

California Class B License Tests Study Guide

Law & Business Section

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Real estate and construction law

Real estate is given special attention in the legal system. Real estate has a huge amount of specific and very structured laws as a result of many years of legal battles. So naturally the laws surrounding construction are also very specific and complex. Furthermore the state of California has a business and professional code which requires specific actions from contractors. Coupled with Californians strict labor laws these factors create a tough business environment. This study guide creates a detailed summary of these laws for your review.

Business and professional code B&P

California Code of regulation CCR

1) license law

The Contractors License Board known as the CSLB is responsible for protecting California consumers. The monitor and enforce the license laws within the state.

License Application Qualification Requirements

4 years of journeymen or management experience and license test. Up to 3years or training programs or apprenticeship may count towards the 4 year requirement(CCR 16.8.2.825)

\$2,500 financial solvency (B&P 7067.5)

Bond of \$12,500 dollars (B&P 7071.6)

Waiver of license test allowed when employee of existing company needs license to continue because the original qualifier has been unexpectedly incapacitated.

Home improvement salesman must register with the CSLB and renew registration every 2 years. Phone salesman must also register under then same category

Material suppliers do not need to be licensed

You can take the contractors license test after failing unlimited times within 18 months

Material suppliers do not need to be licensed

After license expires you have 5 years to renew before you must retake license test. However expired license fee is due within 3 years to avoid late fees

License Maintenance & Requirements

Every license needs a responsible managing person. This can be a responsible managing employee (RME), or responsible managing member of an LLC(RMM). The important fact is the the responsible person must actively work at the company 32 hours a week or for 80% the companies operating hours.(CCR 16.8.2.823) A single person can be the max qualifier on 3 licenses

A contractor does not have to be licensed if the cost of materials and labor is less than \$500 or if the project is for the federal government which is not subject to the CSLB

All advertisements or material displaying company information must show a license number. This allows potential customers to use the CSLB website for license checks.

A contractor must notify the CSLB of change in business info within 90 days. These include changes to the responsible licensee, home address, business address or other pertinent issues

If the contractor has received disciplinary action two or more times within the last 8 years they must disclose every disciplinary action against the licensee in the last 8 years before signing a contract with a customer.

Responsibilities of Licensee & CSLB

The most important characteristics of contractors are honesty and responsibility. More important than licenses, degrees and trade associations.

Contractors must maintain business records for 5 years.

The CSLB pays for mandatory arbitration conducted by the CSLB. These are mandatory for disputes up to \$12,500. Dispute resolution take into consideration license class, contract agreement, performance of work and unrelated to the specific case any past complaint issues. The strictest penalty is imprisonment.

Contractors are responsible for the execution of the work scope. Designers such as the architect should submit plans not and contractor. A homeowner has the right to draw their own plans for submission as well. Furthermore contractors can only perform work in the trade which they are licensed. Always hire a specialty subcontractor for unfamiliar work or when required by law.

A contractor must pay debts and settle all contract agreements or be subject to disciplinary action by CSLB. The only exception is when the contractor is under protection of other bankruptcy or reorganization laws.

2) Bonds, insurance, Liens & Payments

Bonds

Within the construction industry, a bond is a promise another company makes (the surety) to take responsibility for the contractor's (the principle) liabilities or obligations. The contractor pays a bond fee (premium) and then the customer (obligee) receives the guarantee from the bonding company that they will provide financial or equitable remedies if the contractor fails. The penal sum of a bond is the maximum amount payable by the bond company to the obligee.

A performance bond guarantees the owner will receive the material and labor to complete the project.

A payment bond guarantees the owner that the contractor will pay off all remaining contract debt to material vendors and subcontractors

A bid bond guarantees the contractor will honor the price he submitted or pay the difference between the the principles bid and the next highest bid.

A license bond guarantees the CSLB has money to compensate parties it determines the contractor has done damage too.

Insurance

Liability insurance protects (and I use that word loosely) the contractor or customer from damage to third parties property or health, damage to the contractor property, or damage to the customers property or health.

Workers compensation insurance protects employees who have been injured on the job.

A prime contractor should request license, liability and workers comp from all subcontractors/vendors because the prime contractor can be held responsible if a subcontractor's insurance is not in effect

Insuring your business provides indemnity for the parties who may need to be compensated for damages. It does not matter if you agree to indemnify third parties because indemnity that's not specified is implied or often required by law.