

SB 1527 A STAFF MEASURE SUMMARY

House Committee On Business and Labor

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Meeting Dates: 2/19, 2/24

WHAT THE MEASURE DOES:

Establishes that noncompetition agreement is void and unenforceable unless agreement meets specified criteria. Replaces references to median family income for a four-person family as determined by the U.S. Census Bureau for the most recent year available with current wage of \$97,311 and specifies that wage is adjusted annually for inflation. Reduces maximum term of noncompetition agreement from 18 to 12 months. Defines noncompetition agreement as a written agreement, rather than written, oral, express, or implied. Applies to agreements entered into on or after effective date of measure.

REVENUE: No revenue impact

FISCAL: Minimal fiscal impact

Senate vote: 29-0

ISSUES DISCUSSED:

- Impact of noncompetition agreement on wages and job mobility
- Growth in percentage of employees subject to noncompetition agreement
- Expense for employee to hire legal representation to void an agreement
- Distinction between nonsolicitation and noncompetition agreements
- Whether legislation in 2007 intended to require employee to take affirmative step to void agreement when employee does not meet criteria for being subject to noncompetition agreement

EFFECT OF AMENDMENT:

No amendment.

BACKGROUND:

A noncompetition agreement is a clause in an employment contract in which one party (usually the employee) agrees not to enter into a similar profession or trade against another party (usually the employer). Oregon statute allows noncompetition agreements to be voided and prohibits courts from enforcement if certain conditions are not met. Section 21, Article I of the Constitution of the State of Oregon prohibits a law from impairing the obligation of contracts, meaning the applicable conditions vary depending on the date on which the noncompetition agreement was executed.

Noncompetition agreements entered into on or after January 1, 2008, may be voided and are unenforceable unless: 1) the employer informs the employee in a written offer at least two weeks before starting that a noncompetition agreement is required as a condition of employment or the agreement is entered into when the employee receives a promotion; 2) the employee is salaried and engaged in administrative, executive, or professional work that meets specified criteria; 3) the employer has a protectable interest, meaning the employee has access to trade secrets, competitively sensitive information, or is on-air talent for an employer in the business of broadcasting; and 4) the employee's median gross salary and commissions at the time of termination exceeds the median family income for a four-person family as estimated by the U.S. Census Bureau. Noncompetition agreements entered into after January 1, 2016, may not exceed 18 months from the date of the employee's termination. In a 2015 decision, the Oregon Court of Appeals found that nonconforming noncompetition

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agreements are voidable, but presumed valid until voided by one of the parties.

Senate Bill 1527-A establishes that a nonconforming noncompetition agreement between an employer and employee is void and unenforceable, rather than voidable. The measure replaces references to the median family income for a four-person family as determined by the U.S. Census Bureau for the most recent year available with the current income, \$97,311, and specifies that the income is adjusted annually for inflation. The measure reduces the maximum term of noncompetition agreements from 18 months from the date of the employee's termination to 12 months. The measure also limits the definition of noncompetition agreements to written agreements, rather than written, oral, express, or implied. These changes apply only to noncompetition agreements entered into on or after the effective date of the measure.