

Date of Hearing: April 25, 2017

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sharon Quirk-Silva, Chair

AB 916 (Quirk-Silva) – As Introduced February 16, 2017

SUBJECT: Workforce development: local workforce development board

SUMMARY: Expands the areas in which the local workforce boards are required to serve as a regional and local leader of innovative policies and best practices to include:

- 1) The training needs of employers who have different size businesses and who are organized under different legal structures.
- 2) Identifying and promoting strategies that support training needs of emerging and dominant business types, including worker cooperatives, social enterprises, and sole proprietorships.

EXISTING LAW:

- 1) Encourages state and local workforce development boards to collaborate with other public and private institutions to better align resources across workforce, training, education, and social service delivery systems and build a well-articulated workforce investment system. In undertaking this work, state and local boards are authorized to support workforce investment programs and services that consider the needs of employers and businesses of all sizes, including large, medium, small, and microenterprises, when setting priorities, investing resources, and adopting practices.
- 2) Requires the California Workforce Development Board (CWDB) to assist the Governor in promoting the development of a well-educated and highly skilled 21st century workforce, which includes recommending adult and dislocated worker training policies and investments that offer a variety of career opportunities while upgrading the skills of California's workforce. These may include training policies and investments pertaining to:
 - a) Occupational skills training, including training for nontraditional employment;
 - b) On-the-job training;
 - c) Programs that combine workplace training with related instruction, which may include cooperative education programs;
 - d) Training programs operated by the private sector;
 - e) Skills upgrading and retraining;
 - f) Entrepreneurial training;
 - g) Incumbent worker training, as specified;
 - h) Transitional jobs, as defined;
 - i) Job readiness training provided in combination with other specified services described in (a) through (h) above;
 - j) Adult education and literacy activities provided in combination with services described in any of subparagraphs (a) to (g), inclusive; and

- k) Customized training conducted with a commitment by an employer or group of employers to employ an individual upon successful completion of the training.
- 2) Requires local workforce development boards to lead efforts to engage with a diverse range of employers and with entities in the region involved to do the following:
- a) Promote business representation, particularly representatives with optimal policymaking or hiring authority from employers whose employment opportunities reflect existing and emerging employment opportunities in the region, on the local board.
 - b) Develop effective linkages, including the use of intermediaries, with employers in the region to support employer utilization of the local workforce development system and to support local workforce investment activities.
 - c) Ensure that workforce investment activities meet the needs of employers and support economic growth in the region, by enhancing communication, coordination, and collaboration among employers, economic development entities, and service providers.
 - d) Develop and implement proven or promising strategies for meeting the employment and skill needs of workers and employers, like the establishment of industry and sector partnerships, that provide the skilled workforce needed by employers in the region, and that expand employment and career advancement opportunities for workforce development system participants in in-demand industry sectors or occupations.
 - e) With representatives of secondary and postsecondary education programs, lead efforts in the local area to develop and implement career pathways within the local area by aligning the employment, training, education, and supportive services that are needed by adults and youth, particularly individuals with barriers to employment.
- 3) Requires the local workforce development board to lead efforts in the local area to accomplish both of the following:
- a) Identify and promote proven and promising strategies and initiatives for meeting the needs of employers, and workers and jobseekers, including individuals with barriers to employment, in the local workforce development system, as specified.
 - b) Identify and disseminate information on proven and promising practices carried out in other local areas for meeting these needs.

FISCAL EFFECT: Unknown

POLICY FRAMEWORK:

Demographic and economic shifts are giving rise to new forms of business development and new types of working relationships between owners, employees, contractors, and other businesses. These changes require a reassessment of what it means to prepare a workforce. As a national leader in innovation, including high tech businesses and social enterprises, California has a natural advantage in finding a successful path forward.

AB 916 calls on local workforce development boards to engage within their regions on the important workforce development question of the evolving nature of work and what that means for training models and skill attainment. The analysis includes information on the continued growth of the economy and how

it impacts employment and entrepreneurship, including sole proprietorships, social entrepreneurship, workers' cooperatives, benefit corporations, and other new forms of business. The analysis also discusses WIOA and its 10-year workforce goals. Comment 8 includes information regarding amendments.

COMMENTS:

- 1) **The California Economy in the Future:** As California continues to transition from the recession, businesses and workers face an economy comprised of highly integrated industry sectors that are also more geographically dispersed. Advances in technology and processes are occurring more rapidly, resulting in competitiveness being increasingly defined in terms of speed, flexibility, specialization, and innovation.

Economists have identified nine key trends (*see chart below*) that are anticipated to significantly influence the U.S. and California economies. Collectively, these trends place new and demanding challenges on California's training and workforce system.

Chart 1 - Key Economic Trends Affecting the California Economy	
1	Cities and regions will become increasingly dominant economic players.
2	Global networks will be supported through more advanced information and transportation technologies.
3	Barriers to trade will continue to decline among both developed and emerging economies.
4	The world's largest companies will increasingly be headquartered in emerging foreign markets.
5	Global and more diversified markets provide new opportunities for entrepreneurs and smaller size businesses.
6	Scarcity and rising prices will increase pressure on the development and deployment of cleaner technologies.
7	Deepening income inequality will result in costly outcomes, most adversely affecting women, minorities, immigrants, the disabled, and the formerly incarcerated, and thus require the diversion of public resources to address unemployment, poverty, and social unrest.
8	The retirement of Boomers will place an even greater need for middle- and high-skilled workers.
9	The U.S workforce is becoming smaller, more ethnically diversified, and attending public education systems that are lower than many other developed economies.
Compiled by: Assembly Committee on Jobs, Economic Development, and the Economy	

Advances in information technology, advanced manufacturing, expanded logistical networks, and the need to have more environmentally sustainable products are just a few of the new workplace realities. The nature of work is also substantially changing such that new skill sets, including the ability to continually upgrade ones' skill set, are necessary to be successful. Even entry-level workers will be expected to have soft-skills, such as the ability to work in teams, actively listen, communicate effectively with co-workers and bosses, and be able to negotiate workplace needs in a positive manner. Unlike hard skills, which are about a person's ability to perform a certain task or activity, soft skills provide foundational tools that allow workers to learn and advance in the state's continually evolving workplace environment. The lack of soft-skills is one of the most common challenges employers mention when talking about hiring employees who are new to the workforce.

The modern economy has also given rise to a growing need for smaller businesses because of their ability to provide innovative technologies and help other businesses access global markets. As discussed in a later comment, small businesses have become an important workplace entry point for individuals of color, including millennials. While vital economic players, small businesses and entrepreneurs also face unique challenges in competing in an increasingly global and interconnected

marketplace. Programs and regulations which may have been designed to serve large companies will need to be retooled to better serve the nearly 90% of businesses that have less than 20 employees. These small and adaptable businesses will have an inherent advantage in the post-recession economy, provided they are able to obtain the skillsets necessary to run a successful business and have access to appropriately trained workers.

Changes in the workplace are also impacted by the competitiveness of the regional economies in which they and their customers are located. The economic foundation of many of California's strong regional economies are innovation-based industry clusters which have the ability to support high-paying jobs, lucrative career ladders, and longer term job stability. Research shows that there are specific characteristics that support the rise and success of these industry clusters, including proximity to high quality universities, research labs, businesses within the same industry, and attracting a critical mass of skilled workers are all important components.

All these changes are occurring at the same time that California and the U.S. confront the social, cultural, and economic impacts of demographic change. The U.S. Census Bureau projects that by 2043 a majority of the U.S. population will be comprised of people of color. In 2014, people of color were already the majority in California, Hawaii, New Mexico, and Texas, with another nine states close to 50%. The growing diversity within the workforce also represents a significant generational shift of the predominantly white baby boomers rapidly aging-out of workplace.

- 2) **Millennials – Driving further changes in the Workplace:** In 2014, Millennials surpassed Gen Xers (age 35 to 50 in 2015) as representing the largest component of the U.S. labor force. This shift is particularly significant, as the Gen Xers only overtook the Baby Boomers as the largest cohort in the labor force in 2012. Prior to 2012, baby boomers presented the largest group.

Related to these generational shifts is the rise of diversity in the workplace. Pew Research Institute estimates that there are 76 million Millennials in the US, using the definition of individuals born between 1981 and 1998. Approximately 44% of Millennials are of a race or ethnic group other than non-Hispanic whites and 20% of Millennials have at least one immigrant parent.

Millennials also have a closer relationship and understanding of electronics and information technologies, having grown up in an online and socially networked environment. Pew Research estimates that Millennials have the highest average number of Facebook friends, with the average of 250 friends vs. Generation X of 200.

Contrary to public perception, research by Pew found that millennials are just as likely to stick with their employers as their older counterparts during the same age period. Among the college educated, Millennials have a longer track record with their employers. As a group, Millennials in the US also have a higher level of education than the prior generation with 38% of Millennial men and 46% of Millennial women having at least a bachelor's degree.

Millennials are very interested in new forms of entrepreneurship, which often include social components. According to on study, 94% of Millennials are interested in putting their skills to work to benefit a cause and more than 50% wanted their employer to have more programs engineered for giving back.

Another report stated that 88% of college students believe that entrepreneurship education is vital and 54% of the Millennials planned to start their own business in 2016. Millennials, however, face many

challenges to reaching their employment and entrepreneurship goals. College debt appears to be a leading impediment for would-be entrepreneurs, as is the lack of entrepreneurship resources addressing the unique needs Millennials. One study reported that 74% of college students having no access to entrepreneurship resources on campus. Of those Millennials who did start their own business, 23% say they started a business as a result of employment.

- 3) **The Role of Small Businesses within the California Economy:** California's dominance in many economic areas is based, in part, on the significant role small businesses play in the state's \$2.4 trillion economy. Two separate studies, one by the U.S. Census Bureau and another by the Kaufman Foundation, found that net job growth was strongest among businesses with less than 20 employees. Among other advantages, small businesses are crucial in the state's international competitiveness and are an important means for dispersing the positive economic impacts of trade within the California economy.

Sole proprietorships comprise the single largest component of businesses in California, 3.1 million out of an estimated 4 million firms in 2014, representing over \$162 billion in revenues with the highest number of businesses (over 539,000) in the professional, scientific, and technical services industry sector.

Excluding sole proprietorships, businesses with less than 20 employees comprise over 87% of all businesses and employ approximately 18% of all workers. Businesses with less than 100 employees represent 97% of all businesses and employ 31% of the workforce. These non-employer and small employer firms create jobs, generate taxes, support important industry sectors, and revitalize communities. Since the recession, these businesses have become increasingly important because of their ability to be more flexible and adaptive to both foreign and domestic market needs.

- 4) **The 2012 Survey of Business Owners:** In August 2015, the U.S. Department of Census published initial data from the 2012 Survey of Business Owners. The last survey was made in 2007. While the data significantly trails real-time, it is the most comprehensive source for tracking trends in entrepreneurship, including ownership by women and individuals of color.

Chart 2, shows selected data from the 2012 Survey of Small Business Owners. Among other findings, the data shows a 27.5% increase in women-owned businesses between 2007 and 2012, as compared to a 7.9% increase in businesses owned by men and a -45.8% decrease in firms owned equally by men and women. Women-owned businesses also experienced the greatest increase in the number of people they employed and wages paid.

Chart 2 - Gender Differences in U.S. Businesses			
	Percent Change 2007 to 2012 Women-Owned Firms	Percent of Change 2007 to 2012 Man and Women-Owned Firms	Percent Change 2007 to 2012 Men-Owned Firms
U.S. Firms	27.5%	-45.8%	7.9%
Receipts from all firms (employer and nonemployer)	35.1%	6.7%	33.8%
Employer Firms	15.7%	-25.8%	5.3%
Receipts from Employer Firms	35.4%	13.2%	34.9%
Employment	19.4%	-11.9%	11.5%
Payroll	35.3%	-0.9%	25.8%

Source: National Women's Business Council

States with the highest percentage of women-owned firms included District of Columbia, Georgia, Maryland, New Mexico, and Florida. Delaware, Alaska, North Dakota, Maine, and New Jersey were the states where women-owned firms collected the highest amount of receipts.

Women entrepreneurs, according to the Ewing Marion Kauffman Foundation, have unique skill sets, which both set them apart from other business owners and make them successful entrepreneurs. Among other things, the Kauffman Foundation states that women entrepreneurs have a more nuanced understanding of businesses risk/reward profile. Women are more comfortable with financial risks, but more sensitive about risks that may seem foolhardy. The Kauffman Foundation also believes that there is a correlation between a rise in women entrepreneurs and increased business returns and payout ratios.

In California, business ownership by women was up 13.7%, which was the highest among states with the largest number of women-owned businesses. In Texas, women-owned businesses were up 8.7%; Florida, 8.18%; New York, 7.3%; and Illinois, 4.23%. California also had the highest number of Hispanic and Asian American women-owned firms. For businesses owned by Black women, Georgia had the largest number of firms, California had the fifth largest number.

Business Ownership	Percent Change 2007 to 2012 Number of all Firms
Asian American Women	44.3%
Asian American Men	25.7%
Black Women	67.5%
Black Men	18.8%
Hispanic Women	87.3%
Hispanic Men	39.3%
White Women	10.1%
Veteran Women	29.6%
Veteran Men	7.7%

Source: 2012 Survey of Business Owners

Chart 3 shows additional information from the 2012 Survey of Business Owners relative to race and ethnicity. The largest percentage changes in business ownership were by Hispanic women, where the number of firms grew by 87.3% between 2007 and from 2012. As a comparison, male Hispanic-owned firms grew by 39.3%.

- 5) **Workforce Innovation Opportunity Act and California Workforce Board:** Enacted in 2014, WIOA provides states with federal funding for job training and employment investment activities and programs, including work incentive and employment training outreach programs. Distribution of the funds is based on a set formula which includes specified economic and demographic data and flows to the state through three primary programs: Adult, Youth, and Dislocated Worker.

California's workforce development funding from the U.S. Department of Labor has declined over the years from a high of \$630 million in 2000-01 to \$411 million in 2012-13. Federal law dictates that 85% of Adult and Youth formula funds, and 60% of Dislocated Worker formula funds, are distributed to local workforce development boards. Funding for the state's discretionary activities is derived from the 15% discretionary funds.

California received approximately \$421.6 million for program year 2016-17, with \$358.4 million being allocated to local workforce development boards to provide services for adults, laid-off workers, and youth, and \$63.2 million remaining at the state-level for program oversight and discretionary programs.

California's WIOA dollars are overseen by the 49-member CWDB, of which 51% of the members represent the private sector, as required by federal law. The CWDB has 22.9 authorized positions and

is currently led by Executive Director Tim Rainey. In 2008, a Green Collar Jobs Council was established to address the workforce development needs of the emerging clean and green economy.

Among its primary duties, the CWD provides guidance to local workforce boards and is responsible for the development of a unified, strategic plan to coordinate various education, training, and employment programs that result in an integrated workforce development system that supports economic development. The plan is required to be updated at least every 2 years in order to address the state's changing economic, demographic, and workplace needs.

The CWD submitted its first plan under WIOA to the U.S. Labor Department in 2016, which set three policy objectives: Fostering "demand-driven skills attainment"; enabling upward mobility for all Californians; and aligning, coordinating, and integrating programs and services. These objectives support the accomplishment of the state goals (2017 to 2027) of producing a million "middle-skill" industry-valued and recognized postsecondary credentials, while also doubling the number of people enrolled in apprenticeship programs.

There are 49 local workforce development boards that plan for and oversee the workforce system at the local and regional levels. Local workforce boards are comprised of a range of workforce stakeholders, a majority of which are required to be representatives from business. Each local workforce development board has one or more One-Stop Career Centers, called American Job Centers under WIOA, which provide access to career information, counseling, and funding for education, training, and supportive services.

On March 15, 2017, the local workforce boards submitted regional plans that brought together local and regional level data on the workforce needs, skills gaps, and initiatives that are designed to address those needs, including benchmarks. A priority for the state, regional, and local plans is serving individuals who face employment barriers. In the following years, state funding through WIOA will be modified by the U.S. Department of Labor, based on the ability of the state to meet these goals.

- 6) **The Rise of New Forms of Business:** Driven by economic and social conditions and priorities, the 21st Century has seen plethora of new and innovative business models. While some of the business models are not entirely new, like cooperatives, the ways in which the model is being applied has evolved to reflect current market realities and owner/worker interests. Entrepreneurship has been embraced by nonprofits, craftspeople, and social enterprises. Another key difference in today's emerging economy from the later part of the 20th Century is scale. The US is seeing a significant rise in the use of innovative entrepreneur-based models and some cities and regions are leveraging these new forms of business within their core economic strategies.

In 2014, the New York City (NYC) Council earmarked \$1.2 million for Worker Cooperative Business Development Initiative. *A worker-owned cooperative is where member-owners invest in and own the business together, share the enterprise's profits, and generally operating through a democratic process, with each member having one vote. According to one study, there are over 300 worker-owned cooperatives in the U.S. operating in a diverse range of industries.* The goal, according to the director of the NYC Network of Worker Cooperatives, was to create an economy that uses entrepreneurship to protect and preserve local jobs, provide flexible working hours, and pay higher wages. The NYC Council added another \$2.1 million in 2016 and another \$2.2 million 2017. According to the 2016 annual report, the initiative helped to launch 27 worker cooperatives, supported another 49 worker cooperatives with business assistance (totally 280 worker-owners), and engaged

with 2,164 entrepreneurs who were interested in about converting their business into a worker cooperative.

One report suggests that worker cooperatives are and will continue to be especially effective among immigrant communities and women of color. This finding is consistent with the 2012 US Census Survey of Business Owners and the reported rise of women entrepreneurs, especially women of color. Not all worker cooperatives are small. The largest Worker Cooperative in the US is Cooperative Home Care Associates, which has over 2,000 worker-owners.

Worker-cooperatives are also being used to address the retirement needs of older small business owners, and as a strategy to strengthen smaller business who have to compete with national chains. As a group of owners, they are sometimes intrinsically better able to adapt and respond to changing market conditions.

Other cities also have worker cooperative initiatives, including Cleveland, which was launched Evergreen Cooperatives in 2008, focused on creating living wage jobs in low-income neighborhoods. Evergreen supports green businesses, including a laundry facility which operates out of a LEED Gold Certified facility. Other worker cooperatives have been developed in Baltimore, Oakland, and Detroit. Most recently, Austin passed a cooperative business ordinance, which will, according to reports, play a key role in the City's economic development strategy, especially in lower income areas including food deserts.

Worker cooperatives aren't the only new form of business California is encountering. The state has established a new legal structure, a Social Benefit Corporation, which is intended to give companies greater flexibility to combine profitability with broader social or environmental purposes. The state has also approved grant funding that will be exclusively used for competitive awards for social enterprises using social innovation financing models to address homelessness and workforce training for the formerly incarcerated. While not initially successful, the Legislature approved legislation to expand the small business procurement incentive to employment social enterprises who would use the state contract as an opportunity to hire and train individuals who face barriers to employment.

- 7) **Background on Social Enterprises:** The social enterprise model combines entrepreneurial activity with a social purpose. Because they prioritize social impact over the need to maximize profit for owners or shareholders, a growing number of public entities are looking into how the model could be used in their community to tackle what had previously been considered intractable problems.

To date, much of the work has been at the pilot level, but outcomes seem to be promising. One study by Mathematica, a U.S. based research firm, looked at the outcomes from seven social enterprise programs assisting 282 workers. As part of the same study, Mathematica also undertook a comparative analysis of workforce outcomes for 154 social enterprise workers and 37 eligible workers who were not hired at a social enterprise. According to the report, the results suggest that “social enterprises may help workers gain employment and move toward economic self-sufficiency and life stability; however, the impact-study results are inconclusive, in part because of the small samples.”

Another recent study by Social Ventures in Australia, found that social enterprises have demonstrated that they can create jobs for people excluded from the mainstream workforce, particularly the long-term unemployed, and showed that this equity outcome is also efficient, as government investment in the creation of businesses is returned via taxation revenue, and savings in social security expenditure.

These findings are similar to the Mathematica study, which also found that the percentage of total income from government transfers decreased from 71 to 24% and that total monthly income for the workers increased by 91%.

The European Union regularly measures the economic impact of this evolving area of businesses development and reports that the "social economy" employs over 11 million people in the EU, accounting for 6% of total employment.

- 8) **Amendments:** Staff understands the author will be requesting that the Committee adopted the following amendments.
- a) Add sole proprietorship to the list of workforce investment programs and services the state and local workforce board may consider when determining the needs of employers and businesses of all sizes. The list currently includes large, medium, small and microenterprises.
 - b) Deletes sole proprietorship provisions in two different sections, which were added by the bill.
 - c) Replace the language related to training needs of emerging business types by inserting the following: *"Identify and promote sector strategies, career pathways, and earn-and-learn training models, that support new ways of working, including, but not limited to, programs and investments that meet the needs of social benefit corporations, worker cooperatives, and social enterprises."*
- 9) **Related Legislation:** Below is a list of related bills.
- a) ***AB 285 (Brown) Scope of Practice for the California Workforce Investment Board:*** This bill would have required the California Workforce Investment Board to make recommendations and provide technical assistance on entrepreneurial training opportunities that could be made available through local workforce investment boards. The bill would have also deleted certain required duties of the California Workforce Investment Board and made changes to the definition of microenterprise. Status: Vetoed by the Governor, 2013. Small businesses and entrepreneurial training was included in later legislation.
 - b) ***AB 1270 (E. Garcia) California Workforce Innovation and Opportunity Act:*** This bill aligns California statute with the new requirements of the federal Workforce Innovation and Opportunity Act of 2014. The bill sets the foundation for policy changes in 2016 through SB 45 (Mendoza). Status: Signed by the Governor, Chapter 94, Statutes of 2015.
 - c) ***AB 1837 (Atkins) Social Innovation Financing to Address Recidivism:*** This bill establishes the Social Innovation Financing Program, administered by the Board of State and Community Corrections, which provided grants to three counties for the purpose of utilizing pay-for-success contracts to reduce recidivism. Status: Signed by the Governor, Chapter 802, Statutes of 2014.
 - d) ***SB 9 (Price) Office of Social Innovation and Entrepreneurship Development:*** This bill would have established the Office of Social Innovation and Entrepreneurship Development within the Office of the Governor to establish partnerships with government agencies, private investors, nonprofit organizations, and for-profit service providers to facilitate the use of social impact bonds, as defined, to address social service needs. Status: Died in Senate Committee on Governance and Finance, 2013.
 - e) ***SB 593 (Lieu) Social Impact Partnerships Pilot Program:*** This bill would have established the Social Impact Partnership pilot program and authorizes the Governor to solicit applications for the

establishment of new social impact partnerships with private entities in order to address significant social issues including, but not limited to, child abuse, job preparedness for youth, and high recidivism rates among the state's prison population. These partnerships are to be formalized through a pay-for-success contract, which sets the evaluation metrics, quality standards, and timelines. If the conditions of the pay-for-success contract are not met, the state pays nothing. Status: Vetoed by the Governor, 2014.

- f) ***SB 1219 (Hancock) State Procurement and Employment Social Enterprises***: This bill establishes a new procurement preference for employment social enterprises under the Small Business Procurement and Contract Act, as specified. Status: Vetoed by the Governor, 2016.
- g) ***SB 201 (DeSaulnier) Corporate Flexibility Act of 2011***: This bill establishes a new corporate form intended to give companies in California greater flexibility to combine profitability with broader social or environmental purposes. In 2014, DeSaulnier authored legislation to rename this act the Social Purpose Corporations Act (Chapter 694, Statutes of 2014). Status: Signed by the Governor, Chapter 740, Statutes of 2011.

REGISTERED SUPPORT / OPPOSITION:

Support

None on File

Opposition

None on File

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