

Date of Hearing: April 27, 2021

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sabrina Cervantes, Chair

AB 1106 (Cervantes and Reyes) – As Introduced February 18, 2021

**SUBJECT:** Employment Training Panel: pilot program: employment training needs

**POLICY FRAME:** In addressing the significant health risk of the COVID-19 pandemic, governments placed restrictions on a wide range of business activities. In California, unemployment went from a record low of 3.9 percent in February 2020 to a record high of 16.4% in the following months. Over 26.5 million initial claims have been filed for Unemployment Insurance and Pandemic Unemployment Assistance since mid-March 2020. A significant number of these individuals are women and people of color with limited education and training beyond high school.

Many of the industry sectors hardest impacted during the pandemic are not expected to return to the same level of economic activity as pre-COVID-19 for several years, including businesses in the hospitality, accommodation, and tourism sectors. Even in those industry sectors that are anticipated to recover quickly, many lower skill jobs will be permanently replaced through automation and ecommerce business solutions.

Currently unemployed and underemployed individuals need immediate training opportunities if they are going to successfully transition to employment in business sectors that do require workers. AB 1106 establishes a pilot project to immediately fund short-term training courses for new and incumbent workers.

The analysis includes information on the impact of COVID-19 pandemic on small businesses, examples of workforce training opportunities during COVID-19, the Employment Training Panel (ETP). There is no known opposition to the bill. Suggested amendments are included in Comment 7.

**SUMMARY:** This bill establishes a pilot project, administered through the Employment Training Panel (ETP), to leverage the expertise of the state's regionally focused statewide network of Community College Contract Education Centers to provide short term training courses to new and incumbent workers. Business training needs are identified through direct consultation with local businesses and a regional skills gap analysis to be developed by the Community College Centers of Excellence. Specifically, this bill:

- 1) Makes legislative findings and declarations:
  - a) California's dominance in many economic areas is based, in part, on the significant role small businesses play in the state's \$3.1 trillion economy.
  - b) Two separate studies, one by the United States Census Bureau and another by the Kaufman Foundation, found that net job growth was strongest among businesses with less than 20 employees. California firms represented 12.6 percent of all businesses in the United States in 2015, with 88.3 percent of firms having less than 20 employees.
  - c) Supporting small business development has shown to be a successful inclusive economic growth strategy advantaging businesses throughout the state, including historically underserved business groups such as minority-, women-, and veteran-owned businesses, and hard to serve areas of the state such as low wealth, rural, and disaster-impacted communities.

- d) In order for the state to fully leverage the economic opportunities represented by supporting small businesses, it is the intent of the Legislature to facilitate the integration of the statewide network of workforce training centers administered by the community college contract education centers within the existing network of small business technical and financial assistance centers.
  - e) In order to better serve the workforce training needs of employers and workers, it is the intent of the Legislature to build upon existing coordination efforts between successful programs at the Employment Training Panel, the California Community Colleges, and California's local workforce development boards. Recovering from the economic impacts of the COVID-19 pandemic is placing increased pressure to upskill unemployed and incumbent workers. A more robust regional education and training system is better able to meet the range of workforce needs of business and industry.
- 2) Requires the Employment Training Panel to establish a pilot program (Program) to serve the employment training needs of small businesses though leveraging the capacity of the existing statewide network of community college contract education centers operating with multiple employer contracts. The ETP is program is intended to achieve all of the following purposes:
    - a) To support the upskilling of the regional workforce to meet the demand for jobs in essential industry sectors during the COVID-19 pandemic and in the emerging and dominant industry sectors in the post COVID-19 economy.
    - b) To strengthen the linkages between higher education institutions and employers.
    - c) To enhance the linkages between regional education and training system partners and the regional small business financial and technical assistance centers.
  - 3) In developing the program, the ETP is required to consult with key workforce and economic development partners, including, but not limited to, the California Community Colleges, the Governor's Office of Business and Economic Development (GO-Biz), the Labor and Workforce Development Agency, and the California Workforce Development Board.
  - 4) The ETP may establish an advisory board of stakeholders, including, but not limited to, businesses, workers, economic developers, chambers of commerce, small business technical assistance centers, and public entities.
  - 5) The ETP is required to submit two reports to the Legislature, as follows:
    - a) Six months from initial funding, a progress report on the implementation of the program.
    - b) On or before October 1, 2022, a report on program activities since the prior report.
  - 6) Provides that implementation of the pilot project is subject to a budget appropriation.
  - 7) Sunsets the provisions of the pilot project on January 1, 2026.

**EXISTING LAW:**

- 1) Establishes ETP for the purpose of providing funding to employers to assist in upgrading the skills of their workers through training that leads to good paying and long-term jobs. Program funding is

provided through a special payroll tax paid by California employers. Eligible "employers" under its core program include:

- a) Single employers subject to the unemployment insurance tax;
  - b) Groups of employers, including chambers of commerce, joint apprenticeship training committees, trade associations, or economic development corporations;
  - c) Training agencies, including community colleges and community college districts; universities or university foundations; adult schools, regional occupation programs, and private training agencies, as specified;
  - d) Workforce development boards;
  - e) Workforce Innovation and Opportunity Act recipients, including one-stop career centers now called America's Jobs Centers.
- 2) Authorizes the governing board of any community college district to establish, or with one or more community college districts to jointly establish, contract education programs by agreement with any public or private agency, corporation, association, or any other person or body to provide specific educational programs or training to meet the specific needs of these bodies.
- a) Requires the contracting community college district or districts to recover, from all revenue sources, an amount equal to, but not less than, the actual costs, including administrative costs, incurred in providing these programs or training.
  - b) Excludes from the calculation of full-time equivalent students (FTES) for the purpose of apportionments to districts, the attendance of students in contract education programs, unless all statutory and regulatory conditions for generating FTES are met.
- 3) Encourages community college districts to expedite the development of targeted credit or noncredit short-term workforce training programs, in accordance with all of the following:
- a) Short-term workforce training programs that focus on economic recovery and result in job placement.
  - b) Short-term workforce training programs that focus on the reskilling and upskilling of individuals.
  - c) Short-term workforce training programs that have at least one proven employer partner, demonstrate job vacancies, and submit verification to the chancellor's office.
- 4) Establishes the Strong Workforce Program, administered through the Chancellor's Office of the California Community Colleges, as a K-14 state education, economic, and workforce development initiative for the purpose of expanding the availability of high-quality, industry-valued career technical education and workforce development courses, programs, pathways, credentials, certificates, and degrees.
- 5) Establishes the California Small Business Technical Assistance Enhancement Program, within the GO-Biz, for the purpose of providing technical assistance to small businesses through partnership agreements with one or more federally designated small business technical assistance centers.
- a) Defines a "federal small business technical assistance center" to include, but not be limited to, small business development centers, women's business centers, veterans business outreach

centers, manufacturing extension partnership centers, minority business development business centers, and procurement technical assistance centers that operate in California under federal contracts.

- b) Requires a preference be given to applications that propose new or enhanced services to underserved business groups, including women-, minority-, and veteran-owned businesses, and businesses in low-wealth, rural, and disaster-impacted communities included in a state or federal emergency declaration or proclamation.

**FISCAL EFFECT:** Unknown

**COMMENTS & CONTEXT:**

- 1) **Small Businesses and Coronavirus:** Economic developers, finance professionals, and even the Office of the Legislative Analyst agree that small businesses have been particularly impacted by the coronavirus pandemic. According to a national survey and separate report on the impacts of COVID-19 on small and medium size businesses, both published by McKinsey in April 2020:
  - a) 70% of businesses are delaying purchases, reducing current spending, and holding back on making major investments. [*While not an unexpected outcome, this level of delayed spending has significant multiplier effects as its impacts move throughout the economy.*]
  - b) 50% of workers at small businesses with less than 100 employees are at risk of losing their jobs due to the pandemic. This represents over 2.2 million workers. This is a higher percentage of job losses than those projected for larger private sector employers.
  - c) 40% of the vulnerable small business jobs fall within two occupational categories: food service and customer service and sales.
  - d) 60% of the vulnerable small business jobs do not require a four-year degree, meaning that displaced workers will likely not have formally recognized skills to help them get their next job.
  - e) 55% of businesses felt that the economic impacts of the coronavirus were going to last over one year, with 29% responding the impacts were going to be felt for three years.
  - f) 25% of businesses said they would be filing for bankruptcy within six months.

The McKinsey report ranks California among the top states in which small businesses are and will be impacted by the COVID-19 emergency. The report finds that 92% of workers in small businesses that engage in the accommodation and food sectors are at risk. For workers at small construction firms, the report states that 54% are vulnerable, which is still a significant impact. Regulatory relief is one piece of a broader set of policies to support small businesses.

- 2) **The Challenge of Income Inequality during COVID-19:** While California's dominance in innovation-based industries is unquestionable, the divide between the middle- and lower-income households and the top income earners is accelerating. Even when California's unemployment was at historic lows pre-pandemic, unemployment within certain geographic regions and population groups remained significantly higher, as did the number of people in the state who were not participating within the core economy. In March 2020, California reported a not seasonally adjusted unemployment rate of 5.1% as compared to the US rate of 4.5%. From the employment side, this represents 18.1 million people in California, with (*according to 12-month moving average*) 82.5% being employed in full time work.

The State of California Economic Development Department, in March 2020 (*not seasonally adjusted*), reported three of California's 58 counties had unemployment below 3.0%, with San Mateo County reporting the lowest at 2.5%. The highest unemployment was reported in Colusa (21.4%). Year-over (March 2019- March 2020), three counties experienced an unemployment rate decline, three counties experienced no change in unemployment rate and 52 experienced unemployment rate increases from the prior year.

**Chart 1 – Selected Data on Unemployment** shows unemployment-related information by selected counties and population groups for a time period that includes COVID-19, March 2020 to March 2021.

<b>Chart 1 - Selected Data on Unemployment (2020-2021)</b>					
	<b>Unemployment Rate March 2020</b> (Not Seasonally Adjusted)	<b>Unemployment Rate March 2021</b> (Not Seasonally Adjusted)		<b>Unemployment Rate March 2020</b> (12-month moving average)	<b>Unemployment Rate March 2021</b> (12-month moving average)
<b>California</b>	5.1%	8.2%	<b>California</b>	4.1%	11.1%
<b>Colusa County</b>	21.4%	15.4%	<b>Blacks</b>	5.2%	13.9%
<b>Imperial County</b>	20.4%	15.7%	<b>Hispanics</b>	4.7%	12.5%
<b>Los Angeles County</b>	5.6%	10.9%	<b>Whites</b>	4.0%	10.8%
<b>Riverside County</b>	4.7%	7.7%	<b>16 to 19 years old</b>	15.1%	24.5%
<b>Sacramento County</b>	4.3%	7.4%	<b>20 to 24 years old</b>	7.6%	17.5%
<b>San Bernardino County</b>	4.4%	7.8%	<b>25 to 34 years old</b>	4.1%	11.7%
<b>San Luis Obispo County</b>	3.5%	5.8%	*The Employment Development Department reports a March 2021 (12-month moving average) Labor Participation Rate (LPR) of 60.2% with 12.4 million people in California representing those who were not participating in the workforce (the remaining 38.8%). The LPR for veterans is 42.4% vs nonveterans LPR of 63.3%.		
<b>San Mateo County</b>	2.5%	5.0%			
<b>Tulare County</b>	13.2%	11.6%			

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

In March 2021, California was reported to have a not seasonally adjusted unemployment rate of 8.2% as compared to the US rate of 6.2%. From the employment side, this represents 17.3 million people, with (*according to 12-month moving average*) 83.0% being employed in full time work.

During this same period of time, only three of California's 58 counties had unemployment below 5.5%, with Marin County reporting the lowest at 4.8%. The highest unemployment was reported in Imperial (15.7%). Year-over (2020-2021), 46 counties experienced unemployment rate rises, and 11 experienced unemployment rate decreases; moreover, one county had its unemployment rate stay the same (Lassen County).

Looking more specifically at different population groups, the data (*12-month moving average*) also show great disparities between the statewide rate of 11.2% and the rates of key subgroups, including unemployment among Blacks and Hispanics being 13.9% and 12.5% 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 24.5% to 17.5% respectively. According to the March 2021 figures, 12.4 million people in California are not participating in the labor force, an increase of 596,000 individuals during a 12-month period.

The disparities shown in these charts are driven by and also influence a range of economic and societal issues, including, but not limited to, minimal educational attainment, economic insecurity, poor health outcomes, negative engagements with law enforcement, and lack of a safety net for the elderly and individuals with special needs. COVID-19 magnified these effects, further putting strains on already struggling low-wage workers, particularly in the Black and Latinx communities.

- 3) **Overview of the Employment Training Panel:** Established in 1982, the ETP provides direct funding to employers to assist them in upgrading worker skills. ETP is governed by an eight-member board with three members being appointed by the Governor, two by the Speaker of the Assembly, and two by the Senate pro Tempore. The Director of the GO-Biz serves as an ex officio voting member.

ETP is the state's primary workforce training program for incumbent workers. By working directly with employers, ETP projects can be focused to serve the unique needs of the business and the individual worker. Since inception, ETP has awarded over \$1.7 billion to train 1.36 million workers in more than 91,000 businesses.

The core ETP program is funded through a special Employment Training Tax, which is collected by the Employment Development Department at the same time that employers pay other payroll taxes. Only those employers that have paid the tax are eligible to receive workforce training contracts under ETP's core program.

Qualifying businesses, as well as entities that serve those businesses, can apply for contracts on an ongoing basis. Applicants can propose training in a variety of settings, including classrooms, laboratories, and even electronic delivery models. Eligible applicants for the core program include single businesses, groups of employers, workforce development boards, recipients of Work Innovation and Opportunity Act funds, and public and private training agencies, including community colleges, community college districts, universities, adult schools, and regional occupation programs.

Since 2014, Community College Contract Education Centers have been active users of ETP, receiving \$5 to \$7 million annually through multiple employer contracts (MECs). As an example, \$6.4 million in MECs were awarded in fiscal year 2017 to 11 Contract Education Centers, which resulted in 8,882 workers being trained.

<b>2019-20 ETP Contract Activity</b>				
<b>Category</b>	<b>Contracts</b>	<b>Total Number of Trainees</b>	<b>Average Contract Value</b>	<b>Total Contract Value</b>
Approved	308	83,264	\$596,239	\$92.1 million
Ongoing at the Close of the year	360	79,761	\$259,231	\$93.3 million
Completed during the year	416	85,642	\$183,955	\$76.5 million
Approximately 70% of funds supported training activities related to small businesses				
<i>Source:</i> Employment Training Panel 2019-20 Annual Report				

The ETP is required to annually update a three-year Strategic Plan that addresses the demand for trained workers by industry, type of training, and size of employer. Based on this assessment, the ETP identifies priority industry sectors and authorizes projects in these areas to receive 20% more funding than standard reimbursement rates. The current priority sectors include:

- Agriculture
- Allied Healthcare
- Biotechnology and Life Sciences
- Construction
- Green/Clean Technology
- Goods Movement and Transportation Logistics
- Information Technology Services
- Manufacturing/Food Production
- Multimedia/Entertainment
- Technical Services

When revenues are available, ETP has implemented special initiatives, including programs targeted on veterans, individuals with disabilities, and small businesses. In implementing these special initiatives, the ETP has provided targeted outreach, entered into new strategic partnerships, and, on some occasions, modified program requirements.

In addition to the payroll tax revenues, ETP is sometimes provided with alternate funding to support unique policy initiatives and reach public sector employers, which are not eligible under the core ETP program. Among other sources, ETP receives funding from the California Energy Commission under its Clean Transportation Program (previously known as the Alternative and Renewable Fuel and Vehicle Technology Program: ARFVTP) to provide workforce training in alternative fuels and vehicle technologies. In 2019-20, ETP oversaw five pilot programs using alternate funding, including the Clean Transportation Program.

As proposed, AB 1106 would establish a targeted program using an alternate source of funding to supplement the existing community college MEC and allow training to be provided to a wider array of businesses and workers.

- 4) **Employer-Driven Regional Networks of Service Delivery:** The ETP instituted the MEC system to help develop efficiencies within their internal administrative structure while accelerating their ability to rapidly begin upskilling employees. In 2018, an increased demand by single employer ETP contracts resulted in funding reductions to all MEC's, including Contract Education Centers. Nevertheless, the \$5.8 million in contracts to the 9 MEC Contract Education Centers provided training to more than 7,773 workers.

The ETP currently contracts with 10 Contract Education Centers, which in turn partner and subcontract with 18 to 25 additional community colleges. Together, they contribute to regional networks comprised of other workforce partners, such as local workforce boards, and business development partners such as chambers of commerce and Small Business Development Centers, and other small business technical assistance centers. The Contract Education Centers play a unique part in building and strengthening regional capacity to train and reskill new and incumbent workers.

Due to funding limitations and program requirements of the ETP core program, the Contract Education Centers, like other MECs, are unable to meet the state's current training and reemployment needs. With the core program limited to only those business who have paid the special payroll tax, many health care organizations such as nonprofit clinics are unable to access training for their new and incumbent workers. Further, the Community College Contract Education Centers report that the

current program's specific industry focus (listed the comment above) do not always align with current local and regional employment and training needs. AB 1106 proposes the establishment of a separately funded pilot project to provide employer-driven training to unemployed and underemployed workers in essential industry sectors during the COVID-19 pandemic and in the emerging and dominant industry sectors in the post COVID-19 economy.

According to the authors, AB 1106 enhances the existing program by allowing other businesses and nonprofits to participate in training activities, as well as, expanding the types of training available, industry sectors served, and number of businesses and workers who can receive training. By building on the existing ETP program, AB 1106 is also designed to support small businesses that have been especially hard hit in this pandemic by strengthening the relationship between the Contract Education Centers and the state's network of 80+ small business technical assistance centers, including Small Business Development Centers, Women's Business Centers, and Minority Business Development Centers, among others.

5) **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 \$3.14trillion economy. Two separate studies, one by the US Census Bureau and another by the Kaufman Foundation, found that net job growth was strongest among businesses with less than 20 employees. Among other advantages, small businesses are crucial in the state's international competitiveness, and they are an important means for dispersing the economic positive impacts of trade within the California economy.

- In 2018 (most recent full set of data), of the 4.4 million firms in California, there were 4.4 million nonemployer firms as compared to 954,632 employer firms.
- Total revenues for nonemployer sole proprietorships, across all industry sectors, were \$189 billion in receipts in 2018.
- Businesses with less than five employees are classified as microenterprises. In 2017, there were 473,641 microenterprises which had one or more employees.
- Microenterprises, including both nonemployer and up-to-5-employee businesses, comprise the single largest segment of the California business community, and they represent 89.1% (3.9 million) of all businesses in the state.

Microenterprises have many unique features and provide important benefits to local communities, according to a recent study from the Microenterprise Fund for Innovation, Effectiveness, Learning, and Dissemination (FIELD) at the Aspen Institute. These benefits include:

- Providing products and services tailored to meet local and neighborhood needs.
- Stimulating an inflow of revenues to and within local communities.
- Serving as catalysts for neighborhood reengagement.
- Revitalizing neighborhoods that may otherwise have vacant storefronts.
- Providing role models and support for future entrepreneurs.

The chart below displays 2017 data (most recent full set of data) on California employer businesses, including payrolls, employment, and number of firms, which may comprise of one or more establishments.

Excluding sole proprietorships, businesses with less than 20 employees comprise over 88.6% of all businesses and employ approximately 17.4% of all workers. Businesses with less than 100 employees represent 97.3% of all businesses and employ 34.5% of the workforce.

These non-employer and small employer firms create jobs, generate taxes, support important industry

California Employer Businesses by Size (2017)				
Enterprise Employment Size	Number of Firms	Number of Establishments	Employment	Annual Payroll
0-4	473,641	474,301	737,168	\$45.0 billion
<20	676,913	682,756	2,605,213	\$125.5 billion
0-99	743,830	768,456	5,143,522	\$250.5 billion
100-499	13,628	39,757	2,081,423	\$125.0 billion
<500	757,458	808,213	7,224,945	\$375.6 billion
500+	6,345	133,164	7,671,680	\$579.4 billion
Total All Employers	763,803	941,377	14,896,625	\$955.0 billion
<ul style="list-style-type: none"> <li>▪ An establishment is a single physical location at which business is conducted or performed by one or more paid employees.</li> <li>▪ A company or enterprise may consist of one or more establishments.</li> <li>▪ An establishment with 0 employment is an establishment with no paid employees in the mid-March pay period but with paid employees at some time during the year.</li> <li>▪ This series excludes government establishments except for wholesale liquor establishments (NAICS 4248), retail liquor stores (NAICS 44531), federally-chartered savings institutions (NAICS 522120), federally-chartered credit unions (NAICS 522130), and hospitals (NAICS 622).</li> </ul>				
Source: US Census, SUSB Series				

sectors, and revitalize communities. While their small size allows them to be more flexible in meeting niche foreign and domestic market needs, it also results in certain market challenges. These challenges include 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.

- 6) **Proposed Amendments:** Below is a list of amendments the committee members may wish to review when considering the bill.
- a) Modify the advisory board to become one or more ad hoc advisory groups.
  - b) Clarify that the Community College Chancellor’s Office is to be consulted on the implementation of the pilot.
  - c) Require the already required ETP, reporting to include:
    - i) A description of how the funding complemented the work of EPT, and integrated the employers and individuals being served with, the broader workforce, education, and employment system.
    - ii) A description of how the funding complemented the work of EPT, and, where appropriate, introduced the employers to the services available through the network of small business technical and financial assistance centers and other local and regional business development partners.

- d) Add legislative intent that the training provided through these Community College Contract Education Centers serve as an important access point for small business employers and higher education.
- 7) **Related Legislation:** This bill is a modified reintroduction of AB 1547 (Cervantes and Reyes) in 2019-20 legislative Session, which passed the Senate Floor on a 38 to 0 vote and Assembly Floor on concurrence on a 73 to 0 vote. The bill was ultimately vetoed by the Governor (message provided at the end of the comment).

AB 1106 does not include the regional planning provisions mentioned as a concern in the veto message, and implementation of the program is contingent of supplemental moneys being appropriated by the Legislature. The authors report that they have been in conversations with the Budget Committee and the Administration regarding specific funding in the 2021-22 budget.

*“I am returning Assembly Bill 1457 without my signature.*

*This bill would require the Employment Training Panel to establish a pilot project to enhance a regional business training center network of community college contract education centers to partner with other assistance providers servicing small businesses.*

*While I am highly supportive of training programs that lead to quality jobs and support businesses, particularly in the midst of our current economic climate, this bill does not have the dedicated funding to support the pilot program and could divert funding from other core workforce training programs.*

*“Moreover, this bill is duplicative of current planning efforts by the California Community Colleges and Workforce Development Boards to create a better integrated workforce development system. I look forward to working with these partners, and the Legislature, on achieving that shared goal.”*

#### **REGISTERED SUPPORT / OPPOSITION:**

##### **Support**

None on File

##### **Opposition**

None on File

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