June 22, 2026

The Honorable Lori Wilson
Chair, Assembly Transportation Committee
1021 O Street, Room 8110
Sacramento, CA 95816

RE: SB 1174 (Valladares): Bid Preferences for Employee Stock Ownership Plans – OPPOSE (As Amended 6/15/2026)

Assemblymember Wilson:

Associated Builders and Contractors of California (ABC CA) is a statewide organization representing working Californians in carpentry, construction, construction craft laborer, electrical, low voltage, painting, plumbing, pipefitting, and sheet metal who are building commercial, industrial and affordable housing projects, and we write to express our respectful opposition to SB 1174 (Valladares). This measure creates a new bid preference for contractors with an employee stock ownership plan (ESOP) on Department of Transportation (Caltrans) projects.

Government contracts are generally awarded to the lowest bid submitted by a responsible and responsive bidder. This policy helps ensure that taxpayer dollars are spent efficiently and effectively while preventing government agencies from providing preferential treatment to certain companies. While well-intentioned, SB 1174 undercuts both of these fundamental principles of good government spending.

Creating a new bid preference will increase project costs with no tangible benefit in the project outcome or to Californians at large. Indeed, this change will reduce how far taxpayer dollars go, ultimately limiting the number of projects Caltrans can deliver and the benefit the agency is able to provide to the state as a whole. This impact will be especially significant in a year when the budget is already under considerable strain.

Bidding preferences disadvantage qualified contractors and reduce competition. Despite being responsible, well-run companies that invest in employee safety, training, and workforce development, contractors may lose out just because they choose to operate a different business structure or compensate their employees in a different way.

This policy asserts there is one preferred way for a business to compensate its employees. However, there is no reason an ESOP should be considered inherently superior to direct wages, 401(k) retirement plans, or any other form of employee compensation.

Like any form of employee compensation, ESOPs have shortcomings. Under an ESOP, employees are allocated shares of the company while they work there. However, unlike more traditional stock options, they are generally unable to sell those shares or access their value until they retire or leave the company. Further, unlike a traditional 401(k), an ESOP does not provide a diversified retirement portfolio. An employee's retirement security may depend entirely on the value of their ESOP stock. An employee may spend 40 years accumulating company stock only to see the business fail before retirement, leaving them with little or nothing to retire on.

Despite providing employees with stock, an ESOP does not guarantee any of the features traditionally associated with “ownership”. A company providing an ESOP does not necessarily mean that the company is entirely employee-owned. It does not even mean that employees own any significant number of shares. The shares allocated through an ESOP do not entitle employees to an equal share of company profits, guarantee voting rights on all business decisions, ensure a safer working environment, or necessarily result in higher hourly compensation.

Beyond the fact that there are no legitimate policy reasons to provide preferential treatment to employee-owned companies, this bill elevates just one form of employee ownership above all others. The measure does not extend a similar bid preference to businesses utilizing other employee ownership models, including worker cooperatives, employee ownership trusts, employee stock purchase plans, or stock options.

SB 1174 undercuts longstanding principles of good government spending. This measure will increase the costs of Caltrans projects for no demonstrated benefit to the state, the workers building the projects, or the Californians that will use the resulting infrastructure.

For these reasons, ABC CA respectfully opposes SB 1174.

Sincerely,

Greg Gutierrez
Chair of the Board