

MARCH 2026

CONTRACTORS STATE LICENSE BOARD

SB 291 (Grayson)
Workers' Compensation
Exemption Report





CONTRACTORS STATE LICENSE BOARD

SENATE BILL 291 REPORT

Contractors State License Board

Mandatory Report to the Legislature Regarding
Workers' Compensation Insurance Exemption
Senate Bill 291 (Chapter 455, Statutes of 2025)

Miguel Galarza, Chair, Contractors State License Board

David R. Fogt, Registrar, Contractors State License Board

March 2026



SB 291 (Chapter 455, Statutes of 2025) requires the Contractors State License Board (CSLB) to “establish a **process and procedure**, which shall include an **audit, proof, or other means to obtain evidence to verify** that an applicant or licensee without an employee or employees is **eligible for exemption** from the workers’ compensation insurance requirement pursuant to Section 7125” and report its finding to the Legislature by January 1, 2027. This report serves to fulfill this requirement.

Exemption Eligibility Criteria

CSLB has engaged in extensive discussions with stakeholders, industry representatives, and partner agencies; reviewed past studies; and examined licensing and workers’ compensation data. Based on this work, CSLB proposes the following criteria for determining whether a contractor may claim an exemption from the workers’ compensation insurance requirement. To qualify for an exemption, a licensee:

- **MUST** be an individual owner (not a partnership, corporation, Limited Liability Company (LLC), or participating tribe).
- **MUST** not have a responsible managing employee (RME) or a registered home improvement salesperson associated with the license.
- **MUST NOT** have any of the following classifications: C-8 Concrete, C-20 Warm-Air Heating, Ventilating and Air Conditioning, C-22 Asbestos Abatement, C-39 Roofing, C-49 Tree and Palm, or D-49 Tree Service.
- **MUST** complete an attestation acknowledging their understanding of workers’ compensation requirements and penalties.
- **MUST** submit a business plan demonstrating the factual basis for exemption eligibility.
- **MUST** pay a filing or recertification fee, which helps fund the Workers’ Compensation Insurance Enforcement Unit (WCEU).

Process and Procedure for Verifying Exemption Eligibility

Workers’ Compensation Insurance Enforcement Unit (WCEU)

In order to determine initial and ongoing eligibility for a WC exemption, CSLB will need to form a Workers’ Compensation Insurance Enforcement Unit (WCEU). The WCEU will be divided into two sections: (1) preliminary review process and (2) post-exemption approval procedure, which includes an oversight and audit model.

(1) Preliminary Review Process

CSLB estimates that approximately 9,000 exemptions will be filed annually. Prior to issuance of an exemption, the WCEU will engage in a pre-qualifying review, to include:

- Determining whether the proposed work can be performed without employees.



- Reviewing internet and social media sources to confirm the applicant has no employees.
- Researching public databases to verify the applicant's scope of work and business model.

(2) Post-Approval Oversight Procedure

While it is not feasible to audit all exemption renewal filings, CSLB can implement a targeted enforcement model to verify eligibility and deter misuse which **would implement the following procedures:**

- Audit 5 percent of exemption filers annually (approximately 450 audits). These audits would include reviewing public databases, coordinating with other state agencies, and requesting business records as necessary.
- Maintain staffing levels and supporting positions dedicated to proactive and reactive workers' compensation enforcement.
- Review all incoming consumer complaints to identify whether a respondent claiming an exemption had employees at the job site.
- Review submitted business plans for accuracy and conduct field visits when needed.
- Engage in data sharing and coordinated enforcement with partner agencies, including:
 - Employment Development Department
 - Department of Insurance
 - Department of Industrial Relations
 - State Compensation Insurance Fund
- Pursue disciplinary action or make criminal referrals when a contractor claiming an exemption is found to have employees.

Resources Required

To fund the WCEU, it will be necessary to charge fees for filing an exemption upon initial licensure and at each biennial renewal. It is estimated that the WCEU will need approximately \$2.8 million to employ 17 staff and cover associated legal costs. Assuming 9,000 exemptions are filed annually, the cost to file and renew an exemption would be approximately \$500.

Background and Risks

Workers' compensation compliance has been an ongoing concern for CSLB. Under current law, all licensed contractors must have proof of workers' compensation insurance by January 1, 2028, even if they have no employees. Stakeholders have raised concerns that this universal requirement may impose unnecessary financial burdens on contractors who do not employ workers.



There is also a risk that some contractors may choose to let their licenses lapse rather than pay for insurance they do not need, potentially operating unlicensed and increasing consumer harm.

Currently, approximately 100,000 licensees have a workers' compensation exemption on file. If 10 percent fail to renew due to the 2028 insurance requirement, CSLB could lose an estimated \$8 million in annual revenue — reducing resources for enforcement and public protection. In contrast, the WCEU would generate \$5.7 million a year to support the audits and compliance with CSLB's workers' compensation insurance license maintenance requirement.

Alternative

The alternative to providing a WC exemption and establishing the WCEU is to maintain the status quo whereby WC is required for all licensees beginning January 1, 2028. This would ensure all workers are protected and prevent any unfair business advantage for licensees who claim the current exemption.

Not adopting an exemption process consistent with SB 291 may have unintended consequences, including lower license renewal rates, increased underground activity, and reduced funding for CSLB operations. Currently, 100,000 licensees have a WC exemption on file. If 10 percent of those licensees do not renew, CSLB's revenue would be reduced by approximately \$8 million annually, which would negatively impact enforcement operations.