EFFECT: According to the Senate Appropriations Committee: unknown one-time and ongoing costs to Caltrans, likely in the hundreds of thousands of dollars annually, to update internal contracting guidance and processes and to conduct ongoing compliance monitoring

activities on state-funded construction contracts. Also unknown potentially significant increased state contracting costs, to the extent awarding contracts to ESOP bidders reduces competition in the bid pool and results in higher contracting costs.

COMMENTS: *According to the author,* “California law establishes several programs that provide preferences to several classes of businesses on public works construction. Those programs, however, are fundamentally flawed. They only assess the owners of those businesses which, in some cases, could only be one person. SB 1174 proposes a more equitable wealth distribution compared to other construction procurement preferences for construction contracting. One way to do that, which the legislature has recognized through the passage of AB 2849 (Bonta) and SB 1407 (Becker) both from 2022, is the promotion of employee-owned businesses.

The most efficient way to achieve California’s policy objective, that is, to diversify ownership to a broader population, is to incentivize shared ownership through employee stock ownership plans (ESOPs). Rather than requiring each qualified individual to start up their own enterprise, this strategy would allow existing owners to extend ownership rights to employees via grants of stock through ESOP accounts, a process separate from the employee’s compensation.”

What is an ESOP? An ESOP is a retirement plan that gives workers an ownership stake in a company. The IRS regulates ESOPs similarly to 401K plans. To establish an ESOP, a company forms a trust fund that holds company shares (up to 100%) on behalf of employees. The shares are allocated to employees on an annual basis proportional to their compensation (e.g., an employee earning 10% of the total eligible payroll would receive roughly 10% of the shares allocated in a given year). The shares vest over time (e.g., 20% a year for five years) and are held in trust until the employee retires or leaves the company, at which time the vested shares are distributed to the employee and sold back to the company at fair market value. Unvested shares are forfeited and revert back to the company. If the company is a publicly traded company, an employee would typically sell their shares on the stock market.

According to the bill’s sponsor, there are over 780 ESOPs in California representing 12,378 employee-owners; 70 of these ESOPs are associated with construction businesses. The sponsors assert that employee-owners earn 33% higher median wages than comparable non-employee-owners, have more than twice the assets in retirement plans, and 92% higher median household wealth than non-employee-owners. They also argue that ESOPs allow workers to build wealth without personally assuming the financial risks associated with company ownership, such as capital risk and liability exposure; risks remain with the corporate entity, while benefits are shared across the workforce.

Caltrans’ existing bid preferences. Caltrans administers Small Business (SB), Disabled Veteran Business Enterprise (DVBE), and Disadvantaged Business Enterprise (DBE) outreach and procurement programs. In addition to bid preferences, Caltrans provides training and technical assistance to small businesses and organizes outreach events. The DBE program is a federal program that is intended to ensure nondiscrimination in the award and administration of U.S. Department of Transportation contracts (though as of October 3, 2025, Caltrans has temporarily suspended this program due to federal regulatory changes that remove consideration of race- or sex-based factors).

This bill is modeled after state agency bid preferences of 5% for certified SBs and DVBEs required by existing law for state contracts greater than \$5,000 but less than \$250,000. The state applies these bid preferences by taking 5% of the price of the lowest responsive bid that is not a SB or DVBE and then deducting this amount from all qualifying SB or DVBE bids. Of the \$2.3 billion in state-funded contracts awarded by Caltrans in 2024-25, nearly \$900 million or 39% was awarded to SBs; \$58 million or 2.5% was awarded to DVBE. State law also establishes 25% and 3% minimum annual participation goals for SBs and DVBEs and Caltrans has generally met these goals in recent years. DBE goals vary annually, and Caltrans has had mixed success in achieving them.

Comparing ESOP firms with SBs/DVBEs may not be a fair comparison. Bid preferences are a common procurement tool for governments to favor certain suppliers. Evidence suggests that ESOP employees accumulate significantly more wealth than employees at otherwise-comparable non-ESOP firms, including those that are small businesses. However, comparing ESOP firms with SBs or DVBEs on this measure, as the sponsors do, may not be entirely appropriate since the state's existing bid preferences are not primarily wealth distribution mechanisms—they are procurement equity programs designed to address market access barriers for specific populations. Accordingly, the committee may wish to consider ESOP and SB/DVBE preferences as serving complementary, but distinct equity goals, and that state procurement could potentially be enhanced by creating a pathway for employee-owned firms to receive bid preferences alongside—but not necessarily instead of—SB or DVBE programs.

Bid preferences may increase or decrease state costs. There is some evidence that bid preferences can lower government procurement costs by increasing competition between favored and unfavored firms forcing the latter to bid closer to costs, which ultimately acts to lower the winning bid. However, in a 2007 study of Caltrans' SB bid preferences, procurement costs increased 3.8% due to reduced competition from lower cost firms. Assuming \$2.3 billion in annual procurement and that Caltrans' overall contract spend increases by 0.25% due to this bill, Caltrans estimates annual procurement costs would increase by \$5.7 million. This bill, like existing SB and DBVE bid preferences, is limited to state-funded construction contracts and would not apply to federally-funded projects or projects that receive both federal and state funds.

Writing in support, the California Employee Ownership Coalition states that “The legislature should work to expand and encourage worker ownership because they provide wealth and economic security for workers. In fact, ESOPs in California have distributed an estimated \$11.2 billion in value to their employee-owners. These distributions represent meaningful wealth building outcomes for tens of thousands of California workers.”

Related legislation. SB 713 (Valladares) in 2025 would have required DGS to establish a process for an ESOP qualified contractor to be certified and required Caltrans to provide bid preferences for qualified ESOP companies beginning January 1, 2027. This bill was held in the Senate Appropriations Committee.

SB 1407 (Becker), Chapter 733, Statutes of 2022) established the California Employee Ownership Hub and a Hub Manager within the Office of Small Business Advocate aimed at increasing awareness and understanding of employee ownership of businesses, assisting business owners and employees in navigating available resources, and streamlining and reducing barriers to employee ownership.

REGISTERED SUPPORT / OPPOSITION:

Support

California Employee Ownership Coalition (sponsor)
Ambrose Advisors
Bapko Metal
C. Wells Pipeline Materials
Caltrol
Couts Heating and Cooling
Employee-Owned S Corporations of America
Eureka Capital Partners
GGG Demolition
Griffith Company
Marina Landscape
McGuire and Hester
Murray Company
Pavement Coatings Co.
Pavement Recycling Systems
PRS Holdings
PRS Logistics
Riverside Construction Company
Sustainable Emulsions
The ESOP Association
Over Thirteen Hundred Individuals

Opposition

Associated General Contractors, California Chapters
Buildout California
Western Electrical Contractors Association

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