California State Assembly

BUSINESS AND PROFESSIONS

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AGENDA

Tuesday, June 24, 2025
9 a.m. -- 1021 O Street, Room 1100

BILLS HEARD IN FILE ORDER

1.	SB 291*	Grayson	Contractors: workers' compensation insurance.
2.	SB 312	Umberg	Dog importation: health certificates.
3.	SB 351	Cabaldon	Health facilities.
4.	SB 387*	Rubio	Physicians and surgeons: special faculty permits: academic medical centers.
5.	SB 517*	Niello	Home improvement contract requirements: subcontractors.
6.	SB 602*	Cortese	Veterinarians: veterinarian-client-patient-relationship.
7.	SB 773*	Ashby	Board of Registered Nursing: advisory committees.
8.	SB 788	Niello	Tax preparers: exemptions.

**Proposed for Consent*

Date of Hearing: June 24, 2025

ASSEMBLY COMMITTEE ON BUSINESS AND PROFESSIONS
Marc Berman, Chair
SB 291 (Grayson) – As Amended May 1, 2025

NOTE: This bill is double referred and if passed by this Committee will be re-referred to the Assembly Insurance Committee.

SENATE VOTE: 35-0

SUBJECT: Contractors: workers' compensation insurance

SUMMARY: Requires the Contractors State License Board (CSLB) to report workers' compensation insurance violations through an existing reporting requirement to the Legislature; establishes minimum civil penalties for workers' compensation insurance violations; prohibits the CSLB from renewing or reinstating a license without a current and valid Certificate of Workers' Compensation Insurance or Certification of Self-Insurance if that contractor previously violated the workers' compensation insurance mandate; and requires the CSLB to provide a report to the Legislature by January 1, 2027, detailing how it could verify that a contractor has no employees.

EXISTING LAW:

1) Establishes, until January 1, 2025, the CSLB under the Department of Consumer Affairs (DCA) to implement and enforce the Contractors State License Law (License Law), which includes the licensing and regulation of contractors and home improvement salespersons. (Business and Professions Code (BPC) §§ 7000 *et seq.*)

2) Requires, until January 1, 2025, the CSLB, by and with the approval of the director, to appoint a registrar of contractors, to be the executive officer and secretary of the CSLB, and to carry out all of the administrative duties of the board. (BPC § 7011)

3) Establishes an enforcement division within the CSLB to rigorously enforce the License Law, prohibiting all forms of unlicensed activity and enforcing the obligation to secure the payment of valid and current workers' compensation insurance, as specified. (BPC § 7011.4(a))

4) Requires the CSLB to provide an annual report to the Legislature, no later than October 1, related to complaints filed with the CSLB, as specified. (BPC § 7017.3)

5) Exempts from the License Law a work or operation on one undertaking or project by one or more contracts if the aggregate price for labor, materials, and all other items is less than $1,000 that work or operation being considered of casual, minor, or inconsequential nature, and the work or operation does not require a building permit. (BPC § 7048)

6) Authorizes the CSLB to issue contractors' licenses to individual owners, partnerships, corporations, and limited liability companies. (BPC § 7065(b))

7) Requires the CSLB to promulgate regulations covering the assessment of civil penalties that consider the gravity of the violation, the good faith of the licensee or applicant for licensure being charged, and the history of previous violations. Except as otherwise provided, prohibits the CSLB from assessing a civil penalty that exceeds $8,000. Specifies that the CSLB may assess a civil penalty up to $30,000 for specified violations (e.g., willful or deliberate disregard and violation of state and local building laws; aiding or abetting an unlicensed person to violate the License Law; entering into a contract with an unlicensed person; and committing workers' compensation insurance fraud). (BPC § 7099.2)

8) Requires, until January 1, 2028, as a condition of licensure, that an applicant or licensee have on file at all times a current and valid Certificate of Workers' Compensation Insurance or Certification of Self-Insurance, unless that applicant or licensee has no employees and does not hold a C-8, C-20, C-22, C-39, or a D-49 license; the applicant or licensee is organized as a joint venture; or the license is inactive, as specified. (BPC § 7125(a-d))

9) Requires, beginning January 1, 2028, as a condition of licensure, that an applicant or licensee have on file at all times a current and valid Certificate of Workers' Compensation Insurance or Certification of Self-Insurance, unless the applicant or licensee is organized as a joint venture that has no employees or the license is inactive, as specified. (BPC § 7125(a-c) operative on January 1, 2028)

10) Makes the failure of a licensee to obtain or maintain workers' compensation insurance coverage, if required, result in the automatic suspension of the license by operation of law, as specified, and imposes the license suspension upon the earlier of either of the following:

    a) On the date that the relevant workers' compensation coverage lapses.

    b) On the date that workers' compensation coverage is required to be obtained.

    (BPC § 7125.2)

11) Prohibits filing a false Workers' Compensation Insurance exemption certificate, employing a person without filing a certificate of insurance with CSLB for that person, or employing a person without maintaining coverage for that person. (BPC § 7125.4)

12) Requires the CSLB, by no later than January 1, 2027, to establish a process and procedure, which may include an audit, proof, or other means, to verify that an applicant or licensee without an employee or employees is eligible for exemption from the workers' compensation insurance requirement. (BPC § 7125.7)

13) Makes any licensee, agent, or officer, who violates or omits to comply with the provisions requiring a certificate of workers' compensation under the License Law guilty of a misdemeanor and makes any non-licensee, acting in the capacity of a contractor, who fails to comply with workers' compensation requirements specified in Labor Code § 3700 guilty of a misdemeanor, as specified. (BPC § 7126(a)(b))

13) Requires every employer, except the state, to secure the payment of workers' compensation in one or more of the following ways:

a) By being insured against liability to pay compensation by one or more insurers duly authorized to write compensation insurance in this state.

b) By securing from the Director of Industrial Relations a certificate of consent to self-insure either as an individual employer, or as one employer in a group of employers, which may be given upon furnishing proof satisfactory to the Director of Industrial Relations of ability to self-insure and to pay any compensation that may become due to his or her employees.

c) For any county, city, city and county, municipal corporation, public district, public agency, or any political subdivision of the state, including each member of a pooling arrangement under a joint exercise of powers agreement (but not the state itself), by securing from the Director of Industrial Relations a certificate of consent to self-insure against workers' compensation claims, which certificate may be given upon furnishing proof satisfactory to the director of ability to administer workers' compensation claims properly, and to pay workers' compensation claims that may become due to its employees.

(Labor Code § 3700)

THIS BILL:

1) Requires the CSLB to include in its annual report to the Legislature the number of disciplinary actions for workers' compensation insurance violations.

2) Establishes the following minimum civil penalties for workers' compensation insurance violations:

   a) $10,000 per violation for any sole owner licensee found to have employed workers without maintaining workers' compensation coverage.

   b) $20,000 per violation for any partnership, corporation, limited liability company, or tribal business licensee found to have employed workers without workers' compensation coverage.

   c) Additional civil penalties for subsequent violations, not to exceed a total of $30,000 per occurrence.

3) Prohibits the CSLB from renewing or reinstating a license in violation of workers' compensation insurance requirements until the applicant or licensee provides the CSLB with a current and valid Certificate of Workers' Compensation Insurance or Certification of Self-Insurance in the applicant's or licensee's business name.

4) Requires the CSLB to report its proposed process for verifying that an applicant or licensee without employees is eligible for exemption from the workers' compensation insurance requirement to the Legislature by January 1, 2027, as specified.

FISCAL EFFECT: According to the Senate Appropriations Committee, pursuant to Senate Rule 28.8, no significant state costs anticipated.

COMMENTS:

Purpose. This bill is sponsored by the *Contractors State License Board*. According to the author:

> [This bill] will uphold consumer protections by establishing significant penalties for any licensee who does not follow existing law, and will also make sure that we have the necessary data to create a pathway in the future to ensure that licensees without any employees do not have to carry unnecessary workers compensation insurance policies. This will ultimately help our state to maintain the licensee population needed to meet consumer construction needs, while meeting our commitments to California's workers.

Background. The CSLB is responsible for implementing and enforcing the License Law, which governs the licensure, practice, and discipline of contractors in California. A license is required for construction projects valued at $1,000 or more, including labor and materials. The CSLB issues licenses to business entities and sole proprietors. Each license requires a qualifying individual (a "qualifier") who satisfies the experience and examination requirements for licensure and directly supervises and controls construction work performed under the license. The CSLB issues four types of licenses: "A" General Engineering Contractor; "B" General Building Contractor; "B-2" Residential Remodeling Contractor; and "C" Specialty Contractor, of which there are 42 classifications. Each licensing classification (I.e., electrical, drywall, painting, plumbing, roofing, and fencing) authorizes a specific type of construction work. At the time of this writing, there are more than 241,000 contractors with an active license in California.

Workers' Compensation Insurance. In California, all employers are required to have workers' compensation insurance and to pay for workers' compensation benefits for workers who experience a work-related injury or illness. Workers' compensation benefits include medical care, disability benefits, job displacement benefits, and death benefits. These benefits are designed to provide injured or ill employees with the necessary medical treatment to recover, partially replace lost wages, and support workers' return to work. Workers' compensation benefits do not include damages for pain and suffering or punitive damages. Employers may purchase workers' compensation insurance from a licensed insurance company or through the State Compensation Insurance Fund. Self-insurance is also an option, but it requires state approval, a net worth of at least $5 million, an annual net income of $500,000, and the posting of a security deposit.

The state does not regulate workers' compensation insurance premium rates. The Workers' Compensation Insurance Rating Bureau recommends rates, and insurance companies must disclose their rates to the California Department of Insurance, but rates can vary among insurance companies. Annual premiums are determined by a variety of factors, including industry classification. Insurance companies assign a specific rate to each classification code, subject to approval by the Insurance Commissioner. The classification code and related rate are used to calculate the base rate of the workers' compensation insurance premium. The assigned rate is expressed as a dollar value and multiplied by each $100 of payroll per classification.

Employees who suffer from a work-related injury or illness are entitled to medical treatment and other benefits regardless of whether their employer has workers' compensation insurance. The Uninsured Employers Benefits Trust Fund pays claims to workers when employers fail to pay

workers' compensation benefits due to being uninsured. The UEBTF then pursues reimbursement from the responsible employer.

The License Law requires applicants and licensees, as a condition of licensure, to have workers' compensation insurance if they have any employees. Applicants and licensees are required to submit to CSLB a valid Certificate of Workers' Compensation Insurance, a valid Certification of Self-Insurance from the Department of Industrial Relations, or a Certificate of Exemption. Contractors without employees may file an exemption, except for those holding C-8 (Concrete), C-20 (Heating, Ventilation, and Air Conditioning), C-22 (Asbestos Abatement), and D-49 (Tree Service) licenses. Filing a false workers' compensation insurance exemption is cause for disciplinary action by the CSLB and cancellation of the false exemption, which subjects the license to suspension. This bill would prohibit the CSLB from renewing or reinstating the license of a contractor who previously violated the workers' compensation insurance requirements until they provide the CSLB with a current and valid Certificate of Workers' Compensation Insurance or Certification of Self-Insurance.

Recent History of Workers' Compensation Insurance Requirements for Contractors. Prior to the passage of SB 216 (Dodd), Chapter 978, Statues of 2022, only a C-39 (Roofing) contractor was required to have workers' compensation insurance regardless of whether they had any employees. SB 216 expanded the classifications prohibited from filing an exemption, effective January 1, 2023, and required every contractor to have workers' compensation insurance, without exception, beginning January 1, 2026. That bill was sponsored by CSLB and introduced after it became evident that a significant number of contractors had exemptions on file but were employing workers. A 2017 audit of a sample of C-8 (Concrete), C-12 (Earthwork/Paving), C-27 (Landscaping), and D-49 (Tree Service) contractors revealed that at least 59% had false workers' compensation insurance exemptions on file with the CSLB. Moreover, the CSLB reported that between January 2018 and March 2020, it issued 500 stop-work orders to licensed contractors on job sites for failing to secure workers' compensation and took 342 legal actions against licensed contractors for workers' compensation insurance violations. At that time, approximately 55% of contractors had a current exemption on file with the CSLB. SB 216 was intended to curb workers' compensation insurance fraud in the construction industry.

During the CSLB's 2024 Sunset Review, the Board estimated that 115,000 contractors would need to obtain workers' compensation insurance and expressed concerns that the implementation of SB 216 would have a greater-than-anticipated impact on its workload and potentially increase license processing times. The CSLB also shared concerns raised by stakeholders that this bill would unfairly impact contractors with no employees. Moreover, the CSLB projected that if 10% of licensees stopped paying to maintain a license, it could lose $8 million in revenue, potentially impacting its enforcement operations.

In response to the CSLB's concerns, Senator Dodd introduced a subsequent bill, SB 1071 of 2024, which would have allowed contractors with no employees to file an exemption from the requirement to obtain workers' compensation insurance, if the applicant or licensee provided both an affidavit and adequate proof, as provided for by the CSLB, to demonstrate they are operating without employees. That bill was held in the Assembly Appropriations Committee. However, the CSLB's sunset bill, SB 1455 (Ashby), Chapter 485, Statutes of 2024, delayed the implementation of the universal workers' compensation requirement to January 1, 2028, and

required the CSLB, by January 1, 2027, to establish a process for verifying whether contractors have employees.

This bill initially sought to rescind the universal workers' compensation insurance mandate that takes effect on January 1, 2028, and instead allow contractors, except C-39 (roofing) contractors, to file an exemption if they have no employees, do not undertake construction projects valued over $2,000 for labor and materials, and have not been cited or otherwise disciplined by the CSLB previously for failure to maintain workers' compensation insurance. The applicant or licensee would have also been required to file a statement on a form prescribed by the CSLB before the issuance, reinstatement, reactivation, or continued maintenance of a license certifying that the applicant or licensee qualifies for an exemption. Additionally, the bill would have required applicants and licensees to complete an open-book examination that includes questions regarding workers' compensation laws and regulations. These provisions were stricken from the bill in the Senate Business, Professions and Economic Development Committee and replaced by a requirement that the CSLB provide a report to the Legislature by January 1, 2027, outlining a process to verify that a contractor has no employees.

CSLB Civil Penalties. The CSLB is authorized to take disciplinary action against licensed and unlicensed contractors who have violated the License Law and is empowered to use an escalating scale of penalties, ranging from citations and fines (referred to as civil penalties) to license suspension and revocation. Current law caps the civil penalty amount that the CSLB may assess for workers' compensation insurance violations at $30,000. This bill would establish a minimum fine of $10,000 per violation for any sole owner and $20,000 per violation for any partnership, corporation, limited liability company, or tribal business licensee found to have employed workers without maintaining workers' compensation insurance coverage. This bill would authorize additional civil penalties for any subsequent violations, not to exceed $30,000 per occurrence.

Report to the Legislature. Current law requires the CSLB to submit an annual report to the Legislature by October 1st with data related to its enforcement program, including, but not limited to, the number of complaints received, disciplinary actions taken, and enforcement timeframes. This bill would require the CSLB to include the number of disciplinary actions it has taken against contractors for violations of workers' compensation insurance.

Current Related Legislation. SB 779 (Archuleta) would increase the minimum civil penalty amounts that the CSLB may assess, effective July 1, 2026, and authorize the CSLB to raise the minimums every five years to account for inflation. *SB 799 is pending in this committee.*

Prior Related Legislation. SB 1455 (Ashby), Chapter 485, Statutes of 2024, as it related to this bill, delayed implementation of the universal worker's compensation requirement to January 1, 2028, and required the board, by no later than January 1, 2027, to establish a process and procedure, which may include an audit, proof, or other means, to verify that an applicant or licensee without an employee or employees is eligible for exemption from the workers' compensation insurance requirement.

SB 1071 (Dodd) of 2024 would have added an additional exception to the requirement to obtain workers' compensation insurance for applicants and licensees that have no employees, if the applicant or licensee provides both an affidavit to the CSLB affirming they have no employees

and adequate proof, as provided for by the CSLB, demonstrating they are operating without employees beginning, January 1, 2026. *SB 1071 was held under submission in the Senate Appropriations Committee.*

SB 601 (McGuire), Chapter 403, Statutes of 2023, required the maximum fine of $5,000 to be imposed when violations of home improvement contract requirements are committed in declared disaster areas.

AB 1747 (Quirk), Chapter 757, Statutes of 2022, authorized the CSLB to assess a civil penalty up to $30,000 for the willful or deliberate disregard of the various state building, labor, and safety laws.

AB 2894 (Cooper) of 2022 would require an applicant or licensee to inform the CSLB of its workers' compensation classification code as a condition of licensure. *AB 2894 died on the Senate Appropriations Committee Suspense File.*

SB 216 (Dodd), Chapter 978, Statutes of 2022, required asbestos abatement contractors; concrete contractors; heating, ventilation, and air conditioning (HVAC) contractors; and tree service contractors to have workers' compensation insurance, regardless of whether they have employees, until January 1, 2026, at which time all contractors are required to have workers' compensation insurance regardless of whether they have employees.

AB 569 (Grayson), Chapter 94, Statutes of 2021, increased the maximum fine for general violations of the License Law from $5,000 to $8,000 and increased the maximum fine from $15,000 to $30,000 for specified violations.

AB 2705 (Holden), Chapter 323, Statutes of 2018, subjected an unlicensed person acting as a contractor to the existing criminal penalties that apply to licensed contractors for not securing the required workers' compensation and makes this crime subject to the same two-year statute of limitations as for licensees.

AB 996 (Cunningham and Brough) of 2018, would have required the CSLB to adopt an enhancement feature on website to allow consumers to monitor the status and progress of a workers' compensation certification, as specified, and view the time elapsed from when the CSLB received the certification until a final disposition has been approved. *AB 996 was held in the Senate Committee on Appropriations.*

AB 2219 (Knight), Chapter 389, Statutes of 2012, deleted the sunset date, thereby extending indefinitely the law requiring roofing contractors who hold a C-39 classification to maintain workers' compensation insurance, whether they have employees, and makes additional changes to the law regarding C-39 contractors.

AB 878 (Berryhill), Chapter 686, Statutes of 2011, required a workers' compensation insurer to report to the CSLB a licensed contractor whose insurance policy it cancels, as specified.

AB 397 (Monning), Chapter 546, Statutes of 2011, required a licensed contractor with an exemption for workers' compensation insurance to recertify the exemption upon license renewal or provide proof of workers' compensation coverage.

AB 2305 (Knight) Chapter 423, Statutes of 2010, extended the sunset date, from January 1, 2011 to January 1, 2014, on the law requiring a roofing contractor to obtain and maintain workers' compensation insurance, even if he or she has no employees, and extended the parallel sunset date requiring the Department of Insurance to report on this effect.

AB 881 (Emmerson and Sharon Runner), Chapter 38, Statutes of 2006, required all licensed roofers to have workers compensation insurance, authorizes the Registrar to remove the roofing classification from a contractor license for failure to maintain workers' compensation insurance, and required workers compensation insurers to roofing contractors to perform annual audits of these policyholders.

ARGUMENTS IN SUPPORT:

As the sponsor of this bill, the *CSLB* writes: "Board members expressed support for the enhanced penalties in the bill and is committed to working in good faith with [Senator Tim Grayson] and the Legislature on a responsible and lasting solution to the concern of requiring business owners who do not use employees to obtain workers' compensation insurance."

The *Associated General Contractors, California Chapters*, writes in support:

> This bill takes important steps to stop bad actors from fraudulently claiming to have no employees in order to avoid securing legally required coverage. Contractors who misrepresent their employee status not only place workers at serious risk but also undercut honest businesses that play by the rules. [This bill's] provisions enhancing CSLB reporting, increasing civil penalties, and establishing a meaningful exemption verification process are critical to ensuring a level playing field in the construction industry.

ARGUMENTS IN OPPOSITION:

There is no opposition on file.

REGISTERED SUPPORT:

Contractors State License Board (Sponsor)
Associated Builders and Contractors of California
Associated General Contractors, California Chapters
Western Electrical Contractors Association

REGISTERED OPPOSITION:

There is no opposition on file.

Analysis Prepared by: Kaitlin Curry / B. & P. / (916) 319-3301

Date of Hearing: June 24, 2025

ASSEMBLY COMMITTEE ON BUSINESS AND PROFESSIONS
Marc Berman, Chair
SB 312 (Umberg) – As Amended May 5, 2025

NOTE: This bill is double referred and if passed by this Committee will be re-referred to the Assembly Agriculture Committee.

SENATE VOTE: 38-0

SUBJECT: Dog importation: health certificates

SUMMARY: Requires individuals to obtain and submit a health certificate to the Department of Food and Agriculture (CDFA), and to the buyer, when selling or importing dogs into California, and requires the CDFA to retain, make available to the public, and post on the internet specified information related to the health certificates.

EXISTING LAW:

1) Requires a person who brings a dog, or imports dogs into this state for the purpose of resale or change of ownership, to obtain a health certificate that has been completed by a licensed veterinarian and is dated within 10 days prior to the date on which the dog is brought into this state. (Health and Safety Code (HSC) § 121720(a)(1))

2) Requires the health certificate to be provided to a county health department and submitted to the county health department by any means acceptable to the receiving agency, as specified. (HSC § 121720(a)(2))

3) States that the completion of a United States Department of Agriculture (USDA) Animal and Plant Health Inspection Services (APHIS) Form 7001 satisfies the health certificate requirement. (HSC § 121720(b))

4) Authorizes county agencies to use the information on submitted health certificates as it deems appropriate, and allows an entity to charge a fee for accepting the certificate, as required. (HSC §§ 121720(d), 121722)

5) Exempts a person who brings a dog into the state that will not be offered for resale, or if the ownership of the dog is not expected to change, from being subject to the health certificate requirements. (HSC § 121721(a))

6) Exempts the following sales or transfers from being subject to the health certificate requirements:

    a) The import of a dog used for law enforcement or military work,

    b) A guide dog, as defined by subdivision (d) of Section 365.5 of the Penal Code,

    c) A dog imported as a result of a declared emergency as described by Section 8558 of the Government Code, or

d) An investigation by law enforcement of an alleged violation of state or federal animal fighting or animal cruelty laws.

(HSC § 121721(b))

7) Makes a person who violates the requirement to provide a health certificate guilty of an infraction, punishable by a $250 fine, and authorizes enforcement personnel to issue an administrative fine or a correction warning, as specified. (HSC § 121723)

THIS BILL:

1) Repeals current law contained in the HSC, and places and expands laws in the Food and Agriculture Code related to health certificates for a person selling, transporting, or importing a dog into California for the purpose of resale or change of ownership.

2) Requires that a person selling, transporting, or importing a dog into California for the purpose of resale or change of ownership obtain and submit a health certificate, completed by a licensed veterinarian dated no more than 10 days before the date on which the dog is brought into this state.

3) Requires that health certificates be submitted directly to the CDFA and the buyer of the dog.

4) Requires that a health certificate must include, but is not limited to, the following information:

   a) The date of the examination;

   b) A statement that the examination revealed no clinical evidence of infectious or communicable disease, including external parasites and fungi, and that, to the best of the veterinarian's knowledge the dog has not recently been exposed to such infectious or communicable disease;

   c) Any vaccinations, treatments, or tests, and the results;

   d) A statement that the dog has been properly immunized by a rabies vaccination within 12 months before the date of importation into the state, unless the dog is under three months old or a veterinarian certifies in writing that specified circumstances would endanger the life of the dog;

   e) The number of dogs in the shipment;

   f) A description of each dog, including breed, sex, and age;

   g) The microchip number for each dog, if microchipped;

   h) The physical address for both the origin and destination of the dog in the shipment which shall not be a post office box, airport, parking lot, or other non-fixed location, as specified;

i) The signature, printed name, physical address, and state license number of the accredited veterinarian who examined the dogs in the shipment;

j) The full name and physical address, email address, and telephone number of the consignor, as defined, and the buyer; and

k) The United States Department of Agriculture license number associated with the breeder of the dog, if applicable.

5) Specifies that completion of an APHIS Form 7001 satisfies the health certificate requirements so long as it is completed within 10 days prior to import and contains all required information above.

6) Authorizes the CDFA to utilize a different form of health certificate so long as it is completed within 10 days prior to import and contains all required information above.

7) Requires that the person selling, transporting, or importing the dog into California submit the health certificate to the CDFA and the buyer via an electronic transmission.

8) Requires the CDFA to develop, maintain, and make available to the public a searchable internet website that contains the information it receives on every submitted health certificate, except for street names, address numbers, and telephone numbers.

9) Makes a health certificate received by the CDFA a public record, as specified.

10) Requires the CDFA to make the submitted health certificates available upon request, without first requiring the submission of a public records request, as specified.

FISCAL EFFECT: According to an analysis by the Senate Appropriations Committee, CDFA reports one-time contracting costs of $520,395 to develop and launch a searchable web system and ongoing annual costs of approximately $125,000 for software licensing and maintenance (General Fund and special fund). CDFA notes this IT project is anticipated to take approximately six months to complete.

COMMENTS:

Purpose. This bill is co-sponsored by the *San Diego Humane Society (SDHS)* and the *American Society for the Prevention of Cruelty to Animals (ASPCA).* According to the author:

> "California has been a longstanding leader in animal welfare, becoming the first state to prohibit the sale of purpose-bred puppies (typically acquired from puppy mills) in pet stores. However, dishonest sellers continue to exploit consumers through deceptive internet marketing practices and/or by posing as reputable local breeders. In reality, they import thousands of puppies from cruel out-of-state breeding operations, deceiving buyers and perpetuating the horrific puppy mill pipeline. Almost every state requires a health certificate for imported dogs to be uploaded to their state department of agriculture but California has never mandated sending these forms to the California Department of Agriculture, which has received and destroyed them for years. This health certificate information is crucial for

consumers to confirm information about their dog, and for humane law enforcement agencies who work to investigate fraud during these transactions"

Background.

Interstate Dog Importation. In order to prevent the spread of communicable diseases and parasites, states across the country require some form of a health certificate, or "certificate of veterinary inspection" (CVI) for animals that are imported or travel across state lines. In many states, respective agriculture departments or other state agencies regulate CVIs and health requirements for out-of-state animals. While every state requires some sort of CVI for livestock and poultry, not all—but many—require CVIs for dogs, and some even require CVIs for other companion animals like cats and rabbits. While CVIs vary somewhat state-by-state, all require minimum information such as the animal's place of origin, veterinary identification, and proof of certain vaccinations. Notably, in recent years some states like New York and California have adopted and encouraged the use of electronic CVIs where applicable, citing greater accuracy and security.

In California, CVIs or similar health certificates are required for most animals coming into the state, with many being directly administered by, and submitted to, the state's Department of Food and Agriculture (CDFA). Respective to dogs, current law established by AB 1809 (Maeinschein, Ch. 498, Stats. of 2014) requires that individuals who import dogs intended for resale or change in ownership obtain a health certificate from a licensed veterinarian in their state or country of origin within 10 days prior to the dog being brought into California. These certificates are required to be submitted to the public health department of the relevant county where the dog will be sold or received, and failure to comply with these requirements is punishable by a $250 infraction per dog.

While current law is vague as to what specific information must be included in this certificate, it deems that submission of the U.S. Department of Agriculture (USDA) Animal and Plant Health Inspection Service (APHIS) Form 7001 to the county health department is satisfactory for meeting California CVI requirements. This form is provided by the USDA as a certifiable, consistent resource to meet various international and national pet import and export requirements, and includes important information such as the origin of the animal, age and breed descriptors, any vaccines or treatments administered, the license number of the examining veterinarian, and more. Additionally, current law allows each county to develop their own canine health certificate as they deem appropriate, and to use the information they receive as they see fit.

State Regulation of Pet Sales. California has a long history of regulating pet sales in the state beyond federal standards, with a number of laws that oversee pet dealers and their businesses, and aim to protect the wellbeing of the animals they sell. The Lockyer-Polanco-Farr Pet Protection Act (Pet Protection Act) establishes requirements on pet dealers in California. When selling a pet to a consumer, pet dealers must provide purchasers with written information about the animal's health, including any known illnesses or conditions. Additionally, before any dog or cat is sold, it must be examined by a licensed veterinarian to ensure it is free from contagious diseases and fit for sale. The Pet Protection Act also outlines consumer remedies in the event a purchased animal is found to be ill or affected by a congenital or hereditary condition within 15 days of sale, in which case the consumer may be entitled to a refund, an exchange, or reimbursement for veterinary costs. The law also imposes recordkeeping requirements,

obligating dealers to retain documentation regarding the source of animals, veterinary treatments, and sales transactions for a specified period. Enforcement of the Pet Protection Act is delegated to local animal control agencies and humane officers, who are authorized to conduct inspections and enforce compliance, and violations of the law may result in civil penalties and administrative actions.

Beyond pet sales that occur in retail settings, California regulates the sale of dogs by dog breeders through the Polanco-Lockyer Pet Breeder Warranty Act (Warranty Act). Under the Warranty Act, "dog breeders" are defined as a person, firm, partnership, corporation, or other association that has sold, transferred, or given away all or part of three or more litters or 20 or more dogs during the preceding 12 months that were bred and reared on the premises of the person, firm, partnership, corporation, or other association. Much like the Pet Protection Act, the Warranty Act allows a consumer to receive a refund or reimbursement should they purchase a sick pet, or a pet that is found to have a hereditary or congenital condition requiring surgery or hospitalization. The Warranty Act further regulates California dog breeders by requiring breeders to provide specific written disclosures, including the breeder's name, address, information on the dog, and signed statements that the dog has no known diseases or illnesses, as well as a notice of the purchaser's rights to obtain a refund or reimbursement.

Further Legislative Reforms. Building off existing federal and state laws, the Legislature has made additional reforms in recent years to the sale of animals coming from large-scale animal "mills" and other cruel commercial operations. In an effort to reduce the flow of pets sourced from breeder mills, AB 485 (O'Donnell, Chapter 740, Statutes of 2017) was enacted in 2018 to prohibit pet store operators from selling a live cat, dog, or rabbit unless the animal is offered through a public animal control agency or shelter, specified nonprofit, or animal rescue or adoption organization. Pet store operators who violate these provisions are subject to a civil penalty of up to $500 for each animal offered for sale.

To address loopholes that resulted from the implementation of AB 485, in which commercial breeders guised their businesses as nonprofit organizations to circumvent prohibitions, further legislation enacted in 2021 (AB 2152, Gloria & O'Donnell, Chapter 96, Statutes of 2020) specifically defined the type of animal rescue organizations that pet stores could source animals from. Additionally, AB 2152 prohibited pet stores from displaying animals except for cases of providing display space for nonprofit partners. In 2023, AB 2380 (Maienschein, Chapter 548, Statutes of 2022) was enacted to further curb the importation of commercially-bred pets into California, and address unscrupulous and predatory lending practices in the pet market by prohibiting online pet retailers from offering or brokering a loan or other financing option for the adoption or sale of a dog, cat, or rabbit.

LA Times Exposé. Despite California's many past efforts to promote transparency and animal welfare in pet sales, a 2024 investigative report by the *Los Angeles Times* titled "Inside California's Brutal Underground Market for Puppies" exposed that some breeders and pet sellers were exploiting loopholes that allow them to circumvent state laws, reselling or arranging the sale of dogs bred in "puppy mills." Through analysis of more than 88,000 CVIs from states throughout the country, the *Times* identified that more than 71,000 were imported into California. Individual pet dealers and businesses then rebrand and resell these imported dogs as "California-bred" to unknowing consumers. According to the report, many of these pets develop future health problems and consumers are left with little knowledge as to the original source of their pet, nor recourse for the fraudulent sale.

In attempting to procure and research CVIs as part of their investigation, *Times* reporters highlighted the inconsistent and severely lacking nature of animal health certificate submission and retention across California. Since state law requires that CVIs be submitted to county health departments, and defers to each county to determine specific required information and method of submission, CVIs vary wildly from county-to-county in their accessibility, disclosed information, and recordkeeping methodology. Additionally, since CVIs are typically for sales that involve an out-of-state seller, these sellers are often unaware of specific county requirements and default to transmitting CVIs directly to the CDFA, since they are the state agency that typically receives CVIs for other types of animals and in many other states, their respective agriculture departments regulate interstate dog commerce directly.

In response to this investigative report, the author and sponsors have put forward this measure to provide greater consumer transparency in dog sales and align California's CVI requirements for dogs with those in other states. Specifically, this bill strikes current law contained in the Health and Safety Code that outlines CVI requirements and places regulation under the authority of county health departments, and instead recasts and expands these requirements in the Food and Agriculture Code and places authority directly under the CDFA. Specifically, this bill requires that any person selling or transporting a dog into California for resale or ownership transfer must obtain a CVI within 10 days prior to the dog being brought into the state, and that it must be submitted directly to the CDFA and the buyer of the dog. Unlike current law, this bill specifically outlines what information must be included in the CVI, including the date of the examination, a statement that the dog did not present any clinical evidence of infectious disease, records of vaccinations or treatments, and certain information about the seller, consigner, and buyer. The bill notes that an APHIS Form 7001 is satisfactory for meeting the CVI requirement so long as it is dated within the required 10 days prior to import. Furthermore, this bill requires the CDFA to develop and maintain a searchable, public internet website that contains a database of all CVIs submitted to the department, with certain identifying personal information such as street names, address numbers, and telephone numbers. Finally, the bill requires the CDFA to make any CVI it obtains available upon request, without requiring a person to submit a request under the California Public Records Act.

Notably, this bill is part of a wider "Close the Puppy Mill Pipeline" legislative package put forward by the sponsors to address issues raised in the *Times* investigation. In addition to this bill, which requires CDFA to retain and make available information related to certificates of veterinary inspection, the package also contains AB 519 (Berman), which expressly bans pet brokers, and AB 506 (Bennett), which would establish specific contract stipulations and consumer restitution measures related to pet sales. AB 519 and AB 506 were both approved by this committee earlier this year and are currently under consideration in the Senate Business, Professions, and Economic Development Committee.

Current Related Legislation. AB 506 (Bennett) would specify information that must be included in a contract between a buyer and pet seller, as defined, prohibit such contracts from requiring a nonrefundable deposit, and provide consumer remedies and rights of action for contracts. *This bill is pending consideration in the Senate Business, Professions and Economic Development Committee.*

AB 519 (Berman) would prohibit brokers from selling, offering for sale, or making available for adoption a dog, cat, or rabbit, subject to specified exemptions. *This bill is pending consideration in the Senate Business, Professions and Economic Development Committee.*

Prior Related Legislation. AB 1809 (Maeinschein), Ch. 498, Stats. of 2014, requires that individuals who import dogs intended for resale or change in ownership obtain a health certificate from a licensed veterinarian in their state or country of origin within 10 days prior to the dog being brought into California, and submit them to the health department of the respective county of import.

ARGUMENTS IN SUPPORT:

This bill is co-sponsored by the *San Diego Humane Society (SDHS)* and the *American Society for the Prevention of Cruelty to Animals (ASPCA)***.** In a joint letter co-signed by several animal welfare organizations, they write: "Transparency around the health, sources, flow, and volume of puppies being sold into California that SB 312 will afford is a critical step that will increase consumer protections and allow for better oversight and policymaking with respect to puppies being imported from puppy mills and breeders in other states."

IMPLEMENTATION ISSUES:

Future Consistency with Federal Law. The required information under subdivision (b) of this bill models what is currently required under the federal USDA's APHIS Form 7001. The sponsors have noted that this is intended to address any potential future changes to the APHIS Form or wider USDA animal programs, and ensure the current standard of information that is widely used and understood in interstate animal commerce is maintained. APHIS Form 7001 allows a seller to include required information about multiple dogs in a shipment on a single certificate. However, as currently drafted, subdivision (a) of the bill requires a health certificate for "a dog" brought into the state, whereas subdivisions (b)(5) and (b)(6) make reference to noting the "number of dogs" and "shipment of dogs" on a singular certificate. It is unclear whether the author intends for an individual health certificate to be required for each dog in a shipment, or if a singular certificate covering an entire dog shipment is sufficient. Should the bill move forward, the author and sponsors should consider revisions that clarify the intended certificate requirement for shipments.

REGISTERED SUPPORT:

American Society for the Prevention of Cruelty to Animals (ASPCA) (*Co-Sponsor*)
San Diego Humane Society (*Co-Sponsor*)
American Kennel Club, Inc.
Animal Legal Defense Fund
California Animal Welfare Association
Humane Society of San Bernardino Valley
Humane World for Animals
Inland Valley Humane Society & SPCA
Michelson Center for Public Policy
Pet Advocacy Network
Pets Lifeline
San Francisco SPCA
Social Compassion in Legislation
Valley Humane Society

REGISTERED OPPOSITION:

None on file.

Analysis Prepared by: Edward Franco / B. & P. / (916) 319-3301

Date of Hearing: June 24, 2025

ASSEMBLY COMMITTEE ON BUSINESS AND PROFESSIONS
Marc Berman, Chair
SB 351 (Cabaldon) – As Amended June 16, 2025

NOTE: This bill is double referred and if passed by this Committee will be re-referred to the Assembly Committee on Judiciary.

SENATE VOTE: 30-6

SUBJECT: Health facilities

SUMMARY: Expressly prohibits private equity groups and hedge funds from interfering with the professional judgment of physicians or dentists in making health care decisions or exercising control or power over specified activities in violation of the existing bar on the corporate practice of medicine or dentistry, and subjects private equity groups and hedge funds to enforcement by the Attorney General for violations of those specific prohibitions.

EXISTING LAW:

1) Establishes the Department of Consumer Affairs (DCA) within the Business, Consumer Services, and Housing Agency. (Business and Professions Code (BPC) § 100)

2) Enumerates various regulatory boards, bureaus, committees, and commissions under the DCA's jurisdiction, including healing arts boards under Division 2. (BPC § 101)

3) Establishes the Medical Board of California (MBC) within the DCA to license and regulate physicians and surgeons under the Medical Practice Act. (BPC §§ 2000 *et seq.*)

4) Establishes the Osteopathic Medical Board of California (OMBC) within the DCA to license and regulate physicians and surgeons under the Osteopathic Act, who possess the same privileges as licensees regulated by the MBC. (BPC §§ 2450 *et seq.*)

5) Provides that provisions of the Medical Practice Act apply to the OMBC to the extent they are consistent with the Osteopathic Act, unless otherwise provided. (BPC § 2452)

6) Provides that it is a criminal offense for any person to practice medicine or advertise themselves as practicing medicine within the scope of the Medical Practice Act without a valid license as a physician and surgeon. (BPC § 2052)

7) Authorizes the MBC to take action against all persons guilty of violating the Medical Practice Act. (BPC § 2220)

8) Establishes the Dental Board of California (DBC) within the DCA to license and regulate dentists and other dental professionals under the Dental Practice Act. (BPC §§ 1600 *et seq.*)

9) Provides that it is unlawful for any person to engage in the practice of dentistry in the state without a valid license from the DBC. (BPC § 1626)

10) Provides that corporations and other artificial legal entities shall have no professional rights, privileges, or powers, which forms the statutory basis of the Corporate Practice of Medicine (CPOM) doctrine. (BPC § 2400)

11) Establishes exceptions to the CPOM doctrine allowing for specified facilities to employ licensees and charge for professional services, while prohibiting those entities from interfering with, controlling, or otherwise directing professional judgment. (BPC § 2401)

12) Exempts professional corporations established under the Moscone-Knox Professional Corporation Act from the CPOM doctrine, wherein a majority of shareholders consist of persons licensed to provide the type of professional services rendered by the corporation. (BPC §§ 2402 – 2417.5)

13) Authorizes dental corporations to render professional services in compliance with the Moscone-Knox Professional Corporation Act. (BPC § 1800 *et seq.*)

14) Enacts the Moscone-Knox Professional Corporation Act, which authorizes the creation of professional corporations engaged in rendering professional services requiring a license. (Corporations Code §§ 13400 *et seq.*)

15) Enacts the Knox-Keene Health Care Service Plan Act, which authorizes licensed health care service plans to employ or contract with physicians and surgeons and other licensed health care professionals to provide professional services, provided that the fiscal and administrative management of the health plan demonstrates that it does not hinder medical decisions rendered by licensed health care professionals. (Health and Safety Code §§ 1340 *et seq.*)

THIS BILL:

1) Defines "hedge fund" as a pool of funds managed by investors for the purpose of earning a return on those funds, regardless of the strategies used to manage the funds, including, but not limited to, a pool of funds managed or controlled by private limited partnerships.

2) Defines "private equity group" as an investor or group of investors who primarily engage in the raising or returning of capital and who invests, develops, or disposes of specified assets.

3) Exempts the following from the definition of both "hedge fund" and "private equity group":

   a) Natural persons or other entities that contribute, or promise to contribute, funds to the hedge fund or private equity group, but otherwise do not participate in the management or in any change in control of the hedge fund or private equity group or its assets.

   b) A hospital or a hospital system that owns one or more licensed general acute care hospitals; an affiliate of a hospital or hospital system; or any entity managed or controlled by a hospital or hospital system.

4) Additionally exempts from the definition of "hedge fund" entities that solely provide or manage debt financing secured in whole or in part by the assets of a health care facility, including, but not limited to, banks and credit unions, commercial real estate lenders, bond underwriters, and trustees.

5) Prohibits a private equity group or hedge fund involved in any manner with a physician or dental practice doing business in California, including as an investor in that physician or dental practice or as an investor or owner of the assets of that practice, from interfering with the professional judgment of physicians or dentists in making health care decisions, including by doing any of the following:

    a) Determining what diagnostic tests are appropriate for a particular condition.

    b) Determining the need for referrals to, or consultation with, another physician, dentist, or licensed health professional.

    c) Being responsible for the ultimate overall care of the patient, including treatment options available to the patient.

    d) Determining how many patients a physician or dentist shall see in a given period of time or how many hours a physician or dentist shall work.

6) Further prohibits a private equity group or hedge fund from exercising control over, or being delegated the power to do, any of the following:

    a) Owning or otherwise determining the content of patient medical records.

    b) Selecting, hiring, or firing physicians, dentists, allied health staff, and medical assistants based, in whole or in part, on clinical competency or proficiency.

    c) Setting the parameters under which a physician, dentist, or physician or dental practice shall enter into contractual relationships with third-party payers.

    d) Setting the clinical competency or proficiency parameters under which a physician or dentist shall enter into contractual relationships with other physicians or dentists for the delivery of care.

    e) Making decisions regarding the coding and billing of procedures for patient care services.

    f) Approving the selection of medical equipment and medical supplies for the physician or dental practice.

7) Provides that the corporate form of a physician or dental practice as a sole proprietorship, a partnership, a foundation, or a corporate entity of any kind shall not affect the applicability of the prohibitions in the bill.

8) Prohibits a private equity group or hedge fund, or an entity controlled directly, in whole or in part, by a private equity group or hedge fund, from entering into an agreement or arrangement with a physician or dental practice doing business in California if the agreement or arrangement would enable the person or entity to interfere with the professional judgment of physicians or dentists in making health care decisions or exercise control over or be delegated the powers set forth in the bill.

9) Prohibits contracts between private equity or hedge funds and physician or dental practices from containing specified noncompete clauses or nondisparagement clauses.

10) Empowers the Attorney General to enforce the provisions of the bill by seeking and obtaining injunctive relief and other equitable remedies a court deems appropriate and entitles the Attorney General to recover attorney's fees and costs incurred in remedying any violation of the bill.

11) Declares that the intent of the statute enacted by the bill is to ensure that clinical decisionmaking and treatment decisions are exclusively in the hands of licensed health care providers and to safeguard against nonlicensed individuals or entities, such as private equity groups and hedge funds, exerting influence or control over care delivery.

12) Clarifies that the language of the bill does not narrow, abrogate, or otherwise lower the bar on the corporate practice of medicine or dentistry under current law.

13) Specifies that the bill does not prohibit an unlicensed person or entity from assisting, or consulting with, a physician or dental practice doing business in California with respect to the decisions and activities described in the bill, provided that the physician or dentist retains the ultimate responsibility for, or approval of, those decisions and activities.

14) Provides that the provisions of the bill are severable and that if any provision or its application is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.

FISCAL EFFECT: According to the Senate Committee on Appropriations, unknown, potentially significant cost to the state funded trial court system; workload cost pressures to the Department of Justice and local prosecutors of an unknown but potentially significant amount; and approximately $17,000 annually to the DBC.

COMMENTS:

Purpose. This bill is co-sponsored by the *California Medical Association* and the *California Dental Association*. According to the author:

> Private equity firms are gaining influence in our health care system, leading to rising costs and undermining the quality of care. As these firms acquire more medical practices, there is a growing need for stronger enforcement to protect patient care and ensure that decisions are made based on medical needs and patient care, not profit. If left unchecked, these acquisitions could erode existing protections, violate the Corporate Bar, and put financial interests above the well-being of Californians. In response, SB 351 empowers the Attorney General (AG) to hold private equity groups accountable for interfering with the practice of medicine. The bill strengthens California's ban on the corporate practice of medicine by allowing the AG to investigate and take action against private equity firms that unlawfully interfere in the patient-physician relationship. The goal is to restore trust in the health care system, ensuring that medical decisions are made in the best interest of patients, not financial shareholders.

Background.

Corporate Practice of Medicine Doctrine. The CPOM doctrine broadly prohibits corporations from being licensed as health care professionals, directly employing health care professionals, or exercising control over the decision-making of licensed health care professionals in a manner that interferes with their independent professional judgment. The fundamental concept of the CPOM doctrine has long been recognized in California. In 1932, for example, the California Supreme Court ruled in *Painless Parker v. Board of Dental Examiners* that a dental office corporation was in violation of license requirements under the Dental Practice Act, with the following reasoning as to why only natural persons may be licensed to practice health care:

> Dentistry is referred to in the Dental Act as a profession. The letter of the statute authorizes persons only to engage in the practice of dentistry. The underlying theory upon which the whole system of dental laws is framed is that the state's licensee shall possess consciousness, learning, skill and good moral character, all of which are individual characteristics, and none of which is an attribute of an artificial entity. Surely the state, for the better regulation of the practice of dentistry, and as a means of preventing evasions of the law, and with the object of more readily fixing statutory responsibility, has the power to limit such practice to natural persons.

The California Supreme Court's 1932 opinion additionally declared: "That a corporation may not engage in the practice of the law, medicine or dentistry is a settled question in this state."[1] Subsequent court decisions, such as in *People v. Pacific Health Corp.,* reaffirmed this holding. However, there has historically been minimal statutory law expressly governing the application of the CPOM ban. Instead, the doctrine has largely been established through further caselaw and legal opinions by attorneys general interpreting the application of laws prohibiting the unlicensed practice of medicine and other healing arts and restricting licensure to natural persons.

The Medical Practice Act has long stated the following: "Corporations and other artificial legal entities shall have no professional rights, privileges, or powers." Frequently cited in combination with provisions of practice acts reserving professional services for persons in possession of a license, this language represents the most express statutory recognition of the CPOM doctrine. However, statute further provides for various exceptions to the doctrine to allow for corporations to render professional services, including through direct employment of licensed practitioners.

For example, the Medical Practice Act authorizes the MBC to grant approval of the employment of licensees on a salary basis by licensed charitable institutions, foundations, or clinics that do not charge patients for services. Over time, legislation has been enacted to further allow for the following specified facilities to employ health care professionals under certain conditions:

- Public or nonprofit medical school clinics operated primarily for medical education;
- Nonprofit clinics that have been conducting medical research since prior to 1982;
- Narcotic treatment programs regulated by the Department of Health Care Services;
- Charitable hospitals that provide only pediatric subspecialty care;
- Federally certified critical access hospitals.

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[1] *Painless Parker v. Board of Dental Examiners*, 216 Cal. 285 (1932).

Additionally, the courts have ruled that the CPOM doctrine does not apply to agencies within the State of California or to counties, reasoning that the government is not a corporation.[2] As a result, while not expressly authorized by statute, county hospitals may directly employ health care professionals, as can state agencies such as the Department of State Hospitals. The courts have similarly recognized that the University of California is exempt from the CPOM doctrine.[3]

Even in instances where the law allows for the direct employment of health care professionals, corporations are still generally prohibited from unduly influencing the judgment of licensees. Similar language is contained in the various CPOM exemptions within the Medical Practice Act to require that facilities "not interfere with, control, or otherwise direct a physician and surgeon's professional judgment." Statute enacted following the judicial decision in *Wickline v. State of California* further protects health care practitioners against retaliation for advocating for appropriate health care for their patients, including in an employment context.

Professional Corporations. While the CPOM doctrine generally prohibits corporations from owning or controlling health care practices, the Legislature has established a commonly utilized framework to allow for the formation of professional corporations. Under the Moscone-Knox Professional Corporations Act, physicians, dentists, and other health care professionals may join together to form a corporation authorized to render professional services requiring a license. A majority of the professional corporation's shareholders must be licensed to provide the services rendered by the corporation. The Moscone-Knox Professional Corporations Act specifies which professionals may also be shareholders in a professional corporation, provided they remain a minority of the ownership. Current law authorizes professional corporations to be established to provide the respective services of physicians and surgeons, dentists, podiatrists, psychologists, speech-language pathologists, audiologists, nurses, marriage and family therapists, licensed clinical social workers, physician assistants, optometrists, chiropractors, acupuncturists, naturopathic doctors, professional clinical counselors, physical therapists, registered dental hygienists in alternative practice, licensed midwives, and occupational therapists.

Management Services Organizations. A common architecture for health care practices involves a partnership between a professional corporations and management services organization (MSO). An MSO is a corporate entity that provides administrative and business support services to medical practices that are non-clinical in compliance with the CPOM doctrine. Services provided by an MSO may include billing, human resources, and office management. An MSO may enter into a management services agreement with a professional corporation to provide what is sometimes referred to as "back office" functions for the medical practice.

Because an MSO is not engaged in the rendering of licensed professional services, it is not subject to the restrictions of the Moscone-Knox Professional Corporations Act and its shareholders and officers are not required to be licensees. As a result, MSOs may represent investment opportunities for private equity groups and hedge funds. Research anticipates that the value of the national MSO market will exceed $100 billion by 2030.[4]

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[2] *Estate of Miller*, 5 Cal. 2d 588 (1936).
[3] *California Medical Association v. Regents of the University of California*, 79 Cal. App. 4th 542 (2000).
[4] *Management Service Organization Market Size, Share & Trends Analysis Report*. Grand View Research, 2023.

Enforcement of the CPOM Doctrine. Under current law, violations of the CPOM doctrine are generally enforceable as unlicensed practice by the appropriate licensing board for the respective profession. The MBC is the primary entity responsible for taking action when a corporation is unlawfully involved in the practice of medicine by physicians and surgeons. The MBC has published guidance on its website to educate licensees on "the types of behaviors and subtle controls that the corporate practice doctrine is intended to prevent."[5]

As stated in the MBC's guidance, the CPOM doctrine requires the following health care decisions to be made by a licensed physician and surgeon, and would therefore constitute the unlicensed practice of medicine if performed by an unlicensed person, including a corporation:

- Determining what diagnostic tests are appropriate for a particular condition;
- Determining the need for referrals to, or consultation with, another physician/specialist;
- Responsibility for the ultimate overall care of the patient, including treatment options available to the patient; and
- Determining how many patients a physician must see in a given period of time or how many hours a physician must work.

The MBC's guidance additionally describes the types of "business" or "management" decisions and activities that must be made by a licensed physician, not by an unlicensed person or entity:

- Ownership is an indicator of control of a patient's medical records, including determining the contents thereof, and should be retained by a California-licensed physician;
- Selection, hiring/firing (as it relates to clinical competency or proficiency) of physicians, allied health staff and medical assistants;
- Setting the parameters under which the physician will enter into contractual relationships with third-party payers;
- Decisions regarding coding and billing procedures for patient care services; and
- Approving of the selection of medical equipment and medical supplies for the medical practice.

The MBC's website further explains that the types of decisions and activities described in its guidance cannot be delegated to any unlicensed person, including to an MSO. Per the MBC, a physician may consult with unlicensed persons or entities, such as MSOs, in making "business" or "management" decisions, but the physician must retain the ultimate responsibility for, or approval of, those decisions. Finally, the MBC's guidelines outlines several types of medical practice ownership and operating structures that are prohibited under the CPOM doctrine, including MSOs "arranging for, advertising, or providing medical services rather than only providing administrative staff and services for a physician's medical practice (non-physician exercising controls over a physician's medical practice, even where physicians own and operate the business)."

As explained by the MBC, in cases where non-physicians act in violation of the CPOM doctrine, the physician may themselves be aiding and abetting the unlicensed practice of medicine.

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[5] https://www.mbc.ca.gov/Licensing/Physicians-and-Surgeons/Practice-Information

Efforts to Increase Oversight of Private Equity in Health Care. In 2024, Attorney General Rob Bonta sponsored Assembly Bill 3129 (Wood), authored by the Chair of the Assembly Committee on Health. AB 3129 sought to authorize the Attorney General to grant, deny, or impose conditions to a change of control or an acquisition between a private equity group or hedge fund and a health care facility or provider group to ensure these transactions are in the public interest. AB 3129 would have required a private equity group or a hedge fund to provide written notice to, and obtain the written consent of, the Attorney General at least 90 days prior to a change of control or an acquisition between the private equity group or hedge fund and a health care facility or provider group with specified annual revenue. The structure proposed by the bill was similar to the existing process through which the Attorney General must approve certain nonprofit hospital sales and other transactions.

The committee analysis for AB 3129 cited reports that private equity has begun to play a role in the ongoing health care market concentration, including hospital and physician consolidation. According to a 2021 report by the Petris Center on Health Care Markets and Consumer Welfare, when a short-term profit-driven business model is applied to the health care system, there is an incentive to raise prices, cut costs, and pay out any revenue to private equity investors. As noted in the analysis for AB 3129, this often leads to staffing shortages, failures to pay vendors, and increased costs for patients and employers. As a result, instead of practicing medicine in the best interest of patients, physicians are directed to hit patient quotas and push more profitable procedures, leading to the closure or scaling back of health care services.

In addition to the language in the bill requiring a private equity group or hedge fund from obtaining the Attorney General's approval to enter into a transaction with a health care facility, provider, or provider group, AB 3129 included provisions prohibiting a private equity group or hedge fund involved in any manner with a physician, psychiatric, or dental practice from engaging in certain acts in violation of the CPOM doctrine. Specifically, the bill would have codified the MBC's guidance regarding what types of decisions and activities by unlicensed persons or entities would be considered interference with professional judgment of physicians and dentists in making health care decisions or would constitute inappropriate control or over clinical practice. The bill would have expressly prohibited private equity groups or hedge funds from entering into an agreement or arrangement with a physician or dental practice in violation of these prohibitions, and would have further prohibited noncompete and nondisparagement clauses in contracts between those entities.

AB 3129 was passed by the Legislature. However, the bill was ultimately vetoed by Governor Gavin Newsom. The Governor's stated opposition to AB 3129 appears to be specifically related to the provisions in the bill requiring transactions between private equity groups or hedge funds and health care entities to seek and obtain the Attorney General's approval. In his veto message for the bill, the Governor stated:

> I appreciate the author's continued efforts and partnership to increase oversight of California's health care system in an effort to ensure consumers receive affordable and quality health care. However, [the Office of Health Care Affordability (OHCA)] was created as the responsible state entity to review proposed health care transactions, and it would be more appropriate for the OHCA to oversee these consolidation issues as it is already doing much of this work.

Following the Governor's veto of AB 3129, the California Medical Association and the California Dental Association decided to sponsor the bill before this committee, which contains the language in the prior bill relating to prohibited decisions and activities by private equity groups and hedge funds involved in physician or dental practice. This language, which was previously approved by the Legislature and not referenced as a factor in the Governor's veto, continues to be lifted nearly verbatim from the MBC's guidance, with minor amendments clarifying the role that MSOs may play in physician or dental practice. As a result, the prohibitions provided in this bill may be viewed simply as codifications of existing applications of the CPOM doctrine.

While this bill would arguably not prohibit any acts not already proscribed under the CPOM doctrine, it would provide for additional enforcement against those acts when the perpetrator is a private equity group or hedge fund, as defined in the bill. Currently, violations of the CPOM doctrine in the practices of medicine and dentistry are primarily enforced as unlicensed practice by the MBC, the OMBC, or the DBC, as appropriate. This bill would maintain the enhanced role of the Attorney General, as originally proposed in AB 3129, by allowing for the Attorney General to bring an action for injunctive relief and other equitable remedies deemed appropriate to enforce the bill, and to recover attorney's fees and costs incurred in that action. This bill additionally includes the language originally proposed in AB 3129 to prohibit noncompete and nondisparagement clauses in contracts between private equity groups or hedge funds and physician or dental practices. Both the Attorney General's proposed enforcement authority and the provisions relating to contract terms will be further discussed and considered when this bill is heard in the Assembly Committee on Judiciary.

Prior Related Legislation. AB 3129 (Wood) of 2024 would have required a private equity group or hedge fund to provide written notice to and obtain the written consent of the Attorney General at least 90 days before specified transaction with a health care facility or provider group. *This bill was vetoed by the Governor.*

AB 242 (Wood), Chapter 641, Statutes of 2023 permanently authorized a federally certified critical access hospital to employ physicians as an exception to the CPOM doctrine.

AB 2024 (Wood), Chapter 496, Statutes of 2016 established the exception to the CPOM doctrine to allow federally certified critical access hospitals to employ physicians until January 1, 2024.

SB 1274 (Wolk), Chapter 793, Statutes of 2012 authorized a hospital that is owned and operated by a charitable organization and offers only pediatric subspecialty care to begin billing health carriers for physician services rendered, notwithstanding the CPOM doctrine.

AB 824 (Chesbro) of 2012 would have established a pilot project to permit certain rural hospitals to directly employ physicians and surgeons. *This bill did not receive a hearing in the Assembly Committee on Health.*

AB 648 (Chesbro) of 2009 would have established a demonstration project to permit rural hospitals whose service area includes a medically underserved or federally designated shortage area to directly employ physicians and surgeons. *This bill failed passage in the Senate Committee on Business, Professions and Economic Development.*

AB 646 (Swanson) of 2009 would have permitted health care districts and certain public hospitals, independent community nonprofit hospitals, and clinics, as specified, to directly employ physicians and surgeons. *This bill failed passage in the Senate Committee on Business, Professions and Economic Development.*

SB 726 (Ashburn) of 2009 would have revised and extended the MBC pilot project that allows qualified district hospitals to employ a physician, if the hospital does not interfere with, control, or otherwise direct the professional judgment of the physician. *This bill failed passage in the Senate Committee on Business, Professions and Economic Development.*

AB 1944 (Swanson) of 2008 would have allowed health care districts to employ a physician. *This bill failed passage in the Senate Committee on Health.*

SB 1294 (Ducheny) of 2008 would have expanded the pilot project enabling health care districts to directly employ physicians. *This bill failed passage in the Assembly Committee on Appropriations.*

SB 376 (Chesbro), Chapter 411, Statutes of 2003 authorized, until January 1, 2011, a hospital owned and operated by a health care district meeting specified criteria to employ a physician, and to charge for professional services rendered by the physician if the physician approves the charges.

SB 53 (Moscone), Chapter 1375, Statutes of 1968 enacted the Moscone-Knox Professional Corporation Act, which authorizes the creation of professional corporations engaged in rendering professional services requiring a license.

ARGUMENTS IN SUPPORT:

The *California Dental Association* (CDA) is a co-sponsor of this bill. According to the CDA: "This bill strengthens the existing ban on the corporate practice of dentistry and medicine by explicitly barring the specific ways private equity groups or hedge funds are influencing the clinical decisions of dentists and physicians. Under existing law, licensed dental professionals and dental corporations are subject to strict professional and ethical standards to ensure patient care remains in the hands of qualified practitioners. However, existing laws do not explicitly regulate the increasing involvement of private equity and hedge funds in dental practice. As a result, these entities can exert controls that allow corporate interests to influence clinical decision-making."

Attorney General Rob Bonta supports this bill, writing that "SB 351 empowers the AG to hold private equity groups accountable for interfering with the Corporate Bar. The bill strengthens California's ban on the corporate practice of medicine by allowing the AG to investigate and take action against private equity firms that unlawfully interfere in the patient-physician relationship. The goal is to restore trust in the health care system, ensuring that medical decisions are made in the best interest of patients, not financial shareholders."

ARGUMENTS IN OPPOSITION:

There is no opposition on file.

REGISTERED SUPPORT:

California Dental Association *(Co-Sponsor)*
California Medical Association *(Co-Sponsor)*
American College of Obstetricians & Gynecologists - District IX
Association of California State Supervisors
Attorney General Rob Bonta
California Association of Orthodontists
California Chapter of the American College of Emergency Physicians
California Independent Physician Practice Association
California Orthopedic Association
California Physicians Alliance
California Podiatric Medical Association
California Retired Teachers Association
California State Retirees
Private Equity Stakeholder Project
Retired Public Employees Association
San Francisco Marin Medical Society
SEIU California

REGISTERED OPPOSITION:

None on file

Analysis Prepared by: Robert Sumner / B. & P. / (916) 319-3301

Date of Hearing: June 24, 2025

ASSEMBLY COMMITTEE ON BUSINESS AND PROFESSIONS
Marc Berman, Chair
SB 387 (Rubio) – As Amended June 16, 2025

SENATE VOTE: 39-0

SUBJECT: Physicians and surgeons: special faculty permits: academic medical centers

SUMMARY: (1) Expands the types of academic medical centers (AMCs) where a physician who is unlicensed in California but holds a special faculty permit (SFP) may practice medicine to include specified National Cancer Institute-designated comprehensive cancer centers, (2) excludes the centers from serving on the SFP review committee of the Medical Board of California (MBC), and (3) increases the number of SFPs the MBC may approve from five per year to five per academic medical center per year.

EXISTING LAW:

1) Regulates the practice of medicine under the Medical Practice Act and establishes the MBC to administer and enforce the act. (Business and Professions Code (BPC) §§ 2000-2028 .5)

2) Defines the practice of medicine as "any system or mode of treating the sick or afflicted in this state, or who diagnoses, treats, operates for, or prescribes for any ailment, blemish, deformity, disease, disfigurement, disorder, injury, or other physical or mental condition of any person." (BPC § 2052(a))

3) Prohibits the practice of medicine without an active physician's and surgeon's license issued by the MBC or otherwise authorized under law. (BPC §§ 2050-2078)

4) Defines "academically eminent" as a person who meets either of the following:

    a) Holds or has been offered a full-time appointment at the level of full professor in a tenure track position, or its equivalent, at an AMC or a California medical school approved by the MBC. (BPC § 2168.1(a)(1)(A))

    b) Is clearly outstanding in a specific field of medicine or surgery and has been offered by the dean of a medical school or the dean or chief medical officer of an AMC a full-time academic appointment at the level of full professor or associate professor, and a great need exists to fill that position. (BPC § 2168.1((a)(1)(B))

5) Defines "academic medical center" as a facility that meets all of the following:

    a) Is licensed by the State of California. (BPC § 2168(a)(2)(A))

    b) Conducts both internal and external peer review of the faculty for the purpose of conferral of academic appointments on an ongoing basis. (BPC § 2168(a)(2)(B))

c) Conducts clinical and basic research for the purpose of advancing patient care. (BPC § 2168(a)(2)(C))

d) Trains a minimum of 250 resident physicians in Accreditation Council for Graduate Medical Education (ACGME)-accredited residencies on an annual basis commencing each January 1. (BPC § 2168(a)(2)(D))

e) Has more than 100 research students or postdoctoral researchers annually. (BPC § 2168(a)(2)(E))

f) Has foreign medical graduates in research. (BPC § 2168(a)(2)(F))

g) Offers clinical observer experiences. (BPC § 2168(a)(2)(G))

h) Is accredited by the Western Association of Schools and Colleges and the ACGME. (BPC § 2168(a)(2)(H))

6) Authorizes an academically eminent physician who is licensed in another jurisdiction but not in this state to apply with the MBC for a special faculty permit to practice medicine within a medical school, an AMC, or an institution affiliated with a medical school or an AMCin which the permitholder is providing instruction as part of the medical school's or AMC's educational program and for which the medical school or AMC has assumed direct responsibility. (BPC §§ 2168(a)(1), 2168.1(a))

7) Requires (1) the MBC to establish a review committee composed of two members of the Division of Licensing, one of whom must be a physician and surgeon and one of whom must be a public member, one representative from each of the medical schools, and one individual selected to represent AMCs in California and (2) the committee to review and make recommendations to the MBC regarding the permit applicants, including the applicants that a medical school or AMC proposes to appoint as a division chief or head of a department or as nontenure track faculty. (BPC § 2168.1(c)(1))

8) Prohibits the representative of the medical school or academic medical center offering the applicant an academic appointment from participating in any vote on the recommendation to the MBC for that applicant. (BPC § 2168.1(c)(2))

9) Requires the AMCs to select by consensus, one individual to represent AMCs on the review committee. (BPC § 2168.1(c)(3))

10) Prohibits the MBC from approving more than five applications submitted by AMCs in any calendar year. (BPC § 2168.1(d))

THIS BILL:

1) Expands the definition of "academic medical center" for purposes of the MBC's special faculty permit to include facilities that are a National Cancer Institute (NCI)-designated comprehensive cancer center that trains a minimum of 25 resident or fellow physicians in ACGME-accredited residencies on an annual basis commencing each January 1.

2) Limits the AMCs that may be represented on the MBC's special faculty permit review committee to those that train a minimum of 250 resident physicians in ACGME-accredited residencies on an annual basis commencing each January 1.

3) Increases the number of special faculty permit applications the MCB may approve from five AMC applications in any calendar year to five applications per each AMC in any calendar year.

FISCAL EFFECT: According to the Senate Appropriations Committee, pursuant to Senate Rule 28.8, no significant state costs anticipated.

COMMENTS:

Purpose. This bill is sponsored by *City of Hope*. According to the author, "Cancer is a disease that all of us are too familiar with. We all have friends or family members who have struggled with cancer. We are fortunate to have several leading cancer research institutes in California that are working hard to develop new treatments and cures. [This bill] is an important bill to ensure California can host some of the top cancer researchers from around the world, and I will continue to champion legislation that supports research, saves lives, and gets us one step closer to ending cancer as we know it."

Background. Medical schools and AMCs often seek academically eminent physicians to train their students. However, only a physician licensed by the MBC may practice medicine in California, including physicians licensed in other states or countries. For physicians trained in other states or Canada, most may simply apply for a California license because physician training is standardized within the U.S. (ACGME) and Canada (Royal College of Physicians and Surgeons (RCPSC) of Canada or The College of Family Physicians of Canada (CPFC).

For physicians trained outside of the U.S. and Canada (or otherwise do not meet California license requirements), they would need to receive additional training to meet the MBC's requirements to obtain a license. To allow well-qualified physicians to bypass this barrier for purposes of teaching institutions, they may instead apply to the MBC for an SFP that allows them to practice within a sponsoring MBC-approved medical school or AMC.

To obtain an SFP, the applicant must meet all of the following:

- Have been offered a full-time appointment at the level of full professor in a tenure track, or equivalent, at an MBC-approved medical school, AMC, or affiliated institution and not be otherwise eligible for medical licensure in California.
- Have completed their medical education at a medical school recognized or approved by the MBC.
- Have completed at least three years of basic postgraduate residency training.
- Is licensed to practice medicine in another state, Canadian province, foreign country, or other jurisdiction.
- Has not held a full-time faculty position under a certificate of registration in lieu of licensure for a period of two years or more preceding the date of the application for an SFP (this requirement may be waived by the MBC).

SFP applicants and holders are subject to the same requirements as an ordinary license, including background checks, fees, renewals. They must also have the sponsoring institution's dean certify that the permit holder continues to meet the eligibility criteria, are still employed at the sponsoring institution, continue to possess a current medical license in another state or country, and are not subject to permit denial for serious crimes or those substantially related to the practice of medicine.

To review SFP applications, the MBC has an SFP review committee that makes recommendations for approval or denial. The review committee consists of one representative from each of the eleven medical schools in California and two MBC members, one physician and one public member, for a total of 13 members.

NCI-Designated Cancer Centers. This bill authorizes NCI-designated comprehensive cancer centers with 25 resident or fellow physicians to host SFP holders. According to the National Cancer Institute, there are "73 NCI-designated cancer centers located in 37 states and the District of Columbia that are funded by NCI to deliver cutting-edge cancer treatment to patients." NCI-designated cancer centers meet rigorous standards and are recognized for their scientific leadership in laboratory research and are focused on state of the art clinical research to prevent, diagnose and treat cancer. A majority of the NCI-designated cancer centers are affiliated with university medical centers, while a few freestanding cancer centers focus on cancer research. 57 are considered Comprehensive Cancer Centers, recognized for their leadership, resources and significant transdisciplinary research. Nine are Clinical Cancer Centers, also recognized for their scientific leadership and resources, with a focus on clinical research, prevention measures and cancer control. The remaining seven qualify as Basic Laboratory Cancer Centers with a primary emphasis on laboratory research while working collaboratively with other institutions to advance new and better cancer treatments.

In California, currently there are eight NCI-designated comprehensive cancer centers with five residing within the University of California system; the UC Davis Comprehensive Cancer Center, Mores Cancer Center at UC San Diego, UCI Chao Family Comprehensive Cancer Center, UCLA Jonsson Comprehensive Cancer Center, and the UCSF Helen Diller Family Comprehensive Cancer Center with the affiliated UCSF – John Muir Health Cancer Center located in Berkeley. In addition, there is the Samuel Oschin Comprehensive Cancer Institute - Cedars Sinai, the Stanford Cancer Institute, and the City of Hope Comprehensive Cancer Center.

Changes to the SFP Review Process. This bill also makes two changes to the MBC's SFP review process. First, the MBC's SFP review committee is currently allowed one non-voting member to represent AMCs. This bill limits that membership to AMCs that train a minimum of 250 resident physicians, preventing the NCI-designated comprehensive cancer centers under this bill from serving in that role.

Second, the MBC is currently only allowed to approve five SFPs within a calendar year. This bill would instead allow the MBC to approve five SFPs per applying AMC within a calendar year.

Both changes were requested by Cedars-Sinai for the reasons discussed under the Arguments in Support section of this analysis.

Prior Related Legislation. *AB 2178 (Bloom), Chapter 329, Statutes of 2022,* made various technical changes to the definition of AMC for purposes of obtaining a SFP.

AB 443 (Carrillo) of 2021 would have, among other things, expanded eligibility for an SFP to immigrant international medical graduates participating in a fellowship program in a rural community or underserved community. *AB 443 died pending a hearing in the Senate Business, Professions, and Economic Development Committee.*

SB 806 (Roth), Chapter 649, Statutes of 2021, among numerous other things, added the requirement for AMCs sponsoring SFP holders to be Western Association of Schools and Colleges- and ACGME-accredited and deleted the requirements for an AMC to (1) have an intern and resident-to-bed ratio meeting the federal Centers for Medicare and Medicaid Services definition as a major teaching hospital and (2) conduct research in an amount of $100 million dollars or more annually.

AB 2273 (Bloom), Chapter 280, Statutes of 2020, added AMCs to the types of settings where SFP holders may practice.

ARGUMENTS IN SUPPORT:

City of Hope (sponsor) writes in support:

> City of Hope Comprehensive Cancer Center is one of 57 National Cancer Institute (NCI) designated Comprehensive Cancer Centers (CCCs), one of eight in California, serving over 130,000 patients every year. At its last NCI review, City of Hope received a score of "exceptional," placing it in the top tier of all NCI CCCs in the country….
>
> Currently, City of Hope meets all of the faculty requirements in statute for participation in the Program, except for one. Current law requires that an academic medical center train a minimum of 250 resident and fellow physicians in ACGME-accredited residencies on an annual basis. However, given its size, City of Hope is unlikely to meet this volume requirement in the foreseeable future.
>
> That is why solutions like [this bill] are necessary. [This bill] would modify the requirements for a NCI-designated CCC to qualify as an academic medical center by requiring the facility to train 25 resident or fellow physicians annually, rather than 250. This change will allow City of Hope and other highly ranked NCI-designated comprehensive cancer centers to participate in the Program and recruit top international physician-scientist leaders to support their resident physician and fellow training program that encompasses the development of clinical care services, clinical trials, and life-saving care services to patients in California.

The *MBC* writes in support:

> The Medical Board of California (Board) continues to support [this bill] (as amended on June 16, 2025) which updates the definition of "academic medical

> center" (AMC) to include a facility that is a National Cancer Institute (NCI) - designated comprehensive cancer center, as specified. Accordingly, such an institute would be authorized to sponsor individuals for a special faculty permit (SFP) to practice medicine within that organization.
>
> City of Hope is the only new AMC expected to be recognized pursuant to [this bill]. The Board believes that City of Hope is an appropriate organization to include in the SFP program, therefore, the Board is pleased to support this bill.

Cedars-Sinai writes in support:

> [This bill] would require that the individual representing academic medical centers on the review committee be from a facility that trains at least 250 resident physicians in in Accreditation Council for Graduate Medical Education (ACGME)-accredited residencies, thereby ensuring the committee maintains broad expertise across multiple disciplines. Cedars-Sinai's current committee representative has experience with 2168 special faculty permit holders across five specialties. Additionally, Cedars-Sinai believes this requirement closely reflects the structure of typical California medical schools, and this clarifying language aligns with the existing composition of the review committee.
>
> [This bill] would also authorize the Medical Board of California to approve up to five applications for special faculty permits submitted by each academic medical center in any calendar year enabling all Academic Medical Centers with the ability to recruit additional world-renown physician-scientists from various specialties to practice and teach in the state of California.
>
> By modifying the threshold of resident physicians, [This bill] will give City of Hope access to key physician experts that can make a significant difference in the ability to excel in cancer research and life-saving treatments for cancer patients. For these reasons, Cedars-Sinai is pleased to support this proposal.

ARGUMENTS IN OPPOSITION:

There is no opposition on file.

REGISTERED SUPPORT:

City of Hope (sponsor)
California Life Sciences Association
California Medical Association
Cedars-Sinai
Los Angeles County Medical Association
Medical Board of California
Orange County Medical Association
Stanford Health Care
The Latino Cancer Institute

REGISTERED OPPOSITION:

There is no opposition on file.

Analysis Prepared by: Vincent Chee / B. & P. / (916) 319-3301

Date of Hearing: June 24, 2025

ASSEMBLY COMMITTEE ON BUSINESS AND PROFESSIONS
Marc Berman, Chair
SB 517 (Niello) – As Amended May 1, 2025

NOTE: This bill is double referred and if passed by this Committee will be re-referred to the Assembly Judiciary Committee.

SENATE VOTE: 34-0

SUBJECT: Home improvement contract requirements: subcontractors

SUMMARY: Requires home improvement contracts to disclose whether a subcontractor will be used on the project, and, if a subcontractor will be used on the project, a notice informing consumers that the subcontractor's information may be provided to them upon request.

EXISTING LAW:

1) Establishes, until January 1, 2029, the Contractors State License Board (CSLB) under the Department of Consumer Affairs (DCA) to implement and enforce the Contractors State License Law (License Law), which includes the licensing and regulation of contractors and home improvement salespersons. (Business and Professions Code (BPC) §§ 7000 *et seq.*)

2) Authorizes the Board to appoint a registrar of contractors to be the executive officer and secretary of the CSLB. (BPC § 2011)

3) Exempts from the License Law a work or operation on one undertaking or project by one or more contracts if the aggregate price for labor, materials, and all other items is less than $1,000 that work or operation being considered of casual, minor, or inconsequential nature, and the work or operation does not require a building permit. (BPC § 7048)

4) Specifies that abandonment without legal excuse of any construction project or operation engaged in or undertaken by the licensee as a contractor constitutes a cause for disciplinary action. (BPC § 7107)

5) Requires a prime contractor or subcontractor to pay to any subcontractor, no later than seven days after receipt of each progress payment, unless otherwise agreed to in writing. (BPC § 7108.5(a)

6) Defines "home improvement" to mean the repairing, remodeling, altering, converting, or modernizing of, or adding to, residential property, as well as the reconstruction, restoration, or rebuilding of a residential property that is damaged or destroyed by a natural disaster for which a state of emergency is proclaimed by the Governor, or for which an emergency or major disaster is declared by the President of the United States, 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 land which is adjacent to a dwelling house. "Home

improvement" also means installing home improvement goods or furnishing home improvement services. (BPC § 7151(a))

7) Defines "home improvement contract" to mean an agreement, whether oral or written, or contained in one or more documents, between a contractor and an owner or between a contractor and a tenant for the performance of a home improvement, and includes all labor, services, and materials to be furnished and performed thereunder. "Home improvement contract" also means an agreement, whether oral or written, or contained in one or more documents, between a salesperson, whether or not they are a home improvement salesperson, and an owner or a tenant which provides for the sale, installation, or furnishing of home improvement goods or services. (BPC § 7151.2)

8) Identifies the projects for which a home improvement contract is required, outlines the contract requirements, and lists the items that shall be included in the contract or may be provided as an attachment. (BPC § 7159)

9) Allows a person who provides work authorized for a work improvement to file a lien, as specified. (Civil Code §§ 8400-8494)

10) Requires, upon any payment by the person contracting for home improvement, and prior to any further payment being made, a contractor to, if requested, obtain and furnish to the person a full and unconditional release from any potential lien claimant claim or mechanics lien authorized pursuant to Sections 8400 and 8404 of the Civil Code for any portion of the work for which payment has been made. The person contracting for home improvement may withhold all further payments until these releases are furnished.

THIS BILL:

1) Specifies that for purposes of administrative discipline, the prime or direct contractor is responsible for completion of the project in accordance with the home improvement contract, plans, and specifications, and that this responsibility does not preclude administrative discipline against any subcontractor or home improvement salesperson on a home improvement contraction for violating the License Law.

2) Requires a home improvement contract to contain a statement regarding whether or not a subcontractor will be used on the project, including a portion to be checked in response, as follows: [____] Yes [____] No

3) Requires the contract, if a contractor checks "Yes," indicating that a subcontractor will be used on the project, to contain a disclaimer that states the following: "One or more subcontractors will be used on this project, and the contractor is aware that a list of subcontractors is required to be provided, upon request, along with the names, contact information, license number, and classification of those subcontractors." Requires the same disclaimer to be on each change order.

4) Makes non-substantive and conforming changes.

FISCAL EFFECT: Pursuant to Senate Rule 28.8, no significant state costs anticipated.

COMMENTS:

Purpose. This bill is sponsored by the author. According to the author:

> [This bill] allows consumers to make an informed decision regarding their home improvement project by requiring a home improvement contract to explicitly disclose if subcontractors are going to be utilized and allows the consumer to request the name, license number, and classification of those subcontractors. 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 disclosure of whether or not subcontractors will be involved in the project. Consumers have a right to know this information, it is critical in their decision making process.

Background. The CSLB is responsible for implementing and enforcing the License Law, which governs the licensure, practice, and discipline of contractors in California. A license is required for construction projects valued at $1,000 or more, including labor and materials. The CSLB issues licenses to business entities and sole proprietors. Each license requires a qualifying individual (a "qualifier") who satisfies the experience and examination requirements for licensure and directly supervises and controls construction work performed under the license.

The CSLB is authorized to take disciplinary action against licensed and unlicensed contractors who have violated the License Law and is empowered to use an escalating scale of penalties, ranging from citations and fines (referred to as civil penalties) to license suspension and revocation. The CSLB recently revoked the license of Anchored Tiny Homes, a Sacramento-based ADU builder, after receiving more than 400 complaints, primarily from consumers who alleged that they had paid for ADUs that were never completed. However, the CSLB also received complaints from subcontractors alleging they were never paid by the company.

BPC § 7108.5 requires a prime contractor or subcontractor to pay any subcontractor within seven days of receiving each progress payment from the consumer. Failure to do so is cause for disciplinary action by the CSLB. Civil Code § 8400 authorizes a person who helps improve a property and who is not paid to record a mechanics lien on the property. According to the CSLB,

> A mechanics lien is a "hold" against your property, filed by an unpaid contractor, subcontractor, laborer, or material supplier, and is recorded with the county recorder's office. If unpaid, it allows a foreclosure action, forcing the sale of the property in lieu of compensation. A lien can result when the prime contractor (referred to as a "direct contractor" in mechanics lien revision statutes, effective July 1, 2012) has not paid subcontractors, laborers, or suppliers. Legally, the homeowner is ultimately responsible for payment — even if they already have paid the direct contractor.[1]

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[1] *What is a Mechanics Lien?*, Contractors State License Board.

To remove a mechanics' lien, the property owner must petition the court for an order to release the property from the claim and carries the burden of proof in determining the case.

Any contractor hired to repair, remodel, alter, convert, modernize, or adding to residential property, or to reconstruct, restore, or rebuild a residential property that is damaged or destroyed by a natural disaster are subject to home improvement contract requirements which include payment rules and numerous consumer disclosures. As it relates to this bill, home improvement contracts are required to include a "Mechanics Lien Warning," which explains the law, the process in which subcontractors preserve their right to record a lien, and how consumers may protect themselves.

This bill aims to enhance protections for consumers and subcontractors alike by requiring home improvement contracts to disclose whether subcontractors will be used on the project and to provide a notice informing consumers that their contractor must, upon request, provide the subcontractors' names, contact information, license numbers, and license classifications. In addition to protecting oneself from a mechanics lien, additional benefits include the ability to verify subcontractors' licenses and knowing who will have access to the homeowner's property. Additionally, knowing that a contractor will be subbing out at least some portion of the work provides homeowners with more information when hiring a contractor. This bill would also hold prime contractors responsible for ensuring that home improvements are completed according to the contract, plans, and specifications by designating the prime contractor as the responsible party for the project's completion, for purposes of administrative discipline.

Current Related Legislation. *AB 559 (Berman)* would include accessory dwelling units in the definition of "home improvement" and enhance administrative penalties for violations of specified provisions related to home improvement contract payments. *AB 559 is currently pending in the Senate Business, Professions, and Economic Development Committee.*

ARGUMENTS IN SUPPORT:

The *National Insurance Crime Bureau* writes in support:

> 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. [This bill] increases transparency in home improvement contracts, requiring a home improvement contract to contain a disclosure regarding whether a subcontractor will be used on the project, as specified. This reform would help combat unscrupulous contractors who have left customers with unfinished projects and other deficient work tactics that can ultimately lead to increased costs for all.

ARGUMENTS IN OPPOSITION:

There is no opposition on file.

IMPLEMENTATION ISSUE(S):

Requirement to Disclose Subcontractors' Information. Currently, this bill requires home improvement contracts to inform consumers that "the contractor is aware that a list of subcontractors is *required* to be provided, upon request, along with the names, contact information, license number, and classification of those subcontractors," when subcontractors will be used on the project (emphasis added). However, no such requirement exists in statute. Therefore, it is unclear whether the CSLB could take disciplinary action against a contractor who does not provide subcontractors' information. The author may which to make the requirement explicit in statute and a violation grounds for disciplinary action by the CSLB.

REGISTERED SUPPORT:

Contractors State License Board
National Insurance Crime Bureau

REGISTERED OPPOSITION:

There is no opposition on file.

Analysis Prepared by: Kaitlin Curry / B. & P. / (916) 319-3301

Date of Hearing: June 24, 2025

ASSEMBLY COMMITTEE ON BUSINESS AND PROFESSIONS
Marc Berman, Chair
SB 602 (Cortese) – As Amended June 18, 2025

SENATE VOTE: 36-0

SUBJECT: Veterinarians: veterinarian-client-patient relationship

SUMMARY: Authorizes registered veterinary technicians (RVTs) to establish a veterinarian-client-patient-relationship (VCPR) in certain animal shelter settings, as defined, for purposes of administering preventive or prophylactic vaccines or medications, without their supervising veterinarian physically present.

EXISTING LAW:

1) Provides for the regulation of veterinary medicine under the Veterinary Medicine Practice Act (Act) and prohibits the practice of unlicensed veterinary medicine. (Business and Professions Code (BPC) §§ 4800-4917)

2) Establishes the Veterinary Medical Board (VMB) within the Department of Consumer Affairs to license and regulate the veterinary medicine profession. (BPC § 4800)

3) Declares it is unlawful to practice veterinary medicine in California unless the individual holds a valid, unexpired, and unrevoked license issued by the VMB. (BPC § 4825)

4) Permits a veterinarian to authorize an RVT to act as an agent of the veterinarian for the purpose of establishing the VCPR to administer preventive or prophylactic vaccines or medications for the control or eradication of apparent or anticipated internal or external parasites, subject to certain conditions, including:

    a) Vaccines must be administered in a registered veterinary premises at which the veterinarian is physically present.

    b) If working at a location other than a registered veterinary premises, the veterinarian is in the general vicinity or available by telephone and is quickly and easily available. The RVT shall have necessary equipment and drugs to provide immediate emergency care.

    c) The RVT examines the animal patient and administers vaccines in accordance with written protocols and procedures established by the veterinarian.

    d) The veterinarian and RVT sign and date a statement containing an assumption of risk by the veterinarian for all acts of the RVT related to patient examination and administration of vaccines, short of willful acts of animal cruelty, gross negligence, or gross unprofessional conduct on behalf of the RVT.

e) The veterinarian and RVT sign and date a statement containing authorization for the RVT to act as an agent of the veterinarian until such date as the veterinarian terminates authorization.

f) Before the RVT examines or administers vaccines to the animal patient, the RVT informs the client orally or in writing that they are acting as an agent of the veterinarian.

g) Signed statements between the veterinarian and RVT must be retained by the veterinarian for the duration of the RVT's work as an authorized agent and until three years from the date of termination of their relationship with the veterinarian.

(BPC § 4826.7(b))

5) Requires the VMB to adopt regulations delineating animal health care tasks and an appropriate degree of supervision required for those tasks that may be performed solely by an RVT or licensed veterinarian. (BPC § 4836(a))

6) Permits the VMB to additionally adopt regulations establishing animal health care tasks that may be performed by a veterinary assistant, an RVT or a licensed veterinarian. (BPC § 4836(b))

7) Requires the VMB to establish an appropriate degree of supervision by an RVT or a licensed veterinarian over a veterinary assistant for any authorized tasks and provides that the degree of supervision for any of those tasks shall be higher than, or equal to, the degree of supervision required when an RVT performs the task. (BPC § 4836(b))

8) Prohibits an individual from using the title "RVT," "veterinary technician," or using the initials "RVT" without meeting the requirements of an RVT. (BPC § 4839.5)

THIS BILL:

1) Defines "private animal shelter", for purposes of the bill, as "a not-for-profit organization that has tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, whose purpose and practice is, in whole or significant part, the care of animals and placement of animals into permanent homes through adoption."

2) Authorizes an RVT to act as an agent of their supervising veterinarian to establish a VCPR to administer preventive or prophylactic vaccines or medications, without the need for the veterinarian to be physically present, in a public animal control agency or shelter, private animal shelter, humane society shelter, or society for the prevention of cruelty to animals shelter, so long as the supervising veterinarian is in the general vicinity or available by telephone and is quickly and easily available.

FISCAL EFFECT: According to the Senate Appropriations Committee, pursuant to Senate Rule 28.8, no significant state costs anticipated.

COMMENTS:

Purpose. This bill is co-sponsored by the *San Francisco Society for the Prevention of Cruelty to Animals (SF SPCA)*, the *California Veterinary Medical Association (CVMA)*, and the *San Diego Humane Society (SDHS)*. According to the author:

> I was proud to author this bill's predecessor, SB 669, in 2023. That crucial piece of legislation addressed the veterinary care shortage by enabling registered veterinary technicians (RVTs) to perform vaccinations at remote community clinics when their veterinarian is off site. After hearing about that bill's success and the possibility of helping more animals, I was eager to author this legislation. SB 602 would build on SB 669's success by allowing RVTs to perform vaccinations in shelters without their veterinarian being on the premises. This limited expansion of RVT duties will help stop the spread of rabies and other infectious diseases and provide essential care by getting more pets vaccinated statewide. It's a win-win for public health and keeping our animals healthy.

Background.

Veterinarians and RVTs. Veterinarians (Doctors of Veterinary Medicine, or "DVM"s) and registered veterinary technicians (RVTs) each play a distinct, vital role in an animal hospital or veterinary clinic, one not dissimilar to the relationship between a Doctor of Medicine (MD) and a registered nurse (RN) in an emergency room or medical clinic. In order to practice veterinary medicine and provide healthcare to a variety of animals, veterinarians must secure a license through the VMB. A licensed California veterinarian is authorized to engage in the practice of veterinary medicine, surgery, veterinary dentistry, and related health procedures for the benefit of an animal's general health and wellbeing. Veterinarians are trained and licensed to diagnose, prescribe medication and provide treatment for the animal's health and improvement to the animal's quality of life. Veterinarians are extensively trained, satisfied academic requirements, and provide health care for various animals. Veterinarians receive specific healthcare training as it applies to animals and understanding the nature for the prevention, cure, or relief of a wound, fracture, bodily injury, or disease of animals. In order to practice veterinary medicine in California, an applicant must graduate from a degree program offered by an accredited postsecondary institution or institutions approved by the VMB, pass a national veterinarian examination, and pass an examination provided by the VMB to test the knowledge of the laws and regulations related to the practice of veterinary medicine in California.

RVTs serve a crucial role in the veterinary workforce by providing vital supportive health-related tasks. These health tasks involve drawing blood and conducting laboratory tests, operating radiographic equipment, administering medication, as well as countless other health related procedures. In the surgical process, the RVT is typically responsible for pre- and post-operation tasks under the direct supervision of a veterinarian, such as the induction of anesthesia, creation a relief hole in the skin to facilitate placement of an intravascular catheter, application casts and splints, performance of dental extractions, suturing of cutaneous and subcutaneous tissues, and more. The VMB's regulations have also stipulated that an RVT may perform a variety of procedures under indirect supervision of a licensed veterinarian. These procedures include the act of administering controlled substances and performing certain routine animal health care tasks.

Veterinarian-Client-Patient-Relationship. The Veterinary Medicine Practice Act requires a veterinarian to establish and maintain a veterinarian-client-patient-relationship (VCPR) before providing care to an animal patient. Among other requirements, this relationship is established when the client has authorized the veterinarian to make medical judgements, and when the veterinarian has gained sufficient knowledge of the animal to make a diagnosis, generally through an in-person examination. According to the VMB's regulations relating to establishing a VCPR, it is unprofessional conduct for a veterinarian to administer, prescribe, dispense or furnish a drug, medicine, appliance, or treatment of whatever nature for the prevention, cure, or relief of a wound, fracture or bodily injury or disease of an animal without having first established a VCPR with the animal patient or patients and the client, with an exception if the patient is a wild animal or the animal's owner is unknown.

Vaccine Clinics and SB 669 Implementation. SB 669 (Cortese, Chapter 882, Statutes of 2023) authorized veterinarians in California to permit RVTs to act as their agent for purposes of establishing a VCPR to administer preventative or prophylactic vaccines or medications, subject to certain conditions. Since a VCPR must be established with a patient before any care can be rendered, including administering vaccines, the previous standard that only allowed veterinarians to establish VCPRs limited access to timely vaccine services in many veterinary settings, particularly since RVTs were already authorized to administer vaccines and medications—just not able to establish the VCPR necessary to do so. This legislation, sponsored by the ASPCA and supported by a wide coalition of animal welfare organizations and the CVMA, was intended to bridge the gap between California's veterinary workforce shortage and increasing public demand for affordable services such as vaccinations. Additionally, this legislation clarified that RVTs can establish VCPRs and administer vaccines even in locations other than registered veterinary premises, so long as their authorizing veterinarian is quickly and easily available (even if available by phone).

SB 669 increased the options and workforce available for low-cost "vaccine clinics" – initiatives or "pop up" services that are often provided by nonprofit organizations, like ASPCA, and are intended to offer free or low-cost vaccinations to the public. Since its implementation, animal welfare advocates have reported increased ease of access to vaccine services for the public and more options for running cost-effective "vaccine clinic" programs.

However, some organizations, including the sponsors of this measure, have encountered an implementation issue when attempting to carry out SB 669 permissions in certain settings. Specifically, the bill stated that if an RVT is working in a registered veterinary premises, the authorizing veterinarian must be physically present. In practice, this means that animal shelters—almost all of which are also registered veterinary premises—are not able to offer these expanded, low-cost vaccine options at their physical location (but could, for example, run a mobile vaccine clinic at a non-registered premise next door). Advocates argue this is impractical and an unintended consequence of legislation meant to increase access to low-cost vaccine options. As such, the author and sponsors have put forward this bill to "clean-up" SB 669 and clarify that, when working in a veterinary premises that is a public or private animal shelter, as defined, RVTs can establish a VCPR for purposes of administering vaccines without the need for their authorizing veterinarian to be physically present.

Current Related Legislation. AB 516 (Kalra) authorizes registered veterinary technicians (RVTs) and veterinary assistants to perform animal health care services not otherwise prohibited by law or regulation, including on animals housed in public or private animal shelters, humane societies, or societies for the prevention of cruelty to animals. *This bill is pending consideration in the Senate Appropriations Committee.*

AB 1502 (Berman) extends the sunset date for the California Veterinary Medical Board (CVMB) until January 1, 2030, increases fee authority for the CVMB, recasts and revises requirements related to continuing education, and makes various other technical changes, statutory improvements, and policy reforms in response to issues raised during the CVMB's sunset review oversight process. *This bill is pending consideration in the Senate Business, Professions, and Economic Development Committee.*

Prior Related Legislation. SB 669 (Cortese), Chapter 882, Statutes of 2023, authorized veterinarians in California to permit RVTs to act as their agent for purposes of establishing a VCPR to administer preventative or prophylactic vaccines or medications, in certain settings and subject to certain conditions.

ARGUMENTS IN SUPPORT:

This bill is co-sponsored by the **San Francisco Society for the Prevention of Cruelty to Animals (SF SPCA)**, the **California Veterinary Medical Association (CVMA)**, and the **San Diego Humane Society (SDHS)**. In a joint letter co-signed by several animal welfare organizations, they write: "By allowing shelters to maximize their existing workforce, SB 602 will improve public health by increasing vaccination rates, reducing disease transmission, and ensuring more pets receive timely medical care. This bill is a common-sense solution that will help alleviate veterinary access challenges, particularly for low-income pet owners and shelter animals."

This bill is supported by **Social Compassion in Legislation (SCIL),** who write: "While this bill does not directly expand spay and neuter services, by expanding the veterinary care services that RVTs are able to perform at animal shelters there will be a "trickle down" effect – giving veterinarians more time to perform needed surgeries in addition to ensuring that shelter animals are given vaccines and wellness checks as efficiently as possible.

ARGUMENTS IN OPPOSITION:

There is no opposition on file.

REGISTERED SUPPORT:

California Veterinary Medical Association *(Co-Sponsor)*
San Francisco SPCA *(Co-Sponsor)*
San Diego Humane Society *(Co-Sponsor)*
Act 2 Rescue
Best Friends Animal Society
California Animal Welfare Association
Councilmember Caity Maple, Chair, Law and Legislation Committee, City of Sacramento

County Health Executives Association of California
County of San Diego Animal Services
Forgotten Feline of Sonoma County
Friends of the Alameda Animal Shelter
Humane Society of Imperial Country
Humane World for Animals
Inland Valley Humane Society and SPCA
Joybound People and Pets
Marin Humane
Michelson Center for Public Policy
Napa County Animal Shelter and Adoption Center
Nine Lives
NorCal Boxer Rescue
NorCal GSP Rescue
Palo Alto Humane
Peninsula Humane Society & SPCA
Pets in Need
San Gabriel Valley Humane Society
Santa Barbara Humane
Santa Cruz County Animal Shelter
Social Compassion in Legislation
The Dancing Cat
Town of Apple Valley Animal Services
Valley Humane Society
Woody Feral Cat Support Group

REGISTERED OPPOSITION:

None on file

Analysis Prepared by: Edward Franco / B. & P. / (916) 319-3301

Date of Hearing: June 24, 2025

ASSEMBLY COMMITTEE ON BUSINESS AND PROFESSIONS
Marc Berman, Chair
SB 773 (Ashby) – As Introduced February 21, 2025

SENATE VOTE: 34-0

SUBJECT: Board of Registered Nursing: advisory committees

SUMMARY: Deletes the requirement for the Board of Registered Nursing (BRN) to have permission from the director of the Department of Consumer Affairs (DCA) before forming an advisory committee.

EXISTING LAW:

1) Establishes in the state government, in the Business, Consumer Services, and Housing Agency, a Department of Consumer Affairs. (Business and Professions Code (BPC) § 100)

2) Places the DCA under the control of a civil executive officer who is known as the Director of Consumer Affairs. (BPC § 150)

3) Regulates the practice of nursing under the Nursing Practice Act. (BPC §§ 2700-2838.4)

4) Establishes the BRN within the DCA to administer and enforce the Nursing Practice Act until January 1, 2027. (BPC § 2701)

5) Authorizes the BRN, with permission of the Director of Consumer Affairs, to form advisory committees to advise the BRN on the implementation of the Nursing Practice Act. (BPC § 2710.5)

FISCAL EFFECT: According to the Senate Appropriations Committee, pursuant to Senate Rule 28.8, no significant state costs anticipated.

COMMENTS:

Purpose. This bill is sponsored by the author. According to the author, "[This bill] is crucial for preserving the autonomy of the Board of Registered Nursing by allowing it to establish advisory committees without unnecessary delays or inefficiencies caused by current requirements for the Director of the Department of Consumer Affairs to approve. The existing law is outdated and no longer reflects current practices. By removing this outdated requirement, [this bill] will streamline the advisory committee process, allowing the BRN to operate more efficiently and respond more effectively to emerging challenges."

Background. BRN is a licensing entity within the DCA. The BRN is responsible for administering and enforcing the Nursing Practice Act. The act is the chapter of laws that establishes the BRN and outlines the regulatory framework for the practice, licensing, education, and discipline of registered nurses (RNs) and advanced practice registered nurses (APRNs).

APRNs include certified nurse mid-wives (CNMs), nurse anesthetists, nurse practitioners (NPs), and clinical nurse specialists (CNSs). The BRN also issues certificates to RNs who qualify as public health nurses (PHNs) and maintains a list of RNs who specialize in psychiatric-mental health nursing for purposes of statutory requirements relating to counseling services for victims of crime.

Committees. The BRN has two types of committees to assist in its duties, standing committees and advisory committees. The BRN has five standing committees that are composed of two to four BRN members. The committee members hold meetings with staff to assess issues, set policy, and make enforcement decisions.

The BRN has five advisory committees that are composed of non-board member stakeholders to make recommendations to the BRN on specific topics. The current committees are:

- *NP Advisory Committee*. This committee is established in statute and is composed of four qualified NPs, two physicians and surgeons with demonstrated experience working with NPs, and one public member. It makes recommendations to the BRN on matters relating to NPs, including education, appropriate standard of care, and other matters specified by the BRN. The committee also provides recommendations or guidance to the BRN when the BRN is considering disciplinary action against an NP.

- *Nurse-Midwifery Advisory Committee*. This committee is established in statute and is composed of four qualified CNMs, two qualified physicians and surgeons, including obstetricians or family physicians, and one public member. It makes recommendations to the BRN on matters related to midwifery practice, education, appropriate standard of care, and other matters as specified by the BRN. The committee also provides recommendations or guidance on care when the BRN is considering disciplinary action against a CNM.

- *Nursing Education and Workforce Advisory Committee (NEWAC)*. This committee is established in statute and is composed of various nursing education stakeholders. It solicits input from approved nursing programs and members of the nursing and healthcare professions to study and recommend nursing education standards and solutions to workforce issues to the BRN. It is also required to study and recommend standards for simulated clinical experiences based on the best practices published by the International Nursing Association for Clinical Simulation and Learning, the National Council of State Boards of Nursing, the Society for Simulation in Healthcare, or equivalent standards.

- *Clinical Nurse Specialist Advisory Committee*. This committee is established administratively by the BRN and is comprised of four CNSs and one public member. It makes recommendations to the BRN on matters relating to CNS practice, including education, appropriate standard of care, and other matters specified by the BRN.

- *Certified Registered Nurse Anesthetist Advisory Committee*. This committee is established administratively by the BRN and is comprised of four CRNAs and one public member. It makes recommendations to the BRN on matters relating to CRNA practice, including education, appropriate standard of care, and other matters specified by the BRN.

REGISTERED SUPPORT:

There is no support on file.

REGISTERED OPPOSITION:

There is no opposition on file.

Analysis Prepared by: Vincent Chee / B. & P. / (916) 319-3301

Date of Hearing: June 24, 2025

ASSEMBLY COMMITTEE ON BUSINESS AND PROFESSIONS
Marc Berman, Chair
SB 788 (Niello) – As Amended April 30, 2025

SENATE VOTE: 38-0

SUBJECT: Tax preparers: exemptions

SUMMARY: Exempts out-of-state certified public accountants (CPAs) practicing in California under this state's mobility laws, and owners, partners, shareholders, and employees of an accounting firm licensed by the California Board of Accountancy (CBA), from the requirement to register with the California Tax Education Council (CTEC) prior to signing tax returns for paying clients.

EXISTING LAW:

1) Establishes the Tax Preparation Act (Act), which provides for the registration of paid tax preparers by the CTEC, and repeals the Act on January 1, 2028. (Business and Professions Code (BPC) §§ 22250 *et seq.*)

2) Requires a CTEC-registered tax preparer (CRTP) to maintain a $5,000 surety bond. (BPC § 22250.1)

3) Specifies that a "tax preparer" includes a person who, for a fee or other consideration, assists with or prepares tax returns for another person or who assumes final responsibility for completed work on a return on which preliminary work has been done by another person, or who hold themselves out as offering those services. A tax preparer is also a business entity that has associated with it people who have as part of their responsibilities the preparation of data and ultimate signatory authority on tax returns or that hold themselves out as offering those services or having that authority. (BPC § 22251(a))

4) Specifies that CTEC is a single nonprofit organization exempt from taxation under section 501(c)(3) of Title 26 of the United States Code. (BPC § 22251(d))

5) Specifies that it is the intent of the Act to enable consumers to easily identify credible CRTPs who are bonded and registered, to ensure CRTPs receive adequate education and treat confidential information appropriately, to prohibit CRTPs from making fraudulent, untrue, or misleading representations, and to provide for a self-funded nonprofit oversight body to register paid tax preparers and ensure that they meet all of the requirements of CRTPs. (BPC § 22251.1)

6) Requires an applicant, in order to obtain a registration, to submit a written application, as specified, and provide the CTEC with satisfactory evidence that they have successfully completed the educational requirements, passed a background investigation, paid all fees required by the CTEC, and meet any other requirements for registration, as specified. (BPC § 22251.3(b))

7) Subjects any registration to renewal every year, as specified. (BPC § 22251.3(c))

8) Requires any CRTP, before providing services, to provide a customer in writing with the CRTP's name, address, and telephone number; evidence of compliance with the surety bond requirement; and CTEC's website. (BPC § 22252)

9) Authorizes CTEC to take disciplinary action against a CRTP, by any, or a combination, of the following methods: placing the registration on probation, suspending the registration for up to one year, revoking the registration, suspending or staying the disciplinary order, or portions of it, with or without conditions, or taking other action as the CTEC, as authorized. (BPC § 22253.3(a))

10) Requires, as a condition of registration, applicants to submit fingerprints for a background check. (BPC § 22253.5(a))

11) Mandates that CTEC issue a "certificate of completion" to a tax preparer when the tax preparer demonstrates that they have completed at least 60 hours of instruction in basic income tax law, theory, and practice by an approved curriculum provider within the previous 18 months and provides evidence of the surety bond requirement. (BPC § 22255(a))

12) Requires a CRTP to complete 20 hours of continuing education (CE), as specified, annually. (BPC § 22255(b))

13) Specifies that a person who violates the Act, except as specified, is guilty of a misdemeanor punishable by a fine not exceeding $1,000 or by imprisonment in county jail for not more than one year, or by both. (BPC § 22256)

14) Specifies that if a CRTP fails to perform a duty specifically imposed by the Act, any person may maintain an action for enforcement of those duties or to recover a civil penalty in the amount of $1,000 or both enforcement and recovery. A prevailing plaintiff is also entitled to attorney's fees and costs. (BPC § 22257)

15) Exempts CPAs licensed by the CBA, attorneys who are an active members of the State Bar of California, Internal Revenue Service enrolled agents, as well as trust companies and specified financial institutions, from the requirement to register as a tax preparer. Any employee, while functioning within the scope of that employment, is also exempt if they are supervised by a person who is exempt and that person reviews the return, signs it, and is responsible for its content. (BPC § 22258)

16) Establishes the CBA within the Department of Consumer Affairs to implement and enforce the California Accountancy Act until January 1, 2029. (BPC §§ 5000 *et seq.*)

17) Authorizes the CBA to, by regulation, prescribe, amend, or repeal rules of professional conduct appropriate to the establishment and maintenance of a high standard of integrity and dignity in the profession. (BPC § 5018)

18) Defines "public accountant" to mean any person who has registered with the CBA as a public accountant and holds a valid permit for the practice of public accountancy. (BPC § 5034)

19) Defines "firm" to mean a sole proprietorship, a corporation, or a partnership. (BPC § 5035.1)

20) Authorizes the CBA to revoke, suspend, issue a fine, or otherwise restrict or discipline the holder of an authorization to practice for any act that would be a violation of the Accountancy Practice Act or grounds for discipline against a licensee or holder of a practice privilege, or grounds for denial of a license or practice privilege. (BPC § 5050.1)

21) Specifies that preparing or signing tax returns for clients constitutes the practice of accountancy. (BPC § 5051(g))

22) Authorizes an individual or firm holding a valid and current license, certificate, or permit to practice public accountancy from another state to prepare tax returns for natural persons who are California residents or estate tax returns for the estates of natural persons who were clients at the time of death without obtaining a CPA license from the CBA or a practice privilege, provided that the individual or firm does not physically enter California to practice public accountancy, does not solicit California clients, and does not assert or imply that the individual or firm is licensed or registered to practice public accountancy in California. (BPC § 5054(a))

23) Requires registration with CBA for any person to engage in the practice of accountancy as a partnership. (BPC § 5072(a))

24) Specifies that in order to renew its registration in an active status or convert to an active status, an accounting firm must have a peer review report of its accounting and auditing practice accepted by a board-recognized peer review program no less frequently than every three years. (BPC § 5076(a))

25) Authorizes an individual whose principal place of business is not in California and who has a valid and current license, certificate, or permit to practice public accountancy from another state to, subject to conditions and limitations, engage in the practice of public accountancy in this state under a practice privilege without obtaining a certificate or license if the individual satisfies one of the following:

    a) The individual has continually practiced public accountancy as a certified public accountant under a valid license issued by any state for at least 4 of the last 10 years.

    b) The individual has a license, certificate, or permit from a state determined by the Board to have education, examination, and experience qualifications for licensure substantially equivalent to this state's qualifications.

    c) The individual possesses education, examination, and experience qualifications for licensure that have been determined by the board to be substantially equivalent to this state's qualifications.

    (BPC § 5096(a))

26) Requires an individual who is exercising the practice privilege in California to, in part, comply with the provisions of the California Accountancy Act, Board regulations, and other

laws, regulations, and professional standards applicable to the practice of public accountancy by the licensees of this state and to any other laws and regulations applicable to individuals practicing under practice privileges in this state, except the individual deems, to have met the continuing education requirements and the ethics examination requirements of this state when the individual has met the examination and continuing education requirements of the state in which the individuals holds the valid license, certificate, or permit on which the substantial equivalency is based. (BPC § 5096(d)(2))

27) Requires the Board to consult the Public Company Accounting Oversight Board and the United States Securities and Exchange Commission at least once every six months to identify out-of-state licensees who may have disqualifying conditions or who may be obliged to cease practice, and to disclose whether those out-of-state licensees are lawfully permitted to exercise the privilege. (BPC § 5096.4(a))

28) Authorizes a CPA firm that is authorized to practice in another state and that does not have an office in California to engage in the practice of public accountancy in this state through the holder of a practice privilege provided that the practice of public accountancy by the firm is limited to authorized practice by the holder of the practice privilege. A firm that engages in accountancy practice pursuant to this authorization is deemed to consent to the personal, subject matter, and disciplinary jurisdiction of the CBA. (BPC § 5096.12(a))

29) Authorizes the CBA to revoke, suspend, issue a fine, issue a citation and fine, or otherwise restrict or discipline an out-of-state accounting firm for any act that would be grounds for discipline against a holder of a practice privilege through which the firm practices. (BPC § 5096.12(b))

30) Requires an out-of-state firm that provides public accountancy services to obtain registration from the CBA. (BPC § 5096(c))

31) Requires the Board to add an out-of-state licensee feature to its license lookup tab of the home page of its website that allows consumers to obtain information about an individual whose principal place of business is not in this state and who seeks to exercise a practice privilege in this state, that is at least equal to the information that was available to consumers through its home page through the practice privilege form previously filed by out-of-state licensees. (BPC § 5096.20(a))

THIS BILL:

1) Exempts the following from the Act:

   a) An individual authorized to practice public accountancy in California under this state's mobility laws.

   b) A firm, including the firm's partners, shareholders, owners, or employees, provided the firm has a current and valid license issued by the Board of Accountancy.

2) Specifies that the new exemptions apply to tax returns prepared for taxable years beginning on or after January 1, 2025.

3) Makes conforming changes.

FISCAL EFFECT: According to the Senate Appropriations Committee, pursuant to Senate Rule 28.8, no significant state costs anticipated.

COMMENTS:

Purpose. This bill is sponsored by the *California Society of CPAs*. According to the author:

> [This bill] improves access for Californians to services by CPAs or accounting firms headquartered out of state by clarifying that duplicative regulations are not required for CPAs who come to California from outside of the state to provide services when those CPAs are under oversight of the California Board of Accountancy. This bill will reduce barriers while ensuring that existing consumer protections are and oversight are still intact.

Background. In California, any person who charges a fee to assist with or prepare a state or federal income tax return, with a few exceptions, must register with CTEC, a nonprofit entity responsible for registering tax preparers and enforcing the Act. To register with CTEC, an applicant must complete a total of 60 hours of education from a CTEC-approved provider, comprising 45 hours dedicated to federal tax education and 15 hours to state tax education. Although CTEC does not require applicants to pass a standardized exam to register, applicants are required to pass the final exam of their qualifying education course with a grade of 70% or higher. Additionally, applicants must purchase and maintain a $5,000 surety bond, pass a background check, obtain a Preparer Tax Identification Number from the Internal Revenue Service, and pay the registration fee. Once all these requirements have been fulfilled, CTEC issues a Certificate of Completion to an applicant. Once registered, CRTPs are required to complete 20 hours of continuing education annually, including 10 hours on federal tax law, 5 hours on state tax law, 3 hours on tax law updates, and 2 hours on ethics. CRTPs make up the second-largest segment of tax preparation professionals serving California, following CPAs.

CPAs with a current and active license issued by the CBA, attorneys who are active members of the State Bar of California, and Internal Revenue Service enrolled agents are exempt from the Act and therefore not required to register with CTEC. Employees of those individuals are also exempt if a CPA, attorney, or enrolled agent supervises the employee, and reviews the tax return, signs it, and is responsible for its content. Certain trust companies, financial institutions, and their employees are also exempt from the Act.

CPAs and accounting firms are regulated by the CBA. In order to qualify for a CPA license, one must complete 150 semester units of qualifying education (I.e., a Master's degree or Bachelor's degree plus 30 additional units), pass the national Uniform CPA Exam, complete one year of professional experience, pass the California Professional Ethics Exam, pass a background check, and pay applicable fees. Once licensed, CPAs are required to complete 80 hours of continuing education every two years as a condition of license renewal. There are currently more than 65,000 individuals with active CPA licenses in California.

California's mobility law for CPAs allows any CPA whose principal place of business is located outside California and who holds a valid and current license, certificate, or permit to practice

public accountancy from another state, to practice public accountancy in California under a practice privilege without giving notice or paying a fee, provided one of the following conditions is met:

- They have continually practiced public accountancy as a CPA under a valid license issued by any state for at least four of the last 10 years;

- They hold a valid license, certificate, or permit to practice public accountancy from a state determined by the CBA to be substantially equivalent to the licensure qualifications in California; or

- They possess education, examination, and experience qualifications which have been determined by the CBA to be substantially equivalent to the licensure qualifications in California.

Any individual who provides accounting services under a practice privilege is subject to the CBA's oversight and must comply with the laws, regulations, and professional standards applicable to the practice of public accountancy by CPAs licensed by the CBA and any other laws and regulations applicable to individuals practicing under a practice privilege in California. This bill would extend the exemption for California CPAs to those working in this state under a practice privilege (I.e., mobility).

Accounting firms (I.e., corporations or partnerships) wishing to provide accounting services in California are required to obtain a license from CBA before providing or advertising accounting services. The majority of owners of a corporation must be CPA licensees, except that a firm with only two shareholders may have one shareholder who is not a CPA. Out-of-state CPA shareholders or employees of an accounting firm wanting to practice in California must obtain a license. Partnerships must have at least two partners, with at least one of the partners licensed as a CPA in California. If there are more than two partners, the majority must be licensed CPAs. Out-of-state partners are required to obtain a license to practice public accountancy in California. Partnership and corporation licenses are subject to renewal every two years. The CBA may revoke, suspend, or refuse to renew a firm's license for unprofessional conduct, which includes but is not limited to dishonesty, fraud, and gross negligence. Accounting firms are required to undergo a peer review of their accounting and auditing practice every three years. There are approximately 5,500 partnerships and corporations licensed by CBA.[1]

Under the current regulatory framework, some individuals associated with accounting firms licensed by the CBA are also required to register with the CTEC. This bill would exempt firm owners, partners, shareholders, and employees in California from the additional requirement to register with the CTEC. It is unclear how many individuals currently subject to CTEC registration would become exempt under this bill.

Current Related Legislation. AB 1175 (Irwin) would phase in new education and experience standards for a CPA license and authorize out-of-state CPA license holders to practice public

[1] California Board of Accountancy, *2024 Sunset Report*, www.dca.ca.gov/cba/outreach/sunset_review_2024.pdf.

accountancy in California under a practice privilege if the state that issued their license has comparable licensure requirements, as defined.

Prior Related Legislation. SB 812 (Roth), Chapter 185, Statutes of 2023, extended the sunset date for the CTEC by four years to January 1, 2028.

AB 3251 (Berman), Chapter 586, Statutes of 2024, extended the sunset date for the CBA by four years to January 1, 2029, and enacted technical changes, statutory improvements, and policy reforms in response to issues raised during the Board's sunset review.

ARGUMENTS IN SUPPORT:

As the sponsor of this bill, the *California Society of CPAs* writes in support:

> While most states that regulate tax return preparers broadly exempt active CPAs and other licensed professionals—regardless of where they are licensed or reside— California takes a more limited approach. With respect to CPAs, the Tax Preparation Act only exempts CPAs who are licensed in California.
>
> This creates confusion and the potential for duplicative regulation, especially for CPAs licensed in other states, but are authorized under the Accountancy Act to practice in California, as well as professionals working in a CPA firm licensed and regulated by the CBA. These individuals are already under CBA oversight, yet the overlapping requirements of the Tax Preparation Act introduce unnecessary complexity and compliance burdens for CPAs and firms working to serve consumer needs effectively and efficiently.
>
> To address this, [this bill] updates the CPA exemption under the Tax Preparation Act to clarify that the following are all exempt from the Tax Preparation Act and CTEC registration requirements: CPAs holding a current and valid license issued by the CBA; CPAs authorized to practice public accountancy in California; and employees of CPA firms licensed by the CBA, when services are performed under the firm's license.

ARGUMENTS IN OPPOSITION:

The *California Tax Education Council*, which opposes the bill unless it is amended, writes:

> CTEC opposes the language in Business and Professions Code section 22258(a)(2), which exempts from CTEC registration, "[A] firm, including the firm's partners, shareholders, owners, or employees, provided the firm has a current and valid license issued by the California Board of Accountancy" because this language is overbroad and would allow any individual who is employed by a licensed accountancy firm but is neither a CPA nor an Enrolled Agent to prepare tax returns without receiving the education required for CTEC registration, placing California consumers in danger.
>
> CTEC believes that the exemption in section 22258(a)(2), when paired with the exemption in section 22258(a)(7), (which states, "(7) Any employee of any person described in paragraph (1), (2), (3), (4), (5), or (6), while functioning within the scope of

that employment, insofar that the employee is supervised by a person exempt under this subdivision who reviews the return, signs it, and is responsible for its content.") would allow individuals who are neither CPAs nor IRS Enrolled Agents to review and sign tax returns.

We do not believe that it is the intent of the legislature to allow any owner of, or employee employed by, a licensed accountancy firm (such as the receptionist) to prepare and sign tax returns merely because of their employment or ownership status, however the language as currently drafted would allow that to occur. The exemptions in the Tax Preparers Act have always been applicable to specific individuals who meet certain stated qualifications, not to firms as a whole.

POLICY ISSUES:

Breadth of Exemption for Firms. The CTEC has submitted an oppose-unless-amended letter detailing concerns about the breadth of the exemption for accounting firms. In particular, the CTEC is concerned that the inclusion of employees in the definition of "firm" could allow for an unqualified individual to prepare and sign tax returns for clients on behalf of the firm. The proponents of this bill assert that accounting firms have an incentive to ensure that tax returns are prepared according to professional standards to protect both their reputation and license, which the CBA could revoke or otherwise discipline.

REGISTERED SUPPORT:

California Society of Certified Public Accountants (Sponsor)

REGISTERED OPPOSITION:

California Tax Education Council (Unless amended)

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