Labor and Public Employees Committee
JOINT FAVORABLE REPORT

Bill No.: HB-7196
Title: AN ACT CONCERNING LIMITATIONS ON THE USE OF NONCOMPETE AGREEMENTS.
Vote Date: 3/13/2025
Vote Action: Joint Favorable
PH Date: 3/11/2025
File No.:

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SPONSORS OF BILL:

Labor & Public Employees Committee

REASONS FOR BILL:

The reason for this bill is to limit the circumstances under which noncompete agreements would be permissible. It would ban all noncompete agreements on employees below three times the minimum wage, and on independent contractors below five times the minimum wage, unless certain conditions were met including the protection of a legitimate business interest. There are concerns that some employers utilize noncompete agreements on low-wage workers who do not possess business secrets or other confidential information that would allow them to compete.

RESPONSE FROM ADMINISTRATION/AGENCY:

Danté Bartolomeo, Commissioner, Department of Labor: Opposes this bill. States the lack of existing statute prohibiting noncompete agreements creates a problem specifically for the Wages and Workplace Standards Division (WWSD) of the Department of Labor. States that the already understaffed division would face a significant increase in workload if this bill were to pass because they must "have a full understanding of the law…[and] must be available to answer questions from the public and employers." States that any violation of this law would result in the issuance of a civil penalty which would further increase the work of WWSD and the Legal Division. States if this bill were to be passed as written the "CTDOL will need to assign a significant fiscal impact statement to this bill."

NATURE AND SOURCES OF SUPPORT:

Rachel Arnow-Richman, Rosenthal Chair in Labor and Employment Law, University of Florida: Supports this bill. States that noncompete agreements adversely effect the economy by constraining the affected worker, limiting competing firms access to qualified labor, and depriving the public of the services the affected worker can offer. States that empirical evidence has shown the negative impact noncompete agreements have including the reduction of wages for the workforce, higher rates of "burn out", and overall reductions in regional economic growth. States that many noncompete agreements serve no legitimate business purpose and are not enforceable within a court of law due to the unpredictability of common law's "reasonableness standard" and these agreements only instill fear within the workers they bind and the companies looking to hire new labor. States that this bill "strikes the right balance between individual business interests, worker protection, and free competition" as this bill does not ban noncompete agreements, rather it allows legitimate business concerns to be dealt with while limiting frivolous restrictions imposed by companies.

Terri Gerstein, Director, NYU Wagner Labor Initiative: Supports this bill. Expressed her familiarity with the subject through her time as Deputy Commissioner of the New York Department of Labor and as the Labor Bureau Chief in the New York Attorney General's office. States that in 2024 the Federal Trade Commission (FTC) finalized a rule that would virtually ban all noncompete agreements after conducting and reviewing research that showed the negative impact that these agreements have on "the economy, economic dynamism, job mobility, wages, and more." States that Connecticut Senator Chris Murphy is a large proponent of this and has led the introduction of legislation banning noncompete agreements at the national level. States that other states within the United States have passed similar bills or enacted stricter bans on these agreements. States a stronger bill would be more beneficial to workers and the "overall dynamism of the state’s economy."

Ed Hawthorne, President, Connecticut AFL-CIO: Supports this bill. States noncompete agreements were originally used for higher wage jobs that required high levels of responsibility and required the protection of trade secrets but are now used in low paying entry level jobs. States the use of these agreements now is a way for employers to "rig the system in their favor," reduce wages, and slows economic growth. States the bill language protects lower waged workers but should be adjusted to protect higher wage professionals who have no managerial responsibilities.

Sara Parker McKernan, Legislative Policy Advocate, New Haven Legal Assistance: Supports this bill. States 55% of U.S. companies require hourly workers to sign noncompete agreements even though they "do not have the same specialized training as salaried employees" and most likely do not have access to sensitive information or trade secrets. States many states have enacted similar limitations or bans on these agreements because "the primary effect of noncompete agreements is to impede worker mobility and limit wage competition."

Chris Murphy, U.S. Senator, United States Senate: Supports this bill. States American workers have "experienced significantly reduced job mobility, tepid wage growth, and declining rates of entrepreneurship" while noncompete agreements have increased. States these agreements inherently restrict competitive labor market forces and claims it has negative impacts for both workers and employers. States negative wage effects are felt

disproportionately by historically marginalized groups. States noncompete agreements impede entrepreneurship and make it more likely for startups, in states that allow these agreements, to fail. States that federal legislation that he introduced tracks with this bill that is currently in the CGA.

Joshua Goodbaum, Attorney, CT Trial Lawyers Association: Supports this bill. States the protection of low wage workers, reasonable limitations on enforceable noncompete agreements, the enforcement mechanisms of the bill, and the clear definition of nonsolicitation agreements is commendable. States there is room for improvement in protecting workers retroactively, clarifying nonsolicitation agreements, revisiting the two year salary provision, including provisions prohibiting noncompete agreements from being enforced on individuals who have been terminated without cause, and allowing prevailing "defendants in noncompete enforcement actions to recover fees and costs" rather than just plantiffs.

Patrick O'Brien, Research and Policy Director, Connecticut Voices for Children: Supports this bill. States noncompete agreements (NCA) prevent job growth in the state by reducing job mobility and making it harder for workers to fill open positions. States NCAs also reduce wage growth by preventing workers from leveraging "outside job offers for higher pay." States "NCAs exacerbate wage inequality and racial, gender, and ethnic wage gaps." States if Connecticut were to limit NCAs or ban them, the state would be more likely to keep up with national job and wage growth along with reduce the gender, racial, and ethnic wage gaps.

Sam Peak, Policy Manager, Economic Innovation Group: Supports this bill. Encourages the committee "to revise the bill to encompass a broader pool of employees so that Connecticut residents can fully reap the benefits" of limiting noncompete agreements. States Connecticut would benefit from a full ban on noncompete agreements for not only low wage workers, but also higher wage workers. States this kind of ban would promote job growth, wage growth, and new businesses. States noncompete agreements are rarely used to protect sensitive company information like they were originally intended for and are instead used as "a low cost means of deterring workers from pursuing other employment opportunities." States support for garden leave on noncompete agreements for workers whose agreements are both shorter than a year and those whose exceed one year so businesses have "significant economic interest in enforcing the agreement." States agreements exceeding one year are too long and ask legislators to reconsider their decision to allow a two year long agreement.

Stacy Zimmerman, Deputy Director, SEIU CT State Council: submitted testimony in general support of this bill

NATURE AND SOURCES OF OPPOSITION:

Paul Amarone, Public Policy Associate and Advocacy Manager, Connecticut Business and Industry Association (CBIA): Opposes this bill. States noncompete agreements protect businesses when it comes to protecting trade secrets, client information, technological innovation, and other confidential information. States opposition to banning noncompete agreements for employees and contractors who make over $100,000 because these employees "can very well have access to confidential and proprietary internal business

information." States this negatively impacts businesses and is problematic to use the states minimum wage as the guiding factor in this legislation as the minimum wage is revised annually which may lead to annual increases in wage rates to remain in compliance. States issues with "Sections 5 and 6 of the bill, which would grant workers aggrieved by a violation of Sections 2 and 3 the ability to bring a civil action against the employer."

Travis Wattie, AVP of Government Relations, Big I Connecticut: Opposes this bill. States this bill would have "detrimental consequences for independent insurance agents, consumers, and the state's insurance industry." States this makes independent insurance agencies more vulnerable as their clientele may be taken to a competitor by a former employee. States this could negatively affect the valuation of an insurance company when it is sold because there is no longer the protection of noncompete agreements.

Kristina Baldwin, Vice President, American Property and Casualty Insurance: Opposes the bill. States the bill fails to recognize the diverse needs of different industries like insurance, finance, and technology where business knowledge and client relationships are important. States in these industries even lower wage employees have access to trade secrets and business practices that need to be protected. States noncompete agreements are regulated enough already in the state and that regulating it more poses "significant risks to the stability, competitiveness, and economic viability of businesses operating in Connecticut." States passing this bill would "disrupt established case law and eliminate essential protections for businesses."

Brooke Foley, General Counsel, Insurance Association of Connecticut and **Christopher Nicolopoulos, Senior Regional Vice President, National Association of Mutual Insurance Companies:** submitted identical testimony in opposition to this bill, and stated that noncompete agreements help to protect trade secrets, and that a "one-size-fits-all" approach to eliminating them would pose risks to businesses operating in the state, and would put Connecticut companies at a disadvantage compared to companies in neighboring states. They further stated that this bill would hurt insurers in particular, as insurance companies put significant resources into employee training, and would require employers to pursue costly litigation to protect business resources.

Reported by: Nicholas D'Angelo **Date: 3/26/2025**