

Date of Hearing: August 18, 2016

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Eduardo Garcia, Chair

AJR 46 (Bonta) – As Introduced June 23, 2016

SUBJECT: Unemployment: Workforce Innovation and Opportunities Act

SUMMARY: Memorializes the California Legislature's appeal to the U.S. Congress to include unemployment rates by race and ethnicity within the criteria used to make funding allotments under the federal Workforce Innovation Opportunity Act (WIOA). Specifically, **this bill:**

- 1) Makes legislative findings, including, but not limited to:
 - a) California's economy has significantly improved since the Great Recession, with unemployment rates down to 5.4% in March 2016 and that California has added 2.1 million jobs since the recovery began in February 2010;
 - b) The Pew Charitable Trusts ranked California among the bottom 10 states in bringing people 25 through 54 years of age back to employment. In 2014, 73.6% of California's prime working population had jobs compared with 77.9% in 2007;
 - c) California has had an uneven economic recovery, with the coastal regions rebounding with more economic vigor relative to inland areas of the state. At the city level, however, employment disparities continue to persist even in areas that report overall high rates of economic and job growth;
 - d) Data shows that as a region, the San Francisco bay area is closest to closing the employment gap since 2007. County averages, however, continue to hide persistent unemployment among certain populations. In Alameda County, where March 2016 unemployment dropped to 4.3%, African-American and Latino unemployment in the City of Oakland is still high at 18% and 16%, respectively;
 - e) The Legislature recommends that the U.S. Congress implement a racial equity lens when structuring WIOA investment proposal requirements to ensure that unemployment rates are analyzed from multiple perspectives and not only average unemployment rates at the aggregate population level; and
 - f) For every \$1.00 of wealth a median Caucasian household has, a median Asian household has about 81¢, a median Hispanic family has 7¢, and a median African-American family has 6¢. The disparity in employment exists not just by region in California, but also by race.
- 2) Petitions the U.S. Congress to include unemployment rates by race and ethnicity within the WIOA scoring criteria.
- 3) Provides that copies of the resolution be transmitted to U.S. President and U.S. Vice President, Speaker of the House of Representatives, to the Majority Leader of the U.S. Senate, and to each U.S. Senator and U.S. Representative from California, as specified.

EXISTING STATE LAW establishes the Labor and Workforce Development Agency (Agency) for the purpose of addressing issues relating to California workers and their employers. The Agency is responsible for labor law enforcement, workforce development, and benefit payment and adjudication. The Agency works to combat the underground economy and help legitimate businesses and workers in California through a combination of enforcement and education activities. Departments and other state entities under the Agency include:

- 1) Agricultural Labor Relations Board;
- 2) The California Workforce Board, who is charged with overseeing the state's WIOA-related activities;
- 3) The Employment Development Department, including the Employment and Employment-related Services Program and the National Dislocated Workers Grant Program;
- 4) Employment Training Panel;
- 5) The Department of Industrial Relations, including the Division of Apprenticeship Standards; and
- 6) Public Employment Relations Board.

FEDERAL EXISTING LAW

- 1) Authorizes WIOA for the purpose of:
 - a) Increasing access to and opportunities for the employment, education, training, and support services needed to succeed in the labor market, particularly for those individuals with barriers to employment.
 - b) Supporting the alignment of workforce investment, education, and economic development systems in support of a comprehensive, accessible, and high-quality workforce development system in the US.
 - c) Improving the quality and labor market relevance of workforce investment, education, and economic development efforts to provide America's workers with the skills and credentials necessary to secure and advance in employment with family-sustaining wages, and to provide America's employers with the skilled workers the employers needed to succeed in a global economy.
 - d) Promoting improvement in the structure of and delivery of services through the US workforce development system to better address the employment and skill needs of workers, jobseekers, and employers.
 - e) Increasing the prosperity of workers and employers in the US, the economic growth of communities, regions, and States, and the global competitiveness of the United States.
 - f) Providing workforce investment activities, through statewide and local workforce development systems, that increase the employment, retention, and earnings of participants, and increase attainment of recognized postsecondary credentials by participants, and as a result, improve the quality of the workforce, reduce welfare dependency, increase economic self-sufficiency, meet the skill requirements of employers, and enhance the productivity and competitiveness of the Nation.

- 2) Sets a three part formula for making general state allotments of WIOA funds for youth, adult, and dislocated workers, as follows:
 - a) $33\frac{1}{3}\%$ of each state's allotment is based on the relative number of unemployed individuals in areas of substantial unemployment in the state, as compared to the total number of unemployed individuals in areas of substantial unemployment in all states;
 - b) $33\frac{1}{3}\%$ of each state's allotment is based on the relative excess number of unemployed individuals in the state, as compared to the total number of excess unemployed individuals in all states;
 - c) $33\frac{1}{3}\%$ of each state's allotment is based on the relative number of disadvantaged individuals in each state, as compared to the total number of disadvantage youth/adults in all states. Disadvantaged individuals are separately calculated for youth and adult for their allotments.
- 3) Defines "area of substantial unemployment" as an area of sufficient size and scope to sustain a program of workforce investment activities, as specified, that has an average unemployment rate in the most recent 12 months of at or above 6.5%.
- 4) Defines "disadvantaged youth" and "disadvantaged adult" as individuals within the youth or adult age group with a household income at or below the poverty line or 70% of lower living standard income, as specified.
- 5) Defines "excess number" to mean the number of individuals that represent the number of unemployed individuals that are in excess of a 4.5% unemployed civilian workforce in the whole state or in areas of substantial unemployment, whichever is higher.

FISCAL EFFECT: Unknown. The purpose of this resolution is to increase funding to California's most economically distressed communities.

COMMENTS:

- 1) **Overview of State WIOA:** WIOA provides states with federal funding for job training and employment investment activities, including work incentive and employment training outreach programs. There are three primary programs and funding streams, including Adult, Youth, and Dislocated Worker. Distribution of the funds is based on a set formula which includes specified economic and demographic data.

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 \$397 million in 2016-17. 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 activities is derived from the 15% discretionary funds.

California received approximately \$401 million for program year 2015-16, with \$321.5 million being allocated to local workforce development boards to provide services for adults, laid-off workers, and youth, and \$80.5 million remaining at the state-level for program oversight and discretionary programs.

California's federal workforce dollars are overseen by the 51-member California Workforce Development Board, of which 51% of the members represent the private sector, as required by federal

law. Board activities are supported through a staff of 18 authorized positions and is currently led by Executive Director Tim Rainey.

There are 48 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 businesses. Each local workforce development board has one or more One-Stop Centers, now referred to as America's Career Centers, which provide access to career information, counseling, and funding for education, training, and supportive services.

- 2) **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. This is resulting in competitiveness being increasingly defined in terms of speed, flexibility, specialization, and innovation.

Economists have identified nine key trends (see chart) that will most influence the U.S. and California economies. Several of these trends place new and demanding challenges on California's training and workforce system.

Key Economic Trends Affecting the California Economy	
1	Cities and regions will become more 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 will 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 will be smaller, more ethnically diversified, and have educational backgrounds that are lower than many other developed economies.
Source: Researched and compiled from various sources by the Assembly Committee on Jobs, Economic Development, and the Economy	

Advances in information technology, advanced manufacturing, complex logistical networks, and the need to have more environmentally sustainable products are just a few of the new workforce realities. Even entry-level workers will be expected to have important 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 the tools necessary to learn and advance in the state's continually evolving workplace environment.

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. While vital economic players, small businesses and entrepreneurs face unique challenges in competing in an increasingly global and interconnected marketplace. Programs and services which may have been

designed to serve large companies may 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.

Another key economic trend is the rising importance of regional economies as one of the primary drivers of economic growth. The economic foundation of many 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. Economic researchers have shown that industry clusters rise in areas where local universities, research labs, and competing businesses within the same industry provide a critical mass of skilled workers. Though the economic composition of regions may differ in California, each region has strengths and weaknesses. The effective identification and cultivation of these industry strengths will factor heavily on the future economic success of California's regional economies.

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 already the majority in California, Hawaii, New Mexico, and Texas, with another nine states were 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.

Many of these new market realities are already coming to fruition and, for now, California's workforce is underprepared to meet these demands. Decades of underinvestment in public education, afterschool programs, and continuing education programs that feed into career pathways to the state's dominant and emerging industry sectors directly threaten the state's competitiveness. There are still numerous unemployed and underemployed workers in California, while simultaneously, there are businesses reporting that they are unable to find qualified workers to fill empty positions. Strong early education programs, career technology pathways, accessible higher education, and effective and timely workforce development programs are essential to equipping California workers with the skillsets that are in demand.

- 2) **Income Inequality and Disparity in Economic Opportunity:** California's overall economic growth and increase in jobs has outpaced the U.S. in general, often ranking the state within the top five states in terms of its economic condition. This success, however, has not been consistent throughout the state with many regions and certain population groups still experiencing recession-related poor economic conditions.

According to the U.S. Census Bureau, California's poverty rate is 16.4% as compared to a national rate of 15.6%. It is estimated that nearly a quarter of California children (22.7%) are living in households with annual incomes below the federal poverty line. Contributing factors to these poverty rates include stagnate wage rates, an increasing concentration of annual income among the highest income individuals, and differing job opportunities in the post-recession economy.

A review of the most recent unemployment numbers (chart below) illustrates this expanding pattern of economic disparity between regions and population groups in California.

California Unemployment June 2016 (not seasonally adjusted)						
Employment Category		Unemployment Rate		Employment Category		Unemployment Rate
California		5.7%		California		5.7%
Colusa County		13.7%		Blacks		9.8%
Imperial County		23.7%		Hispanics		7.0%
Los Angeles County		5.2%		Whites		5.5%
Orange County		4.4%		16 to 19 years olds		18.8%
Riverside County		6.7%		20 to 24 years olds		9.6%
San Bernardino County		6.4%		Blacks 20 to 24 years old		14.9%
San Mateo County		3.3%		Hispanics 20 to 24 years olds		9.8%
Tulare County		10.8%		Source: California Employment Development Department		
Ventura County		5.4%				

While the state's unemployment rate for June 2016 (not seasonally adjusted) was 5.7%, some areas of the state had lower rates, while others were considerably higher. San Mateo County recorded the lowest at 3.3% and Imperial County experienced the highest unemployment rate at 23.7%. Inland areas generally reported unemployment rates above the statewide average. As the chart above shows, Tulare County's unemployment rate was 10.8% and Riverside County was recorded as 6.7%. Coastal areas overall had lower rates than the state average, with Orange County at 4.4%, and Ventura County at 5.4%. Even densely populated and economically diverse areas like Los Angeles County reported a June 2016 unemployment rate of 5.2%.

Looking more specifically at different population groups, the chart also shows the great discrepancies between the statewide rate and key subgroups, including unemployment among Blacks and Hispanics being 9.8% and 7.0% respectively. For the youngest members of the workforce obtaining quality jobs remains a significant issue with unemployment among 16 to 24 year olds being well above the state average, ranging from 9.5% to 18.8%. In other words, one-in-five of California's next generation of workers is unemployed.

Also worth noting is that the unemployment numbers most commonly reported are based on the total number of unemployed individuals that are estimated to be actively seeking work within a specified survey period, also referred to as the U3 definition. Using a broader U.S. Department of Labor definition of unemployment (U6), includes all unemployed individuals of the labor force, in addition to marginally attached workers and involuntary part time workers; California's unemployment rate for May 2016 shifts from 5.6% to 11.9%. Given that there are over 3 million unemployed workers that not counted under the U3 definition, discouraged workers, who are eligible to work but are not working, have become an increasingly important public policy issue.

Just as the unemployment data shows the growing economic disparities by geography, race/ethnicity, and age, research also confirms that a greater percentage of total aggregate earnings are going to a smaller group of individuals. According to the World Top Income Database, pretax income among those with the highest 1% of income in California comprised 9.82% of total income in 1980 and 25.31% in 2013. These findings could signal a larger issue about limits on the state's long-term

economic growth. A growing body of economic studies show that large-scale income disparities correlate to shorter periods of economic growth, whereas societies with lower levels of income disparity have larger and longer-term periods of growth.

- 3) **Creating On-Ramps to Success:** WIOA represents the most significant shift in federal workforce policy in several decades. Among other requirements, WIOA mandates that the state develop a plan for making workforce investments, set goals, and report on their progress. Future federal funding is dependent on the state meeting certain plan-specific and national performance measures.

California's Unified Strategic Workforce Development Plan (State Plan) outlines a comprehensive four-year strategy for investing federal workforce training and employment service dollars in a manner that aligns and coordinates six core WIOA funded programs. The state goal (2017 through 2027) is to produce one million "middle-skill" industry valued and recognized postsecondary credentials. In meeting this goal, the State Plan anticipates doubling the number of people enrolled in apprenticeship programs.

Achieving these goals will be challenging due to the significant number of California workers who are not currently ready to take on middle-skill training. In 2012, there were 1.9 million unfilled middle skill jobs. This number is expected to grow as one-third of middle skill workers retire over the next ten years. This middle-skill job gap is global, making workforce a competitive advantage for states and regions that are capable of providing and maintaining this important human resource.

Some of those who are least ready to begin middle-skill training are individuals who have historically based barriers to employment, including, but are not limited to, veterans, unskilled and low-skilled workers, out-of-school youth, foster youth, long-term unemployed, individuals with developmental and other disabilities, formerly incarcerated individuals, farmworkers, and other economically disadvantaged individuals. Local workforce boards are developing strategies to address these challenges, but significant funding is needed and author is concerned that the current state allocation formula is insufficient to meet the need.

- 4) **Funding under the WIOA Formula:** Unemployment rates play a significant role in WIOA state allotments, especially in Parts One and Two. The three-part formula applies to WIOA Youth, Adult, and Dislocated Worker programs, as follows:
- *Part One:* A comparison of the relative number of unemployed individuals in areas with unemployment over 6.5% to that of all states;
 - *Part Two:* A comparison of the relative number of excess unemployed individuals (over 4.5%) in the state, as compared to the total excess unemployed in all states;
 - *Part Three:* A comparison of the number of disadvantaged individuals in the state to the total number in all states.

Funding for the three programs is substantially the same under the Workforce Investment Act, the previous workforce development law, and WIOA. Funding level do change between years based on total funding available and the underlying employment conditions within states, as compared to other states. Over the past few years, California's comparative funding allotment has been increasing, while other states like Colorado and Pennsylvania have had measurable drops. This trend continued in federal fiscal year 2016 allocations. The chart below shows a comparison of select states by funding stream.

Comparison of State WIOA Allocations 2014 through 2016						
	Percent Change in Youth Allotments 2014 to 2015	Percent Change in Youth Allotments 2015 to 2016	Percent Change in Adult Allotments 2014 to 2015	Percent Change in Adult Allotments 2015 to 2016	Percent Change in Dislocated Workers Allotments 2014 to 2015	Percent Change in Dislocated Workers Allotments 2015 to 2016
Arkansas	12.92	1.89	12.73	1.85	3.04	-3.66
California	1.33	6.69	1.25	6.60	4.25	3.40
Colorado	-4.67	-5.51	-4.85	-5.51	-13.91	-9.54
Minnesota	-8.74	-5.51	-8.75	-5.51	-11.85	-9.54
New Mexico	13.49	17.48	13.19	17.21	29.17	18.61
New York	0.22	3.60	0.16	3.56	2.49	-9.54
Pennsylvania	-7.54	-4.30	-7.91	-4.72	-13.72	-1.60
Texas	4.61	-5.51	4.51	-5.51	-4.13	-9.54

Source: U.S. Department of Labor Advisory 4/27/2015/Federal Register 04/18/2016

The funding formula also results in changes in allotments between local board allotments. The California Workforce Association evaluated the differences between the 2015 and 2016 local allotments. The chart below displays the aggregated numbers for the Youth, Adult, and Dislocated Worker funding.

Workforce Development Boards	Total Difference Between federal funding in 2015 and 2016		Workforce Development Boards	Total Difference Between federal funding in 2015 and 2016
Alameda	-1.99%		Marin	-7.05%
Anaheim City	-4.85%		Mendocino	-2.41%
Contra Costa	-4.35%		Merced	5.63%
Foothill (Pasadena)	8.64%		Monterey	4.23%
Fresno	4.96%		Mother Lode	-5.57%
Golden Sierra (Placer, El Dorado, Alpine)	-7.21%		Napa-Lake	-5.13%
Humboldt	-6.61%		NCC (4 Counties North of Sac)	1.90%
Imperial	17.59%		NoRTEC (11 Northern Counties)	-2.56%
Kern, Inyo, Mono	7.39%		NOVA (Sunnyvale)	120.53%
Kings	2.80%		Oakland City	-9.13%
Los Angeles City	0.14%		Orange	-5.70%
Los Angeles County	1.44%		Pacific Gateway (Long Beach)	2.93%
Madera	7.57%		Richmond City	-10.20%
Riverside	-3.29%		Santa Barbara	-0.73%
Sacramento	-4.44%		Santa Cruz	2.61%
San Benito	1.50%		SELACO	2.36%
San Bernardino City	-7.52%		Solano	-3.87%
San Bernardino County	-4.28%		Sonoma	-6.69%
San Diego	-6.00%		South Bay - LA	3.71%
San Francisco	-7.03%		Stanislaus	1.89%

San Joaquin	0.35%		Tulare	7.54%
San Jose - Silicon Valley	-7.34%		Ventura	-2.80%
San Luis Obispo	-6.24%		Verdugo	2.87%
San Mateo	-100.00%		Yolo	-1.85%
Santa Ana City	-9.89%			

Federal funding formulas can be challenging to adjust. The Committee and the author may wish to further clarify the purpose of the proposed change in order to ensure that California is advocating for more overall statewide funding and that this does not result in individual areas of the state receiving less funding.

- 5) **Amendments:** Staff understands the author will offer amendments to clarify that the provisions of this bill are designed to gain more money for California communities and are not intended to suggest a re-arrangement of existing funds. Staff recommends that the author clarify which of the state funding allotments are included within the recommendation and whether the recommendation applies to part one, two, or three of the funding formulas described under Federal Existing Law Number 2.
- 6) **Related Legislation:** Below is a list of the related bills.
 - a) ***AB 80 (Campos) Interagency Task Force on the Status of Boys and Men of Color:*** This bill would have established a 20-member Interagency Task Force on the Status of Boys and Men of Color. Issues to be addressed by the Task Force would include, but not be limited to, employment and wealth creation, health and safety, education, and juvenile justice. Status: Vetoes by the Governor, 2015. Governor's Veto Message: *How state policy can be tailored to promote the well-being of boys and men of color is profoundly important. These issues, however, are best addressed through concrete actions, not another non-binding commission. The Legislature and the Administration are working on the critical issues raised by this bill, such as the Local Control Funding Formula, healthcare expansion and criminal justice reform. Much more can be done, and I am committed to advancing this work.*
 - b) ***AB 288 (Holden) College and Career Pathways:*** This bill authorizes the governing board of a community college district to enter into a College and Career Access Pathways (CCAP) partnership with the governing board of a school district within its immediate service area, as specified, to offer or expand dual enrollment opportunities for students who may not already be college bound or who are underrepresented in higher education. The goal of the agreements is to develop seamless pathways for students from high school to community college for career-technical education or preparation for transfer, improve high school graduation rates, or help high school pupils achieve college and career readiness. The bill includes specific conditions which must be met prior to the adoption of such an agreement. The authority in this measure sunsets on January 1, 2022. Status: Signed by the Governor, Chapter 618, Statutes of 2015.
 - c) ***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. Status: Signed by the Governor, Chapter 94, Statutes of 2015.
 - d) ***AB 2642 (E. Garcia, C. Garcia, Eggman, Gomez) Barriers to Employment:*** This bill would have established the Breaking Barriers to Employment Initiative for the purpose of assisting individuals who have multiple barriers to employment to receive the remedial education and work readiness skills that will help them to successfully participate in training, apprenticeship, or employment

opportunities that will lead to self-sufficiency and economic stability. Status: Held in the Assembly Committee on Appropriations, 2016.

REGISTERED SUPPORT / OPPOSITION:

Support

City of Oakland

Opposition

None Received

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