

Date of Hearing: August 12, 2013

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE  
ECONOMY

Jose Medina, Chair

SB 118 (Lieu) – As Amended: January 17, 2013

SENATE VOTE: 35-3

SUBJECT: Unemployment insurance: education and workforce investment systems.

SUMMARY: Sets guiding principles for the state's workforce investment system including the use of federal Workforce Investment Act (WIA) moneys. These principles and related changes emphasize industry sector strategies, regional economies, data-driven decisions, and the more effective alignment of state education, the private sector, and workforce development systems. Specifically, this bill:

- 1) Establishes the following six guiding principles for the state's workforce investment system:
  - a) Workforce investment programs and services are required to be responsive to the needs of employers, workers and students by accomplishing the following:
    - i) Preparing California's students and workers with the skills necessary to successfully compete in the global economy.
    - ii) Producing greater numbers of individuals who obtain industry-recognized certificates and degrees in competitive and emerging industry sectors, and filling critical labor market skills gaps.
    - iii) Adapting to rapidly changing local and regional labor markets as specific workforce skill requirements change over time.
    - iv) Preparing workers for good-paying jobs that foster economic security and upward mobility.
  - b) State and local workforce investment boards are encouraged to collaborate with other public and private institutions to better align resources and build a well-articulated workforce investment system by accomplishing the following:
    - i) Adopting local and regional training and education strategies that build on the strengths and fill the gaps in the education and workforce development pipeline in order to address the needs of job seekers, workers, and employers within regional labor markets by supporting "sector strategies."
    - ii) Leveraging resources across education and workforce training delivery systems to build career pathways and fill critical skills gaps.
  - c) Workforce investment programs and services are required to be data driven and evidence must be based on setting priorities, investing resources, and adopting practices.

- d) Workforce investment programs and services are required to develop strong partnerships with the private sector, including all sizes of businesses, for the purpose of ensuring industry involvement in the needs of assessment, planning, and program evaluation.
  - e) Workforce investment programs and services are required to be outcome oriented with accountable, measurable results for program participants, including, but not limited to, outcomes related to program completion, employment, and earnings.
  - f) Programs and services are required to be accessible to employers, workers, and students who may benefit from their operation, including individuals with employment barriers, such as persons with economic, physical, or other barriers to employment.
- 2) Defines a number of economic and workforce development terms including, but not limited to:
- a) "Sector strategies" to mean methods of prioritizing investments in competitive and emerging industry sectors and industry clusters on the basis of labor market and other economic data indicating strategic growth potential, especially with regard to jobs and income, as specified.
  - b) "Career pathways," "career ladders," or "career lattices" to mean an identified series of positions, work experiences, or educational benchmarks or credentials with multiple access points that offer occupational and financial advancement within a specified career field or related fields over time.
  - c) "Cluster-based sector strategies" to mean methods of focusing workforce and economic development on those sectors that have demonstrated a capacity for economic growth and job creation in a particular geographic area.
- 3) Requires the California Workforce Investment Board (CWIB) to annually identify industry sectors and industry clusters, new emergent industry sectors and industry clusters, and undertake a skills-gap analysis, as specified. In performing these functions, the CWIB shall consider the expertise of local workforce investment boards, as provided.
- 4) Requires the state to develop a California Industry Sector Initiative that will serve as the cornerstone of the CWIB's state plan and provide a framework for state workforce investments and support for sector strategies.
- 5) Requires the CWIB to establish initial and subsequent eligibility criteria for the state's eligible training provider list that effectively directs training resources into training programs leading to employment in high-demand, high-priority, and high-wage occupations, particularly those facing a shortage of skilled workers.
- 6) Makes other related and conforming changes.

#### EXISTING LAW

- 1) Establishes the CWIB, comprised of members appointed by the Governor and the appropriate presiding officer(s) of each house of the Legislature, and specifies that the executive director

of the CWIB report to the Secretary of the California Labor and Workforce Development Agency. The CWIB is responsible for assisting the state in meeting the requirements of the federal Workforce Investment Act of 1998 (WIA), as well as assisting the Governor in the development, oversight, and continuous improvement of California's workforce investment system.

- 2) Requires each WIB to establish at least one full service one-stop career center in the local workforce investment area. One-Stop career centers are required to include a specified group of job search related entities and provide jobseekers with integrated employment, education, training, and job search services. Employers can also be provided with access to career and labor market information, job placement assistance, and other such services as the businesses in the community may require.

FISCAL EFFECT: This measure was referred from the Senate Committee on Appropriations pursuant to Senate Rule 28.8.

COMMENTS:

- 1) Author's Purpose: According to the author, "workers are facing the toughest jobs crisis in over 50 years. Now more than ever, it is crucial that every dollar of workforce funds be invested in high quality employment services. "Sector strategies" are policy initiatives designed to promote the economic growth and development of a state's competitive industries by prioritizing investments where overall economic returns are likely to be highest. This bill would direct the State WIB to implement strategies that allow us to better prepare workers with the skills necessary to successfully compete in the global economy. Among other things, the board would be required to 1) conduct annual skills gap analyses specifying industries facing worker shortages or growth potential, and 2) organize the state workforce investment plan around the adoption of sector strategies using these skills-gap analyses. We will be better positioned to recover from the recession by knowing what our current and future workforce needs are and directing training resources towards those in-demand occupations. Sector strategies have been adopted in several states including Pennsylvania, Michigan, Washington and Massachusetts. In California, we have taken initial steps but more needs to be done to help our unemployed workers get the training and skills necessary to advance in this economy."
- 2) Framing the Policy Issue: This measure proposes the establishment of a set of guiding principles for the state's workforce investment system and expand the scope of the CWIB to serve as a facilitator in the assistance of the Governor to align the state's education and workforce investment systems to best serve the needs of California's 21<sup>st</sup> century economy and workforce.

In making the case for these changes, the author notes the need for more data-based policy making and better integration of existing resources. The analysis includes information on the CWIB, the California economy, and the need to make comprehensive and strategic changes in how California will propose to meet its workforce challenges in the coming decades.

- 3) WIA and the California Workforce Investment Board: Enacted in 1998, WIA 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 WIA allocation from the U.S. Department of Labor has declined over the years from a high of \$630 million in 2000-01 to \$411 million in 2012-13. Federal law dictates that 85% of Adult and Youth formula funds, and 60% of Dislocated Worker formula funds, are distributed to local WIBs. Funding for the state's activities is derived from the 15% WIA discretionary funds. In 2012-13 local workforce investment boards (LWIBs) received \$348 million, while the state received about \$20 million in discretionary moneys.

California's WIA dollars are overseen by the 56-member CWIB, of which 61% of the members represent the private sector, as required by federal law. Among its primary duties, the CWIB provides guidance to local LWIBs 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 5 years in order to address the state's changing economic, demographic, and workplace needs. The most recent plan was submitted to the federal Department of Labor in April 2013 and approved after consultation and modest revision in June 2013. Based on the framework of the state plan, in July 2013, the LWIBs submitted local workforce investment plans for the CWIB's review. Key among the policy enhancements in the current state and local plans are strengthened performance indicators to allow for ongoing monitor of the plan success.

The CWIB has a staff of 17 authorized positions and is currently led by Executive Director Tim Rainey. There are 49 LWIBs that plan for and oversee the workforce investment system at the local level. Each LWIB also has one or more One-Stop Centers, which provide access to career information, counseling, and funding for education, training and supportive services.

- 4) **California Economy:** Historically, the state's significance in the global marketplace resulted from a variety of factors, including: its strategic west coast location that provides direct access to the growing markets in Asia; its economically diverse regional economies; its large, ethnically diverse population, representing both a ready workforce and significant consumer base; its access to a wide variety of venture and other private capital; its broad base of small- and medium-sized businesses; and its culture of innovation and entrepreneurship, particularly in the area of high technology.

<b>California Employment by Sector (Reported in Thousands, Seasonally Adjusted)</b>				
	<b>Year Ago June 2012</b>	<b>Current Year June 2013</b>	<b>Year-Over Change</b>	<b>Percent of Total Employment June 2013</b>
<b>Mining and Logging</b>	30.4	29.5	-3.0%	0.01%
<b>Construction</b>	583.3	615.5	5.5%	0.3%
<b>Manufacturing</b>	1,256.0	1,250.3	-0.5%	7.9%
<b>Trade, Transportation, &amp; Utilities</b>	2,728.2	2,758.5	1.1%	17.6%

<b>Information</b>	428.5	424.1	-1.0%	2.7%
<b>Financial Services</b>	775.6	788.2	1.6%	5.0%
<b>Professional &amp; Business Services</b>	2,237.6	2,297.4	2.7%	14.6%
<b>Educational and Health Services</b>	1,875.0	1,922.0	2.5%	22.9%
<b>Leisure &amp; Hospitality</b>	1,600.8	1,671.6	4.4%	10.6%
<b>Other Services</b>	506.5	503.9	-0.5%	3.2%
<b>Government</b>	2,372.9	2,387.7	0.6%	15.2%
<b>Total Nonfarm Incomes</b>	14394.8	15648.7	1.8%	100%
Source: EDD, Labor Market Information Division, Current Employment Statistics (July 2013)				

As noted above, California's dominance in many industry sectors is based, in part, on the significant role small businesses play in global supply chains, providing specialized services and products to meet niche markets, and their ability to create jobs while providing a means of wealth creation for an increasingly diverse entrepreneur class. The single largest cohort of California businesses has no employees, comprising 2.8 million out of an estimated 3.5 firms in 2010. Microenterprises, meaning businesses with less than five employees, represent approximately 93% of all businesses in the state, or approximately 3.2 million of all businesses. Businesses with fewer than 100 employees comprise nearly 98% of all businesses and are responsible for employing more than 37% of all workers in the state.

These non-employer and small employer firms create jobs, generate taxes, and revitalize communities. However, their small size also results in certain market challenges, including, but not limited to, expanding into new market, planning for long-term employment and revenue growth, complying with government regulations, and meeting the traditional credit and collateral requirements of mainstream financial institutions. Specialized training and education, technical assistance, access to microloans, and collaborative marketing opportunities can help many of these businesses overcome or at least minimize these difficulties.

In April 2013, the Committee passed AB 285 (Brown), which directs the CWIB to assist local workforce investment boards better understand how their resources can legally be used to meet the needs of microenterprises. The Committee may wish to amend the guiding principles in SB 118 to more specifically include self-employment and entrepreneurial training.

- 5) Regional Economies and Sector Strategies: California is not only one of the largest economies in the world, but it is also one of the most economically diverse. The state's economy is comprised of a variety of industry clusters. While many of these clusters are linked through extended economic value chains across the state and world, in general, industry clusters operate within their own regional micro-economies.

Currently, many economic developers like to use sector strategies to better understand the interconnections between related businesses, workforce capabilities, access to capital, available infrastructure and other key economic conditions. When done successfully, sector strategies at the regional level provide mutually beneficial outcomes for business, labor, and

the state by increasing competitiveness and growth, improving worker employability and income, and reducing the need for social services while also bolstering government revenues generated by both business and workers. According to a 2010 study of three sector focused training programs in Wisconsin, Massachusetts, and New York, it was found that participants earned more and were employed at higher rates than were members of the study's control group (*Tuning Into Local Labor Markets: Findings from the Sectorial Employment Impact Study, Public/Private Ventures, 2010*).

SB 118 proposes to use industry sector strategies, including assessment of regional emphasis, to guide state investments and activities related to workforce development including targeting resources to dominant and emerging industries.

- 6) Strengthening Linkages between Education and Training System: As California continues to move into the post-recession economy, it is clear that this next economy will require new and more agile thinking about resources and deployment of human, physical and financial capital. Economic researchers have identified several key emerging trends, including that nations and states will become less significant and that regions will be the more dominant drivers of economic growth. Job growth will be driven by smaller size companies that are able to connect and access expanding global markets through the deployment of new technologies that can cost effectively increase productivity and meet changing market demands. Due to scarcity and rising prices the emerging economy will also be powered by lower carbon fuels. All these new market realities will need to be accomplished with a workforce that is substantially smaller, more diverse, and historically underinvested.

This new workplace environment will require integrated and well-articulated career pathways between the K-12, the state's higher education systems, and workforce training providers. SB 118 specifies a number of specific operational tools for implementing sector strategies including stackable certificate programs, entrepreneurial training, adult education, and youth policies that support linkages between K-12 and higher education and training opportunities.

- 7) Related Legislation: Below is a list of related legislation.
  - a) AB 1310 (Furutani) Career Technical Education and Workforce Development: This bill would have required the Secretary of Labor and Workforce Development, in conjunction with the California Workforce Investment Board, the California Community Colleges, the State Department of Education, and the California Postsecondary Education Commission to develop a strategic plan for connecting the delivery of education and workforce development in the state. Status: Vetoed by Governor in 2011.
  - b) AB 3018 (Nunez) Green Collar Jobs Council: This bill enacted the California Green Collar Jobs Act of 2008, which created the Green Collar Jobs Council within the State WIB to perform specified tasks related to addressing the green economy workforce needs of the state. Specifically, the bill required the Council to develop a comprehensive array of programs, strategies, and resources to address the state's growing green economy. Status: Signed by the Governor, Chapter 312, Statutes of 2008.
  - c) SB 698 (Lieu) High Performance Boards: This bill required the Governor to establish, through the California Workforce Investment Board, standards for certification of high-performance local WIBs, in accordance with specified criteria. The bill also required the

Governor and the Legislature, in consultation with the California Workforce Investment Board, to reserve specified federal discretionary funds for high-performing local WIBs. Status: Signed by the Governor, Chapter 497, Statutes of 2011.

- d) *SB 734 (DeSaulnier) Mandated Training Expenditures*: This bill required local WIBs to spend a certain percentage of available WIA funds (25% now and increased to 30% in 2016) on workforce training programs in a manner consistent with federal law and allows the boards to leverage specified funds to meet this requirement. The bill also required a local WIB that does not meet the expenditure to provide the EDD with a corrective action plan regarding those expenditures. Status: Signed by the Governor, Chapter 498, Statutes of 2011.
  - e) *SB 1401 (Lieu) California Workforce Investment Act*: This bill would have modified the California Workforce Investment Act to add guiding principles, emphasizing a "sector strategy" approach, among other changes. Status: Held in the Assembly Appropriations Committee in 2012.
  - f) *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.
- 8) Double Referral: This measure was previously heard in the Assembly Committee on Labor and Employment, where it received a 5 to 1 vote.

#### REGISTERED SUPPORT / OPPOSITION:

##### Support

Association of California Healthcare Districts  
 California Hospital Association  
 California Labor Federation  
 California Manufacturers & Technology Association  
 California State Association of Electrical Workers  
 California State Pipe Trades Council  
 California Workforce Association  
 Career Ladders Project for the California Community Colleges  
 City of Long Beach  
 Community College League of California  
 Council of California Goodwill Industries  
 Jewish Vocational Services of San Francisco  
 National Council of La Raza  
 National Skills Coalition  
 Palos Verdes Peninsula Chamber of Commerce  
 PolicyLink  
 Santa Monica Chamber of Commerce  
 South Bay Association for Chamber of Commerce

State Building and Construction Trades Council of California  
Torrance Area Chamber of Commerce  
Western States Council of Sheet Metal Workers

Opposition

None received

Analysis Prepared by: Toni Symonds / J., E.D. & E. / (916) 319-2090