

Date of Hearing: April 17, 2018

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sharon Quirk-Silva, Chair

AB 2974 (Reyes) – As Amended March 19, 2018

SUBJECT: Workforce development: local workforce development board

SUMMARY: Expands the facilitation and engagement responsibilities of a local workforce development board (local board) to include supporting the efforts of employers to align with public contracting needs in a manner that will support local workforce opportunities.

EXISTING LAW:

- 1) Requires the Department of General Services (DGS) to implement a certification program for small businesses and disabled veteran business enterprises (DVBES) who are interested in state procurement opportunities.
- 2) Requires the CPUC to adopt criteria for verifying and determining the eligibility of women, minority, and LGBT business enterprises for procurement contracts, as specified.
- 3) 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.
- 4) Requires the local board to lead efforts to engage with a diverse range of employers and with these entities to accomplish all of the following:

- a) Promote business representation on the local board, particularly for representatives who have optimal policymaking or hiring authority from employers whose employment opportunities reflect existing and emerging employment opportunities in the region.
 - 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.
- 5) Requires the local 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, 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 FRAME: Government contracts represent key economic opportunities for small businesses and early stage companies. Participating in government procurement, however, is challenging. To be successful, a business must have the skills to identify appropriate bid opportunities, prepare a competitive and timely-filed bid package, evaluate and negotiate contract specifications, complete the work, and properly invoice for services rendered. This bill requires local workforce boards to help provide the rightly skilled workforce for businesses to be competitive in the public contracting arena.

The analysis includes information on the California small business economy, impact of changing demographics on the workplace, and targeted public procurement programs. Suggested amendments are included in Comment 7.

COMMENTS:

- 1) **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 \$2.6 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 fewer than 20 employees. Among other advantages, small businesses are crucial in the state's international competitiveness and are an important means for dispersing the economic benefits of trade throughout the California economy.

Sole proprietorships comprise the single largest component of businesses in California, with 4.7 million being reported in 2015. Excluding sole proprietorships, businesses with fewer than 20 employees comprise over 88% of all businesses and employ approximately 18% of all workers. Businesses with fewer than 100 employees represent 97% of all businesses and employ 32% 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 suited to niche foreign and domestic market needs.

However, their small size also results in certain market challenges, including having difficulty in meeting the procedural requirements of the state's complex regulatory structure and the traditional credit and collateral requirements of mainstream financial institutions. Specialized technical assistance, access to credit enhancements, and targeting of state procurement activities help many small businesses overcome or at least minimize these difficulties.

- 2) **Market Impacts on California's Demographic Shift:** As unprecedented numbers of baby boomers prepare to retire from the marketplace, new businesses are emerging, and older companies are restructuring and/or disbanding.

This demographic trend reflects not only a generational shift in the U.S. but also marks a shift in the race and ethnicity of the nation's working age population. In 2014, California became the ninth state in the U.S. to have Latinos be recorded as the majority population based on race and ethnicity and millennials became the largest population group in the U.S. based on age.

Companies that wish to remain competitive need to address these changing demographics, as well as increasing business ownership patterns by previously underrepresented ownership groups (chart below). These changes not only affect customer and community needs, but also quality and access to resources, workers, technology, and business-to-business relationships. For many firms this means expanding outreach to identify new business partners, offering technical assistance to new and prospective partners, and joining and participating in network activities. These activities benefit the businesses by increasing the pool of potential workers, partners, and suppliers.

In California there are a number of targeted government procurement programs, which can be used as stepping stones for economic growth and transitioning to this new, more diverse workplace. The following comments include information on state, federal, local, and CPUC small business and diverse supplier programs. The objective of these government promoted activities is to expand the available pool of potential qualified contractors, including having a skilled workforce that is able to meet the technical needs of government contracting.

- 3) **Future Employment Growth:** 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.

Comparison of Business Growth by Race, Ethnicity, and Veterans	
<i>Business Ownership</i>	<i>Percent Change 2007 to 2012 Number of all Firms</i>
American Indian and Alaska Native Women	35.7%
American Indian and Alaska Native Men	7.4%
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%
White Men	0.7%
Veteran Women	29.6%
Veteran Men	7.7%
Source: 2012 Survey of Business Owners	

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; and
- 3,962,200 jobs due to replacement needs.

EDD estimates that 71% of the job growth will be concentrated in one of five industry sectors: educational services; health and social services; professional and business services; leisure and hospitality; and construction. With net new job growth being highest among California's smallest businesses, many workers will be asked to possess multiple professional and administrative skills.

- 4) **Small Business Procurement Act:** The California Small Business Procurement Act was implemented more than 30 years ago to establish a small business preference within the state's procurement process for the purpose of increasing the number of contracts between the state and small businesses. A DBVE component was added in 1989. Today, approximately 85% of DVBEs have dual certification as a small business or microbusiness.

While statute sets an annual 3% DVBE participation goal, the 25% small business goal is provided through two executive orders: EO D-43-01 issue by Governor Gray Davis in 2001 and EO S-02-06 issue by Governor Arnold Schwarzenegger in 2006.

In order for procurement activities to count toward state supplier goals, the business must be certified through DGS. In 2015-16, the state government entered into \$5.8 billion in contracts, of which 36% were awarded to small businesses. The chart below shows small business and microbusiness aggregate procurement participation rates for fiscal years 2011-12 through 2015-16 for mandatory reporting agencies.

Small Business and Microbusiness Contracting Activity				
Mandated Reporters (dollars in millions)				
Fiscal year	Total Contract Dollars	Total Small Business and Micobusiness Contract Dollars	Total Percent	Total Number of Contracts
2015-16	\$5,855	\$2,112	36.08%	116,169
2014-15	\$8,117	\$2,079	25.61%	482,707
2013-14	\$7,101	\$2,013	28.35%	90,784
2012-13	\$7,616	\$1,801	23.66%	105,617
2011-12	\$7,399	\$1,796	24.28%	165,523
Average	\$ 7217	\$1960	% 27.66	192,160

DGS Statewide Consolidated Annual Report 2013-14 to 2015-16

The federal government and many local governments operate similar targeted procurement programs as part of their overall procurement activities. Changing demographics are opening new procurement opportunities as decades old supplier relationships are ending. Government is in need of its next generation of procurement partners and contractors.

- 5) **California Public Utilities Commission and GO 156:** Beginning in 1986, the Legislature enacted a series of statutes, and the CPUC adopted GO 156, for the purpose of encouraging greater diverse business participation in utility contracts. Currently utilities that are mandated to participate in GO 156 include electrical, gas, water, wireless telecommunications service providers, and telephone

corporations with gross annual revenues over \$25 million, including commission-regulated subsidiaries and affiliates.

Statute and GO 156 include rules and regulations for the utilities' compliance with the Supplier Diversity Contracting Program, and requires participating utilities to inform, recruit, and work toward having at least 21.5% of their procurement activities over a five-year period be with business enterprises primarily owned and operated by women-, minority-, and/or disabled veteran-owned business enterprises. More specifically, the targets are 15% for minority-owned businesses, 5% for women-owned businesses, and 1.5% for DVBEs.

The CPUC has not yet set a minimum procurement participation target for LGBT-owned business enterprises. GO 156 states that during the first five years of implementation, the utilities are excused from setting numerically-based goals and, instead, the utilities should focus their efforts on updating their supplier diversity policies, developing targeted outreach programs, and ensuring LGBT business entities are aware of available technical assistance, among other actions.

In order for the procurement activities to count toward supplier diversity goals, a woman-, minority-, or LGBT-owned business enterprise has to become certified through an entity recognized by the CPUC's Utility Diversity Supplier Program clearinghouse. These third-party certifications generally cost money. Businesses owned and operated by disabled veterans use the free DGS certification process established under the California Disabled Veteran Business Enterprise Program.

As of July 31st, 2017, the Clearinghouse database has a total of 8,270 verified diverse vendors, including:

- 2,736 women business enterprises;
- 2,514 minority business enterprises;
- 1,232, minority women-owned or woman and minority male-owned businesses;
- 1,823, DVBEs;
- 110 LGBT-business enterprises; and
- 46 Small Business Administration 8(a) certified businesses.

- 6) **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 \$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 discretionary activities is derived from the 15% discretionary funds.

California received approximately \$390 million for program year 2017-18, with \$332 million being allocated and available to local workforce boards to provide services for adults, laid-off workers, and youth, and \$58 million remaining at the state-level for program oversight and discretionary programs.

California's WIOA dollars are overseen by the 51-member CWD, of which 51% of the members represent the private sector, as required by federal law. The CWD has a staff of 29.9 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 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 Career Centers, called America's Jobs Centers under WIOA, which provide access to career information, counseling, and funding for education, training, and supportive services.

In 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.

7) **Proposed Amendments:** The Committee may wish to consider the following amendment:

Revise the current provisions to require the local workforce board to lead efforts with other local and regional entities to develop and implement proven or promising strategies to support the efforts of employers to align and participate in public contracting opportunities in a manner that will support local workforce opportunities.

8) **Related Legislation:** Below is a list of bills from the current and prior sessions.

- a) ***AB 80 (Campos) Interagency Task Force on the Status of Boys and Men:*** 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: Vetoed 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 1058 (Atkins) Second Chance Program:** This bill establishes the Second Chance Program under the administrative direction of the Department of Corrections for the purpose of investing in community-based programs, services, and initiatives for formerly incarcerated individuals in need of mental health and substance use treatment services. The grant program will be funded through the savings resulting from the implementation of Proposition 47, the Safe Neighborhoods and Schools Act of 2014, and other specified sources. The bill also extends the sunset on the Social Innovation Financing Program until 2022. Status: Signed by the Governor, Chapter 748, Statutes of 2015.
 - c) **AB 1093 (E. Garcia) Supervised Population Workforce Training Grant Program:** This bill expedites the allocation of funding under the existing Supervised Population Workforce Training Grant Program, which is administered through the California Workforce Development Board. Status: Signed by the Governor, Chapter 220, Statutes of 2015. In addition, \$1.5 million was authorized in the 2015-16 Budget for additional funding rounds.
 - d) **AB 1111 (Garcia, Arambula, Eggman, Maienschein, Quirk-Silva, Santiago, and Steinorth) Breaking Barriers to Employment Initiative:** Establishes 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: Signed by the Governor, Chapter 824, Statutes of 2017.
- 9) **Double Referral:** The Assembly Rules Committee has referred this measure to the Assembly Committee on Labor and Employment and the Assembly Committee on Jobs, Economic Development, and the Economy. This measure passed Labor on a 7 to 0 vote.

REGISTERED SUPPORT / OPPOSITION:

Support

None on File

Opposition

None on File

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