

Date of Hearing: May 12, 2020

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sabrina Cervantes, Chair

AB 3205 (Salas) – As Amended May 4, 2020

**SUBJECT:** Regions Rise Grant Program

**POLICY FRAME:** Those individuals most impacted by the coronavirus emergency are also California's most economically vulnerable. As income disparities have grown, these individuals from historically underinvested communities face even greater social-economic challenges. Research shows that the inequality between the residents in low-income communities and those that reside in California's most affluent communities has dramatically increased in the past several decades. For example, the pretax income among the highest 1% of California taxpayers increased from 9.82% in 1980 to 25.1% of total income in 2013. During the last seven years, the pace of these disparities has only increased.

AB 3205 establishes a competitive grant program to support regional collaboration among public and private sector stakeholders to address and resolve significant community development issues which currently impede inclusive economic growth and upward mobility for historically marginalized groups.

The analysis includes information on the growing income disparities among Californian regions and population groups, regional approaches to increasing economic security, and related legislation. Concerns were initially raised by some stakeholders that the bill appeared to designate official spokespeople for region by virtue of receiving a grant. As this was not the intention of the author or sponsor, amendments have been developed to clarify the role of regional collectives and better align their work with local governments. The recommended amendments are outlined in Comment 5.

**SUMMARY:** AB 3205 establishes the Regions Rise Grant Program, administered by the Governor's Office of Business and Economic Development (GO-Biz), for the purpose of supporting inclusive, cross jurisdictional, and innovative processes that lead to inclusive strategies to address barriers and challenges confronting communities in creating economic prosperity for all. Specifically, **this bill:**

- 1) Makes legislative findings and declarations:
  - a) California's regional economies compete in an increasingly connected and complex global market driven by changes in technologies, demographics, and geopolitics.
  - b) Growing inequality and the erosion of upward mobility in California call for state policy to be intensely focused on increasing economic opportunity and security for all Californians.
  - c) Public policy plays a critical role in creating the conditions that attract private capital investment, while encouraging equitable and sustainable economic growth.
  - d) Yet California lacks a process to help inform the future creation of a coherent strategy that explicitly links state and regional priorities with goals and metrics, investments, and programs. A process should integrate the values of equity, resiliency, and collaboration around issues of shared importance including transportation, housing, homelessness, workforce, sustainability, and governance.
  - e) California policy to advance triple-bottom-line goals should motivate, create capacity for, and invest in regionally driven strategies. This approach will empower and align behind regions,

leverage business and civic contributions, and ensure that funds follow strategic decisions rather than decisions being made to chase funds.

- f) Regional triple-bottom-line prosperity strategies should be predicated on partnerships among state and local governments, and among public, private, and civic organizations, through which projects can integrate legal authorities, financial resources, and organizational expertise, creating longevity and generating prosperity for all.
  - g) The philanthropy community, both in and outside of California, are seeking avenues to invest in communities across California in a strategic, yet transformative manner that includes opportunities to leverage or pool additional dollars to deepen impact.
  - h) There is a need to create a state program that provides competitive grants for multijurisdictional organizations that involve local governments, and private and civic organizations covering locally defined economic regions to adopt a comprehensive shared prosperity strategy focused on the priority challenges of the respective region.
  - i) There is a need to create pathways for private business, philanthropy, and others to financially support inclusive planning and decision-making processes reflective of a shared vision of a California for all, across the state's underserved regions for investment.
- 2) Establishes the Regions Rise Grant Program, administered by the Governor's Office of Business and Economic Development (GO-Biz), for the purpose of achieving the following:
- a) To enable local governments, community-based nonprofit organizations, businesses, and other key local stakeholders to establish regional groups tasked with identifying and developing strategies to address key regional barriers to prosperity for all.
  - b) To build the capacity at the local level for inclusive collaboration and planning with the active engagement of representatives from disenfranchised or disadvantaged communities.
  - c) To create interdisciplinary and cross-sector regional strategies for addressing key regional challenges.
  - d) To establish pathways to implement strategies developed by the regional groups established pursuant to this part.
- 3) Conditions the making of grant awards to an appropriation for this purpose.
- 4) Defines the following term:
- a) "Director" means the Director of the Governor's Office of Business and Economic Development.
  - b) "Office" means the Governor's Office of Business and Economic Development.
  - c) "Program" means the Regions Rise Grant Program created pursuant to Section 12100.71 and administered in accordance with this article.
  - d) "Region" means a collective of counties, cities, local agencies, private businesses, educational entities, and nonprofit organizations that organize themselves around a functional economy, as established by this bill.
- 5) Requires an applicant to establish a region, pursuant to requirements of the bill, before submitting an application to the program. The bill requires a region to either meet the requirements in a) OR b):
- a) The region meets both of these criterion:

- i) Consists of at least one government agency, one local business, one educational or workforce entity, and one nonprofit organization.
    - ii) The region must be comprised of a geographic area that experiences common regional issues and challenges that are larger than a single community, including, but not limited to, workforce development, educational pathways, land use, climate planning, transportation, housing, homelessness, economic mobility, equity gaps, and economic development.
  - b) The region is a geographic location delineation by a metropolitan statistical area, as established by the United States Office of Management and Budget.
- 6) Requires each region to designate a lead principal agency or organization. The principal agency or organization is required to be identified in the application and serve as GO-Biz' main program contact.
  - 7) Requires each member of the proposed region to submit a letter of support to the principal agency or organization. These letters are to be included with the grant application, as specified.
  - 8) Requires a region that receives grant funding to establish a steering committee to achieve the goals and purposes of the program. The steering committee is required to be representative of the membership of the region.
  - 9) Requires GO-Biz to develop an application for regions to apply for competitive grants that can be spent over a period of three years. GO-Biz is to give priority to regions that can demonstrate all of the following:
    - a) The partners of the region are representatives of the region's demographic make-up, key industries, city and county governments, private businesses, educational and workforce partners, and nonprofit and philanthropic organizations.
    - b) The need for cross-sectoral, multipartnership solutions to key regional challenges.
    - c) The readiness and capacity to support rural or disadvantaged areas.
    - d) The assessment of key deliverables and the potential of the initiative to make system changes that can be operationalized based on success stories and best practices.
    - e) A commitment to match nonstate funds.
    - f) Letters of support from local government agencies, nonprofit organizations, private businesses, education partners, ethnic communities, and philanthropic organizations that indicate a significant threshold of community involvement.
    - g) A commitment to collect and share data, as required by the office, that can help inform the effectiveness of the grant dollars in building strategies for regional prosperity and to hold partners accountable for progress through the use of tools, including the California Dream Index.
  - 10) Requires GO-Biz to act as an informal advisor to regions that receive funding by providing best practices and informing regional organizations of the state's initiatives in areas including workforce development, educational pathways, land use, climate planning, and the other regional issues identified by regions.

- 11) Requires an annual report detailing the regional issues analyzed, priorities identified, strategies developed to address regional issues, and plans to implement priority efforts.
- 12) Requires GO-Biz to create a process for regional priorities to be brought forward to the Governor, the Legislature, and any other relevant agency, including the Office of Planning and Research. These regional priorities are to serve as a guide for the development and recommended action of related state functional plans, strategies, and investments.

**EXISTING LAW** establishes GO-Biz within the Governor's Office for the purpose of serving as the lead state entity for economic strategy and marketing of California on issues relating to business development, private sector investment and economic growth.

**FISCAL EFFECT:** Unknown

**COMMENTS & CONTEXT:**

- 1) **Growing Income Inequality:** In the pre-coronavirus economy, California's dominance in innovation-based industries was unquestionable, however, even with 120 months of uninterrupted economic growth, the divide between the middle and lower income households and the top income earners was accelerating. The Coronavirus has only deepened California's income inequality, with the state's most vulnerable being at the greatest risk for poor health outcomes, having the least amount of savings to survive the economic impacts of the Stay-at-Home Order, and being most likely to work in low-paid and least protected essential businesses.

According to April 2020 research by the McKinsey Institute, 57 million jobs are at risk in the US due to the necessary, but extreme, steps that are taking place to stop the spread of the coronavirus. In California, McKinsey estimates that certain sectors will be more severely impacted than others. As examples of sectors with the highest vulnerability, in the accommodation and food service sector, an estimated 1.6 million jobs are at risk (95% of all jobs in the sector), and, in the arts and entertainment sector, 287,000 jobs (87% of all jobs) are at risk. The economic impacts are, however, much more widespread. The McKinsey Institute reports that 48% of jobs in the construction sector, 49% of jobs in real estate, and 37% of jobs in manufacturing are at risk, to name only a few sectors identified as having more than 30% of their jobs at risk.

In addition to losing their jobs, many of these impacted workers have little formal education beyond high school and possibly a few additional years of higher education course work and/or occupational training. In the last recession, individuals without four-year degrees faced the greatest challenges in becoming reemployed and remained unemployed for significantly longer time periods.

As of April 25, 3.4 million people had filed for unemployment in California. Current federal actions have extended unemployment insurance benefits by 13 weeks and added a supplemental \$600 per week until July 1, 2020. Unemployment benefits have also been authorized for independent contractors, the self-employed, and individuals who do not otherwise qualify for unemployment insurance due to part-time work. These are extremely important moneys to workers in highly vulnerable occupations.

A review of the March 2020 unemployment numbers illustrates this expanding pattern of economic disparity between regions and population groups in California. It is important, however, to recognize that these numbers only reflect the initial few weeks of California's response to the coronavirus

epidemic. *Chart 1* shows unemployment-related information by selected counties and population groups.

<b>Chart 1 – Selected Data on Unemployment</b>					
	<b>Unemployment Rate March 2020 (not seasonally adjusted)</b>	<b>Unemployment Rate March 2019 (not seasonally adjusted)</b>		<b>Unemployment Rate March 2020 (12-month moving average)</b>	<b>Unemployment Rate March 2019 (12-month moving average)</b>
California	5.6%	4.5%	California	4.1%	4.3 %
Colusa County	22.4%	20.0%	Blacks	5.2%	6.3 %
Imperial County	20.5%	16.4%	Hispanics	4.7%	5.2%
Los Angeles County	6.4%	4.5%	Whites	4.0%	4.2 %
Riverside County	5.3%	4.4%	16 to 19 year olds	15.1%	15.0%
Sacramento County	4.7%	4.0%	20 to 24 year olds	7.6%	7.6 %
San Bernardino County	4.9%	4.1%	25 to 34 year olds	4.1%	4.5%
San Luis Obispo County	3.8%	3.1%	**The Employment Development Department reports a March 2020 labor participation rate (LPR) of 61.8%, representing 11.8 million people in California who were not participating in the workforce.		
San Mateo County	2.8%	2.2%			
Tulare County	14.5%	11.7%			

Source: [www.edd.ca.gov](http://www.edd.ca.gov)

The data shows income disparities are increasing, which is impacting a range of economic and societal issues. California is not unique in experiencing a rise in income inequality. National data show that while the top 1% of income households were significantly impacted by the recession, by 2017, annual revenues had risen to the highest levels ever. Between 1979 and 2017, the income for the top 1% of income households cumulatively rose by 157%.

In March 2020, California's seasonally adjusted unemployment rate was 5.3%. For comparison purposes, *Chart 1* uses not seasonally adjusted for county data and a 12-month moving average for demographic data. While the state's not seasonally adjusted unemployment rate for March 2020 was 5.6%, some areas of the state had lower rates and others had considerably higher. San Mateo County recorded the lowest at 2.8%, while Colusa County experienced the highest unemployment rate at 22.4% and Imperial County the second highest at 20.5%. Under the provisions of the federal Workforce Innovation and Opportunity Act, an area of substantial unemployment is considered to be any contiguous area within a state with an unemployment rate above 6.5%. California had 28 counties which experienced unemployment rates at or above 6.5% in March 2020. There were three counties in the state, each in the Bay Area, with unemployment rates at or below 3%.

Looking more specifically at different population groups, the data also show the disparities between the statewide rate of 4.1% and the rates of key subgroups, including unemployment among Blacks and Hispanics being 5.2% and 4.7% respectively. For the youngest members of the workforce, obtaining quality jobs remains a significant issue, with unemployment among 16 to 19 year olds and 20 to 24 year olds being well above the state average, ranging from 15.1% to 7.6% respectively. According to the March 2020 figures, 11.8 million people in California are not participating in the labor force, an increase of 100,000 individuals during a 12-month period.

- 2) **Helping Communities become Investment Ready:** The geographic targeting of economic and community development programs is based on the development principle that focusing significant incentives and other resources to lower income communities allows these communities to more effectively compete for new businesses, retain existing businesses, and stop or slow the spiraling effects of poverty and unemployment. Geographically targeted approaches to economic and community development are designed to result in increased tax revenues, higher rates of private investment, less reliance on public health and social services, and lower public safety costs.

A central component of the state/region partnership model funded through the Regions Rise Grant Program is its potential to assist at-risk communities in stopping the downward spiral of poverty and (re)build communities with economic and social promise. In the last decade, there has been a renewed interest by institutional investors in identifying communities which have turned the corner and now represent unique economic opportunities. These communities are sometimes referred to by investors as emerging domestic markets (EDMs).

EDMs are people, places, or business enterprises with growth potential that face capital constraints due to systematic undervaluation as a result of imperfect market information. While not every low income neighborhood in California is ready for private sector investment, many neighborhoods can become investment ready through effective partnerships between the nonprofit, private, and public sectors.

The demographics of EDMs include minority- and women-owned firms, urban and rural communities, companies which serve low-to-moderate-income populations, and other small and medium-sized businesses. The increase in investor interest is driven, in part, by the recognition of the changing demographics in the U.S. which are resulting in a significant increase in minority purchasing power and business development by minority-owned firms.

Both the California Public Employees Retirement System (CalPERS) and the California State Teachers Retirement System adopted EDM investment goals for their entire portfolios. Under its California Initiative, which began in 2001 and focuses on historically underserved areas, CalPERS has directed and invested over \$1 billion in 569 companies primarily located in California. California has no other similar program that could possibly outpace the volume of investments large institutional investors can make. Experience is showing that adopting policies and programs that support investment by institutional investors is sound economic policy.

- 3) **Examples of Regional Approaches to Upward Mobility:** In February 2019, the Assembly Committee on Jobs, Economic Development, and the Economy (JEDE) began a series of hearings examining how public and private sector initiatives were being used or could be used to support upward mobility, reduce racial disparities, and address climate change. Three primary themes emerged from these hearings, being the need to:

- Upskill individuals to meet market challenges;
- Establish integrated and accountable governance structures to better support businesses, program and service providers, and individuals; and
- Remove barriers for start-ups, entrepreneurs, and expanding businesses, including manufacturers.

In order to advance the JEDE Committee’s understanding of how sustainable and inclusive economic strategies can actually be implemented in the real world, a field hearing was conducted outside of the confines of the State Capitol, which highlighted regional initiatives in the Inland Empire. The keynote presentation by Dr. Karthick Ramakrishnan, Chair of the Center for Social Innovation at the University of California, Riverside, highlighted a number of regional initiatives being conducted within the Inland Empire. Among other initiatives presented, Dr. Ramakrishnan discussed Inland California Rising, an initiative he co-launched in February 2019 and which hosted summits in both of its partner regions, the Inland Empire and the San Joaquin Valley. The following is a selection of other initiatives discussed in the course of the hearing:

- ***GenerationGO/Vision2Succeed***: An initiative of San Bernardino County using its local workforce board as the facilitator. The purpose of GenerationGO is to connect K-12 schools, community colleges, and businesses to create and enhance career pathways and provide hands-on training. After several successful years, both the scope and geographic footprint are being expanded.
- ***Consortium for Excellence in Logistics***: The mission of this initiative, facilitated by the Inland Empire Economic Partnership, is to leverage the region’s large number of warehouses and strategic location to position the Inland Empire as a supply chain and logistics hub. By fully embracing the leadership role, the consortium believes the Inland Empire can drive innovation within the sector resulting in economic growth and better paying jobs, while still providing environmental and societal benefits.
- ***Inland Economic Growth & Opportunity (IEGO)***: This initiative, supported through the Community Foundation, is a network of business, government, educational, and nonprofit institutions, working to better align workforce and economic development efforts. Their objective is to increase high-paying quality jobs, increase opportunities for advanced manufacturing, and accelerate the growth of promising emerging industries (such as IT, cybersecurity, and battery storage).

JEDE’s hearing aligned with Governor Newsom’s Region’s Rise Together, which was led by GO-Biz and supported by California Forward, the sponsor of this bill.

- 4) **Roadmap to Shared Prosperity**: This bill is an outgrowth of the California Economic Summit, a year-round collaboration of over 750 public and private stakeholders who annually meet to share their work, be inspired, and make plans for the following year’s activities. This important work is supported and facilitated by California Forward and the Roadmap to Shared Prosperity. The 2019 Roadmap to Shared Prosperity outlined the California Economic Summit’s plans for a comprehensive agenda to address the state’s biggest challenges with a triple bottom line approach.
  - Creating the California Dream Index, a new scorecard for tracking the state’s progress toward improving economic mobility.
  - Developing a poverty prescription through innovative “two generation” strategies and system change efforts that can improve results with adequate investments in a smarter safety net and put the California Dream within reach of every child.

- Encouraging early childhood strategies that support community, regional, and state efforts to coordinate and expand high quality learning and nurturing for all children ages 0 to 5 through system change strategies, partnerships, and adequate investments.
- Continuing the Summit’s “One Million Challenges,” ongoing initiatives to close gaps in skilled workers, livable communities, and well-paying jobs.

A key issue in moving forward on this work was the limited capacity of regional collectives to sustain their valuable work. AB 3502 establishes a grant program that would both help fund and elevate this work.

- 5) **Proposed Amendments:** Below is a list of amendments the committee members may wish to review when considering the bill.
- a) Add legislative intent and program objectives that demonstrate how the grant program relates to the current coronavirus emergency.
  - b) Set a specific overall purpose for the program that more clearly encompasses the goals and objectives already articulated in the bill. Use the existing purpose to set the program’s goals.
  - c) Mandate the inclusion of historically underrepresented voices within the regional collectives funded through the program, including project steering committees.
  - d) Shift the drafting of the bill from setting regional boundaries to funding regional collectives comprised of public and private stakeholders who organize themselves around one or more community challenges impacting multiple government jurisdictions.
  - e) Allow applications with overlapping geographic boundaries to be funded to the extent that regional collectives’ work is distinctly different, e.g. one collective is focusing on maternal health in lower income neighborhoods, while another collective is working on aligning education and workforce training opportunities with an emerging high tech industry sector.
  - f) Clarify the sustainable development principles that are intended to drive the work of the regional collectives funded through the grant program.
  - g) Set threshold criteria for evaluating grant applications, including requirements for reporting outcomes annually and providing letters of support from local government agencies, ethnic chambers, and other public and private stakeholders.
  - h) Modify the matching funds provision to reflect that some of the most important issues that need to be addressed may also be in areas that do not have access to matching funds.
  - i) Clarify that grants may be awarded to regional collectives in a range of development stages, including those initiating and expanding regional convening, those sustaining regional engagements, and those that are ready to implement recommended strategies.
  - j) Expand the list of mandatory regional partnership members to include at least one economic development entity.
- 6) **Related Legislation:** Below is a list of bills from the current and prior sessions.
- a) **AB 29 (John A. Pérez, Feuer, and V. Manuel Pérez) Office of Business and Economic Development:** This bill established GO-Biz to include the newly codified California Business Services and the existing Office of the Small Business Advocate. Status: Signed by the Governor, Chapter 475, Statutes of 2011.



- b) ***AB 27 (Parra) California Partnership for the San Joaquin Valley***: This bill would have codified the establishment and operation of an up to 64-member California Partnership for the San Joaquin Valley for the purpose of improving the economic, social, and environmental conditions of the San Joaquin Valley. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2008.
- c) ***AB 31 (Parra) California Partnership for the San Joaquin Valley***: This bill would have created a 24-member California Partnership for the San Joaquin Valley (SJV) for the purpose of coordinating and improving state and federal efforts in the SJV, in concert with locally led efforts to improve the living standards and overall economic performance of the region. Status: Died on the Senate Floor, August 2006.
- d) ***AB 119 (Assembly Budget Committee) Elimination of State Economic Strategy***: This bill eliminated, commencing January 1, 2012, the responsibility of the Secretary of Labor and Workforce Development Agency to lead the preparation of a biennial California Economic Development Strategic Plan and to biennially convene an Economic Strategy Panel to provide recommendations regarding the plan. Status: Signed by the Governor, Chapter 31, Statutes of 2011.
- e) ***AB 358 (Greyson) Regional Economic Development Areas***: This bill would have enacted the Regional Economic Development Area Act for the purpose of certifying regional economic development areas that include, but are not limited to, active and inactive military bases. Status: Died without action in Assembly Committee on Jobs, Economic Development, and the Economy, 2018.
- f) ***AB 742 (Cervantes) Office of Place-Based Strategies***: This bill would have established the Office of Place-Based Economic Strategies within GO-Biz for the purpose of supporting local and regional economic development entities to access programs and implement place-based and other community- and neighborhood-level strategies. Status: Held in the Assembly Appropriations Committee, 2019.
- g) ***AB 906 (Cooley, Cervantes, Kiley) State Action Plan***: This bill would have required the Governor's Office of Business and Economic Development to take the lead in preparing a California Economic Development Strategy based on regional priorities. Status: Held in the Assembly Committee on Appropriations, 2019.
- h) ***AB 1233 (V. Manuel Pérez) State Economic & Workforce Development Strategy***: This bill would have required GO-Biz to prepare a five-year Economic and Workforce Development Strategy. The blueprint will help the state set a strategic path forward by prioritizing and coordinating state activities, supporting local and regional economic development activities, and better leveraging private and public sector resources. Status: Held in the Assembly Committee on Appropriations, 2012.
- i) ***AB 2596 (Cooley, Kiley, Quirk-Silva) State Action Plan***: This bill would have required the Governor's Office of Business and Economic Development to take the lead in preparing a California Economic Development Strategy based on regional priorities. Status: Vetoed by the Governor. The veto message stated: "*Since its inception, GO-Biz has expanded direct foreign investment, created opportunities for small businesses, identified incentives for growth, and helped resolve barriers for businesses navigating the government. These successes are due, in part, to the ability of GO-Biz to nimbly respond to rapidly changing economic factors including unpredictable federal decisions, natural disasters and more. I don't believe an ongoing costly study and report will provide any additional benefit to these efforts.*"

- j) ***SB 1230 (Umberg and Caballero) CDFI Grant and Tax Credit***: This bill establishes the Community Development Financial Institutions Grant Program, administered by GO-Biz, and authorizes a CDFI Tax Credit, as specified. Status: Pending in the Senate Committee on Business, Professions, and Economic Development.

## **REGISTERED SUPPORT / OPPOSITION:**

### **Support**

California Forward (sponsor)  
 3core  
 Bay Area Council  
 CA Economic Summit  
 CA Stewardship Network  
 Cal Asian Chamber of Commerce  
 California Hispanic Chambers of Commerce  
 California Partnership for The San Joaquin Valley  
 Caloz  
 Central Valley Community Foundation  
 Coalition for Small and Disabled Veteran Businesses  
 CSU Fresno, Office of Community and Economic Development  
 Economic Development Collaborative, Ventura County  
 Economic Vitality Corporation, San Luis Obispo County  
 Fresno Business Council  
 Fresno County Economic Development Corporation  
 Fresno Metro Black Chamber of Commerce  
 Greater Bakersfield Chamber of Commerce  
 Imperial County Transportation Commission  
 Inland Empire Community Foundation  
 Inland Empire Economic Partnership  
 Kern Community Foundation  
 Los Angeles County Economic Development Corporation  
 Monterey Bay Economic Partnership  
 North Bay Leadership Council  
 Orange County Business Council  
 Reach  
 Reading and Beyond  
 Redwood Coast Rural Action  
 Sacramento Area Council of Governments

### **Opposition**

None on File

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