

Date of Hearing: April 25, 2017

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sharon Quirk-Silva, Chair

AB 1731 (Committee on Jobs, Economic Development, and the Economy) – As Introduced March 23, 2017

SUBJECT: Apprenticeships: training funds: audits

SUMMARY: Requires the California Chancellor's Office of the Community Colleges to provide guidance to local educational agencies on the allocation and oversight of apprenticeship training funds. Specifically, **this bill:**

- 1) Makes the following findings and declarations, including, but not limited to:
 - a) The California State Auditor issued an audit of the apprenticeship program, California State Auditor Report 2016-110, which examined the programs offered through the Air Conditioning Trade Association.
 - b) Among other recommendations, the California State Auditor recommended that the Legislature amend state law to clarify that the Chancellor's Office of the California Community Colleges has the authority to provide accounting guidance and to conduct audits of the K-12 local educational agencies' oversight of apprenticeship training funds.
- 2) Requires the economic and workforce development program at the Chancellor's Office of the Community Colleges to provide guidance to local educational agencies on the allocation and oversight of apprenticeship training funds, consistent with the rules set by the California Apprenticeship Council.

EXISTING LAW:

- 1) Establishes the Division of Apprenticeship (DAS) within the Department of Industrial Relations for the purpose of enforcing apprenticeship standards for wages, hours, working conditions and the specific skills required for state certification as a journey person in an apprenticeable occupation.
- 2) Establishes the Economic and Workforce Development Program within the Chancellor's Office of the Community Colleges and assigns it the mission of:
 - a) Advancing California's economic growth and global competitiveness through education, training, and services that contribute to continuous workforce improvement;
 - b) Advancing California's economic and jobs recovery and sustain economic growth through labor market-aligned education workforce training services, and sector strategies focusing on continuous workforce improvement, technology deployment, and business development, to meet the needs of California's competitive and emerging industry sectors and industry clusters;
 - c) Using labor market information to advise the chancellor's office and regional community college bodies on the workforce needs of California's competitive and emerging industry sectors and industry clusters, as specified;
 - d) Providing technical assistance and logistical, technical, and communications infrastructure support that engenders alignment between the career technical education programs of the community

college system and the needs of California's competitive and emerging industry sectors and industry clusters;

- e) Collaborating and coordinating investment with other state, regional, or local agencies involved in education and workforce training in California, including, but not necessarily limited to, the California Workforce Investment Board, local workforce investment boards, the Employment Training Panel, the State Department of Education, and the Employment Development Department;
 - f) Identifying and leveraging community college and other financial and in-kind public and private resources to support economic and workforce development and the career technical education programs of the state's community colleges; and
 - g) Working with representatives of business, labor, and professional trade associations to explore and develop alternatives for assisting incumbent workers in the state's competitive and emerging industry sectors. A key objective is to enable incumbent workers to become more competitive in their region's labor market, increase competency, and identify career pathways to economic self-sufficiency, economic security, and lifelong access to good-paying jobs.
- 3) Requires the Economic and Workforce Development Program to:
- a) Be responsive to the needs of employers, workers, and students;
 - b) Collaborate with other public institutions, aligning resources to foster cooperation across workforce education and service delivery systems, and building well-articulated career pathways;
 - c) Make data driven and evidence based decisions;
 - d) Develop strong partnerships with the private sector, ensuring industry involvement in needs assessment, planning, and program evaluation;
 - e) Be outcome oriented and accountable, measuring results for program participants, including students, employers, and workers; and
 - f) Be accessible to employers, workers, and students who may benefit from its operation.

FISCAL EFFECT: Unknown

POLICY FRAMEWORK

Domestic and global economic conditions are undergoing significant changes since the peak of the recession. Maintaining competitiveness requires, among other things, better integrated and well-articulated career pathways between K-12, the state's higher education systems, and workforce training providers. Earn-and-learn strategies, including apprenticeships, are proven models on which the state plans to continue to commit significant workforce resources.

With this investment, however, comes responsibility to ensure that training programs are managed and overseen in a manner that ensures accountability. AB 1731 codifies recommendations from a 2016 audit of the DAS and the Chancellor's Office and their oversight of the Air Conditioning Trade Association and its Commercial Sheet Metal Apprenticeships program. The analysis includes background on the state apprenticeship programs, the state audit, and the importance of apprenticeship programs in meeting state workforce demands.

COMMENTS:

- 1) **State Apprenticeship Programs:** Primary responsibility for overseeing state apprenticeship programs is conferred on the DAS, which is a division within the Department of Industrial Relations. In general, apprenticeship programs provide instruction that combines a formal course of in-class or on-line instruction with practical “on-the-job” training.

Among other duties, the DAS enforces apprenticeship standards for wages, hours, working conditions and the specific skills required for state certification as a journey person in an apprenticeable occupation. To support workers with a range of skill sets, the Division of Apprenticeship Standards also reviews pre-apprenticeship services and programs designed to prepare individuals to enter and succeed in registered apprenticeship programs. These programs are required to have a documented partnership with at least one registered apprenticeship program sponsor in order to ensure the participant is learning skills which will help to advance known career pathways.

According to the DAS, there are more than 1,000 apprenticeable occupations in the US and over 700 apprenticeable occupations active in California. In 2015 there were 63,959 apprentices registered in over 560 programs recognized by DAS. Minorities numbered 38,160, or 59.7% of all apprentices, and women apprentices numbered 3,810, or 6.0% of all apprentices

In 2014, Governor Brown announced the development of a number of new apprenticeship program which will focus on innovation-based industries, including biotechnology and advanced manufacturing.

- 2) **State Education Funding of Apprenticeship Program:** The state budget includes instruction funding for apprenticeship programs. This is an eligible use of funds under Proposition 98. The local education agency receives apprenticeship funding from the state on a reimbursement basis for the actual hours of teaching time reported.

The Chancellor's Office is responsible for allocating and overseeing apprenticeship instruction funding for classes provided through community colleges and local education agencies, including regional occupational centers, adult schools, and secondary schools. In 2013-14, the Chancellor's Office provided more than \$78.5 million to 260+ apprenticeship programs throughout the state.

- 3) **State Audit:** In November 2016, the California State Auditor issued an audit of the DAS and the Chancellor Office's oversight of a specific commercial sheet metal apprenticeship program provided through the Air Conditioning Trade Association, California State Auditor Report 2016-110.

As noted above, funding for apprenticeship programs is provided through a variety of sources, including, as in the case of the state audit, a combination of grants from the DAS for direct work experience and the Chancellor's Office for instruction time. Prior to 2013-14, the Department of Education was responsible for overseeing apprenticeship-related instruction provided through the K-12 system, including funding for the early years of the program under audit. The chart below shows state funding allocated to the Air Conditioning Trade Association for fiscal years 2010 through 2014-15.

State Funding Allocated to the Air Conditioning Trade Association Fiscal Years 2010-11 through 2014-15							
Type of State Funding Received	Entity Providing Funding	2010-11	2011-12	2012-13	2013-14	2014-15	Five-Year Total
Grants	Department of	--	\$1,600	--	\$6,600	\$1,600	\$9,800

	Industrial Relation's Division of Apprenticeship Standards						
Reimbursements	California Community Colleges Chancellor's Office	--	--	--	\$29,600	\$33,900	\$63,500
	California Department of Education	\$23,100	\$28,200	\$26,900	--	--	\$78,200
Total State Funding		\$23,100	\$29,800	\$26,900	\$36,200	\$35,500	\$151,500

Source: California State Auditor Report 2016-110

Among other findings the audit found that the DAS oversight of the apprenticeship programs was inadequate and had:

- a) Not been regularly conducting program audits, with only two audits being completed in 2014-15;
- b) Not audited the Air Conditioning Trade Association, even though state law requires an audit of any program that has a completion rate below 50% of the state industry average; and
- c) Not used its audit authority to ensure programs were appropriately spending state funds to train apprentices.

The audit also found that outside of its audit authority, the DAS did not have authority to question or require verification of how state funds were expended.

Relative to the Chancellor's Office and Central Unified, the audit found that neither was aware that the Air Conditioning Trade Association had claimed over 10,000 hours, over a five-year period, for homework assignments at a cost of nearly \$51,000 for reimbursement.

Further, the audit determined that the Chancellor's Office, in general, does not provide guidance to K-12 local education offices relative to the need and process for verifying attendance in order to ensure program guidelines and standards are being met. According to the director of the adult school at Central Unified, his staff never requested documentation from the Air Conditioning Trade Association, such as class sign-in sheets, to verify that the reported attendance hours were only for classroom instruction. No guidance documentation was also ever provided by the Chancellor's Office to Central Unified on how to oversee the apprenticeship program.

In response to the issues identified above, the California State Auditor found a number of areas where existing law could be strengthened to ensure greater accountability for state program dollars and increase oversight practices to be consistent and more effective.

More specifically, the California State Auditor recommended that the Legislature amend state law to provide the apprenticeship division with explicit authority to verify how state funds were expended and that documentation of this should be a condition of receiving future grant funds. In addition, if an apprenticeship program is unable to demonstrate how state funds are used or if it is found to be using funds for inappropriate purposes, the apprenticeship division should have the authority to deregister that particular program. These changes have been made in AB 581 (McCarty), which passed the Assembly Labor Committee on a 5 to 1 vote on April 19, 2017.

To ensure accountability, the audit also recommended that the Legislature amend state law to clarify that the Chancellor's Office of the California Community Colleges has the authority to provide accounting guidance and to conduct audits of the K-12 local educational agencies' oversight of apprenticeship training funds.

- 4) **Structure of Apprenticeship Programs:** Apprenticeships are a core component of "earn and learn" workforce training models. State registered apprenticeships have very specific standards, which have been reviewed to ensure participants are obtaining the appropriate skills and knowledge.

Training periods vary from one to six years, depending on the trade and the number of specific processes on which the participant needs to become proficient. According to the DAS, most programs are for four years.

Wages for apprentices start as a percentage of the skilled worker's wage and then increase at regular intervals. Starting rates are usually 35% to 50% of the skilled workers wage, increasing every six months in most trades.

Apprentices receive both on-the-job training at a worksite and classroom instruction, which is most commonly conducted in public schools. Apprentices attend classes at night four hours each week, for at least 108 hours a year. The classroom instruction includes such subjects as safety laws and regulations, mathematics, drafting, blueprint reading and other sciences connected with the trade. In contrast, apprentices work daily under the supervision of skilled workers on the use the tools of the trade. According to the DAS, apprentices of most trades are not allowed to use any power-driven machinery until well advanced in their training.

This dual instruction method is designed to provide apprentices with a comprehensive understanding of the practical and theoretical aspects of their work. Upon successful completion of training, the apprentice is issued a "Certificate of Completion" by the State of California.

- 5) **Importance of Apprenticeships:** California is facing a significant workforce shortage, especially among middle-skill workers. The Employment Development Department (EDD) has forecasted that California will add 2.6 million nongovernment jobs between 2014 and 2024, which includes 100% recovery of the number of jobs lost during the recession.

By 2024, California is expected to have 19.7 million people in the workforce. Over the 2014-2024 projection period, EDD estimates that California will generate:

- 2,651,100 new jobs from industry growth;
- 3,962,200 jobs due to replacement needs.

EDD estimates that 71% of the job growth will be concentrated in one of five industry sections: educational services; health and social services; professional and business services; leisure and hospitality; and construction.

In preparing to meet this business demand, the state's Unified Strategic Workforce Development Plan (State Plan) outlines a comprehensive strategy for investing federal workforce training and employment service dollars in a manner that aligns and coordinates six core Workforce Innovation and Opportunity Act 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.

Key challenges to meeting this important goal are the significant number of 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.

Earn and learn strategies like apprenticeship programs provide unique advantages in creating career pathways for individuals who face multiple barriers to employment, including those that may have dropped out of high school and those for whom traditional college tract is not a good fit whether by choice or by circumstance.

An effectiveness assessment and cost benefit analysis noted on the DAS' website, found that apprenticeships afforded participants long-term economic success. The study, which included individuals in 10 states, found that over a career of 36 years, participants who completed a Registered Apprenticeship program had average earnings gains of nearly a quarter million dollars, increasing to \$301,533 with employer benefits added.

- 6) **Related Legislation:** Below is a list of related legislation from the current and previous sessions.
- a) ***AB 581 (McCarthy) Apprenticeship Council:*** This bill requires an apprenticeship program to be eligible to receive grant funds from the California Apprenticeship Council (council), to agree to keep adequate records that document the expenditure of those grant funds. These records are to be available to the Department of Industrial Relations so that DIR is able to verify that grants made by the council were used solely for training apprentices, and prohibits violators from being eligible to receive any future grant from the council under these provisions and authorizes DIR to initiate the process to rescind the registration of the apprenticeship program. Status: Pending in the Assembly Appropriations Committee.
 - b) ***SB 1402 (Lieu) California Workforce and Economic Development Program:*** This bill recasts and revises the California Community Colleges Economic and Workforce Development Program to more closely align with economic and workforce best practices and extends the program's sunset date from January 1, 2013 to January 1, 2018. Status: Signed by the Governor, Chapter 361, Statutes of 2012.
- 7) **Double Referral:** The Assembly Rules Committee has referred this measure the Assembly Committee on Jobs, Economic Development and the Economy and to the Assembly Committee on Higher Education (Higher Ed). Should this measure pass the committee, it will be referred to Higher Ed for further policy consideration.

REGISTERED SUPPORT / OPPOSITION:

Support - None on File

Opposition - None on File

Analysis Prepared by: Toni Symonds / J., E.D., & E. /