California Business Roundtable

# Policy Recommendations

## *Jobs, Poverty & Upward Mobility*

*Prepared Through A Grant from The James Irvine Foundation*

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# Summary Recommendations

## Core Issues

Middle income groups have steadily lost ground as the California economy has shifted away from traditional middle class income employment, and increasingly to a two-tiered pattern of jobs creation primarily at the higher and lower wage levels. While growth into the higher income levels has positive attributes, the hollowing out of the middle has diminished space and opportunities on the upward mobility rungs for both middle and lower income aspirations. With fewer supporting job opportunities being created at the necessary wage and income levels, the middle income tranche has become increasingly a gap separating the extremes rather than the path for generational economic progress.

The growing costs of living—especially for housing—are swamping any progress many lower income Californians are now able to make in moving ahead economically. The primary government response in recent years to this situation has been to increase transfer payments and mandate wage levels in an attempt to ameliorate the effects of these cost impacts, rather than serious reforms tackling their underlying causes. Lower income Californians, however, have come to view their situation as overwhelming, with costs escalating beyond their ability to keep up.

The extent of these costs and the potentially severe—if not disastrous in the case of homelessness—consequences of making the wrong choice on education, training, or a job change has made many lower income Californians risk averse. While there is a high awareness of the different avenues for upward mobility, the consequences of making the wrong decision now make them hesitant to pursue these options.

The overwhelming response in both the focus groups and survey indicates lower income Californians continue to show a strong work ethic in spite of the challenges they face. They are looking for actions to deal with the ever-rising living costs that are sapping the purchasing power of what they earn, and options that enable them to improve their skills and employability but that also accommodate the other demands on their time due to commuting, multiple jobs, and family responsibilities. This commitment extends to hopes for their children as well. These families are committed to building generational wealth—both financial and educational—and retain a strong belief that their children will do better than they.

In this respect, both the focus groups and survey group showed widespread rejection of universal income as policy option that can address their situation. Reaction to minimum wage increases was more mixed. While many noted they benefited personally from higher minimum wage, there was also a strong perception that it has and will continue to increase the living costs they face.

In a trend that began in the 1990s but that has accelerated through the recent recovery period, California has evolved into a two-tier economy, producing higher wage and middle class wage jobs primarily in the Bay Area and a dominance of low wage jobs and jobs dependent on public spending in much of the rest of the state.

While jobs continue to expand in the state, there is a growing disconnect with the available labor supply as living costs have eroded labor mobility. Reliance on established family/friend networks to cope with rising costs, escalating housing costs, and increasing commute times produce higher costs for food, child care, and commute expenses as workers must travel further for jobs at their skill levels. This trend in turn has eroded the time available for workers to pursue upward mobility strategies such as training and additional education.

Discrimination in the workplace is still cited by a significant share of these income levels as a barrier to upward mobility. Many of the cost barriers identified through the project research likely contribute to this situation, in particular the lack of housing that now makes access to upwardly mobile job opportunities more costly or absent altogether. The functioning of the state's overly complex housing approval process—including CEQA, entitlements, and development permit process—has thereby produced disparate impacts on low income Californians and disparate barriers to the demographic groups with a higher presence in these income levels. Opportunities to move beyond these levels are also limited by disparate impacts that result from the current focus of the K-12 schools on college-track preparation combined with their persistent failure to close the performance gap between demographic groups, along with the continuing cost burden of college in particular when high housing costs are taken into account.

As currently structured, the multiple public assistance programs are not effective as a means to promote upward economic mobility. Barriers from accessibility, eligibility, and caseload capacity means in practice they are too little, too intermittent, and not directed on the primary barriers lower income Californians face.

## Recommendations

### 1. Increase Housing Supply

There is no possible progress that can be made on economic mobility without increasing the supply and thereby reducing the cost of housing in the state. The scale of the current shortfall is prohibitive to using traditional affordable housing tools. The extent of the cost barriers—running across multiple income groups—requires that supply be expanded at multiple price points, not only to deal with the current affordability crisis but to prevent housing costs from being the barrier they are now as households attempt to move from affordable to market rate moderate income housing.

- Reduce the cost of constructing new homes by enacting Governor Brown's original By-Right housing proposal but with modifications in line with the Legislative Analysts' proposals.
- For all housing proposals consistent with a local general plan, enact a moratorium on requirements for CEQA until the state has built housing sufficient to reduce the supply shortage and continues to keep up with population growth.
- Reform CEQA to ensure adequate housing supply in the future.
- Reduce construction costs by reducing other regulatory requirements, costs, and fees.

- Expand the available construction labor pool by: (1) targeting current state jobs training funds to a statewide Construction Skills Initiative and (2) increasing the use of construction apprentices.

- Rebuild local housing finance sources by: (1) authorize a new form of redevelopment agency limited to housing and mixed use applications and associated infrastructure and (2) the next Governor should convene a task force to identify efficiencies through streamlining the state's 3,000+ special district services, where appropriate, through existing city and country structures in order to redirect some portion of existing property tax revenues to affordable housing.

**2. Rebuild Lower Income Home Ownership**

The focus of the limited housing reforms adopted to date by the state is on affordable rental units, viewing lower income Californians as only renters and depriving them of the opportunities for asset acquisition—an essential component to reducing income inequality and building long-term wealth—and through the sharing economy, opportunities for income supplements.

- Require a percentage of affordable housing using public financing to be for sale and enact deed restriction options that retain these units in the affordable pool while providing financial relief to facilitate the transition from affordable to market rate housing.

- Create a Housing IRA that will enable lower income Californians to save for a down-payment in tax preferred accounts.

- Reduce monthly costs of home ownership through 50-year mortgages for affordable units and through measures to reduce development and construction costs, consistent with the elements in Recommendation 1, to reduce the cost of affordable housing units due to state and local design and cost mandates.

**3. Expand Cost of Living Considerations in Future State Actions**

State laws and regulations have had a profound impact on the costs of living that now serve as the primary barriers to upward mobility. State actions continue to be drivers of many of the high costs faced by lower income Californians. The current process should be adjusted to at least consider how future such actions can incorporate these concerns.

- Institute a Cost of Living Committee in the Senate and the Assembly to consider potential impacts on household budgets of proposed legislation, comparable to the Appropriations Committees that consider potential impacts on the state's budget.

- Authorize these committees to hold oversight hearings on proposed regulations with potentially significant impacts—based on information contained in the Regulatory Impact Assessments prepared under SB 617.

## 4. Reduce and Standardize Occupational Licensing

Occupational licensing has become an increasing barrier to entry—especially for occupations paying at levels sufficient to carry households beyond poverty—both from the cost of licenses and increasing requirements to qualify. The current system—administered by a bewildering array of commissions and agencies—imposes large costs in time, money, and bureaucratic process on those least able to afford the challenge, but who also stand to benefit the most from higher income, greater control over their time and working conditions, and the growth opportunities that can come from state's long tradition of entrepreneurship.

- Building on the work already done by the Little Hoover Commission and the sunset reviews conducted to date by the Assembly Committee on Business & Professions and Senate Committee on Business, Professions & Economic Development, convene an outside commission or joint committee process to eliminate those provisions not essential to protection of public health and safety and set licensing costs at levels appropriate to promote entrepreneurship attainable by lower income Californians. Any legislation should include pre-emption of separate local licensing requirements in order to ensure maximum labor mobility within the state.

- Replace current licensing boards and agencies with a community college certificate for any remaining licensing for occupations below the BA level.

- Enter into an Inter-state Agreement for Portability of Licenses.

## 5. Create Transportable Employment Benefits Package

Obtaining benefits through their employment was one of the highest ranked tools desired by lower income workers as a means to cope with the rising costs they face. As an employment option, providing these benefits through a transportable package is a means to ensure this coverage between jobs, reduce potential disruption between vesting periods, and tailor the benefits to the circumstances of each household.

- Develop a Menu of Transportable Benefit Accounts which at minimum should include healthcare, retirement, childcare, and education. These should build off existing programs (e.g., health savings accounts, flexible spending accounts, 401(k), IRAs, 529 plans), but with modifications to ensure their applicability to lower income Californians, including provisions to retain an appropriate level of eligibility for the assistance programs.

## 6. Restructure Current Public Assistance Programs into an Expanded State EITC

Several concerns with the existing public assistance program structure were raised by the research participants during the course of this project's research work, namely: (1) assistance should be more certain and should not divert their already limited time for having to maneuver through the bureaucracies; (2) assistance should be tied to work—lower income Californians participating in the research expressed a strong work ethic and want their children to embrace this as well; (3) assistance should provide the resources households need to address their individual circumstances, and not the programs the agencies decide is best for them; and (4) assistance should be a bridge that enables lower income Californians to work through the transition as they move up in income, particularly as they reach the point where assistance is dropped and they are left to cope with the state's high costs on their own.

- Restructure Existing Assistance Programs into an Expanded State EITC by reallocating resources to the extent practical and using them to expand the current federal EITC by another 2-4 times using current funding from federal, state, and local sources. The expanded state EITC would then be applied as a refundable credit applied to state income taxes (including fully refundable in cases where there is no state tax liability). This approach would eliminate the current bureaucratic oversight under the current programs, including those to ensure compliance with work requirements which are replaced by the current state and federal rules that tie EITC to earned income. A portion of the programs identified in the research will likely need to remain outside this consolidation, in particular ones targeted more for the disabled, seniors, foster youth, and others.

- As is done in other states, the state EITC should be restructured as a percentage add-on to the federal EITC in order to simplify calculation and make it easier for the intended beneficiaries to make their budget plans accordingly.

- Federal funds otherwise available for the targeted programs should be consolidated into a single block grant and combined with existing state and local funding to support the additional State EITC.

- All or a significant portion of the administrative cost savings should be redirected to fund the education recommendations contained in the next section. To further reduce the need for federal oversight, any maintenance of effort requirements should be simplified and made more transparent, and made enforceable by third party lawsuits. All or at least a portion of the resulting savings in federal administrative costs from this and the overall block grant approach should be reallocated to the state purposes.

- Provisions should be incorporated to provide the state EITC on a periodic basis over the year, based on some percentage of estimated taxes, comparable to the procedures now used for the Covered California health insurance subsidies.

- Additional communication efforts would be required to make this approach more successful, along with creation of a simple electronic filing application accessible through the Franchise Tax Board web site.

- To be effective in restoring economic mobility, this concept as proposed needs to be done in concert with the other recommendations in this report. Without serious reforms to reduce the costs of living, the potential benefits from this approach simply erode over time much as the existing benefits have been doing. Without the job and education components, this approach may ready households to move up economically, but with fewer opportunities to do so.

## 7. Reshape Public Education from K-12 to K-14

Regardless of the net effect on the number of jobs, the current technology is likely to require an increasing level of skills for many occupations, especially for those paying higher than minimum wage. The public schools now fail to instill these skills across many demographics. The Community Colleges are an existing resource that can be used to ensure broader dispersion and produce broader educational opportunities for all students commensurate with the evolving 21st Century economy.

- For students not otherwise going directly to a 4-year college or university, provide universal Community College for students enrolled in a certificate program or an AA/AS for Transfer program.

- Given that most students currently attend community college tuition-free or through financial assistance, total expansion costs are difficult to estimate. However, additional potential funding sources for this and the related components below would include: (1) redirection of administrative costs related to the programs transformed into a broader state EITC and (2) through reform of local agency services, transfer a portion of the $22.5 billion in property taxes currently allocated to special districts to the community college districts.

- The overall costs and effectiveness of this system is also dependent on improving completion rates, facilitating the transfer process, and reducing the current situation where Community College students take substantially more than two years to complete their transfer requirements, but then take 6.4 years to finish a BA degree at UC and 7 years at a CSU.

It is important to recognize, however, that reshaping public education to K-14 is a response to the increasing technical demands likely to be faced in many if not most future occupations. Simply adding two years, however, is not a substitute for continuing efforts at the K-12 levels to reintroduce career technical education early both as a component of teaching life skills now absent in the public schools and as an early introduction to a broader range of career paths leading to higher life-time earnings. Simply adding two years also is not a replacement for the continuing need to improve public school outcomes overall including equal access to the A-G offerings, especially for the demographics—including Latinos, Blacks, and low income students—not being fully served by the current system.

## 8. Allow Dual Enrollment for Students Beginning in Their Junior Year

While some funding has been added in recent years for career technical education (CTE)—in particular funds from the various training and assistance programs described in the project's report—the funding still remains well below levels previously provided through the schools to provide alternative paths leading to higher paying jobs. More critically, they remain well below the levels required to provide viable alternatives—including paths that eventually lead to a 4-year degree—for the major demographic components not being prepared for the 4-year institutions and those who otherwise drop out because the schools do not provide them with these options. To complement these existing efforts, dual enrollment provides a pathway to increase the CTE options substantially within a short time frame that can immediately provide options to students currently within the K-12 schools. Dual enrollment would also contribute to degree completion rates by giving students options beyond those that now exist only through AP courses.

- For students choosing this education option, require that they continue to complete the core requirements in their first two years of high school, but provide for dual enrollment in CTE classes at the local community college beginning their junior year. These courses should be in a certificate program, leading into further skills development following graduation or into an AA/AS Transferable degree program.

- Propose a bond—including consideration of a multi-year bond package—to finance the required capital additions at the community colleges. Ongoing funding would be from the current LCFF apportionments attributable to the students choosing this option, distributed between the school district and community college based on classes taken.

**9. Expand Online Learning**

Governor Brown's Proposed Budget for 2018-19 calls for creation of a California Online College, to provide an alternative skills development option for those who lack the time or, often due to related high housing costs, the ability to enroll in traditional classes. This proposal is fully consistent with the skills training needs and a means to overcome some of the skills training barriers identified in the project's research. Expanded to incorporate considerations under Recommendations 7, 8, and 10, this proposal also can be an efficient means to help accomplish these recommendations at lower overall cost while also accelerating degree completion rates.

**10. Expand Apprenticeships**

California does have an active apprentice program for the building trades, along with others in areas such as automotive, barbers, information technology, health services, and hospitality. Many of these, however, are local efforts and do not provide the scale of opportunities needed to deal with the potential requirements as measured by such factors as the drop in youth employment, drop-outs, and high school graduates who do not go on to college. Expansion potential is also limited by the fact that current programs have been developed on an individual basis, rather than a structure that applies universally and can be applied to a broader range of occupations and population. In the most recent report, California in 2016 had 74,000 active apprentices, and 9,000 total completions. The potential applications, however, are much broader including gateway occupations into the state's higher wage industries.

- Convene working group of state business associations, including those in Silicon Valley, to identify occupations amenable to apprenticeships and develop recommendations for changes to state law required to produce a broader effort tied more closely to the state's educational systems. This step should be expansive and look at a broader range of occupations beyond those traditionally covered by apprenticeships, as a means to broaden the in-state training options to match with areas of looming skill shortages and to expand the opportunities, especially for the student populations with currently unacceptable educational outcomes, to augment existing education and training programs with applied experience. In the second stage, broaden the group to include community colleges and other interests to develop specific programs.

- Incorporate apprenticeship opportunities/requirements into the certificate programs under Recommendations 7 and 8 to build experience and reduce dropout rates.

- As applicable, incorporate apprenticeship periods as alternative to satisfy any experience requirements for licensing as discussed under Recommendation 4.

# Project Overview

## Project Scope & Purpose

Under a grant from The James Irvine Foundation, California Business Roundtable (CBRT) convened a collaborative process among a broad range of stakeholder groups to address the issues affecting poverty, jobs, and upward mobility in California. This multi-pronged effort incorporates the following objectives:

- To ensure both worker and employer voices are heard, understood, and addressed, conduct quantitative non-partisan research program that will study the needs, anxieties, perceptions, and goals pertaining to the workforce and quality of life issues in California.

- To develop a common dataset among all stakeholders that can eliminate the debate on the source and quality of information and allow the stakeholders to focus on solutions.

- To utilize a stakeholder process to examine the various local and state-level initiatives currently in place.

- To develop viable policy solutions to address challenges impacting poverty, jobs, and upward mobility in California.

- To conduct an educational outreach campaign based on a well thought out statewide strategy and stakeholder involvement to move forward actionable and viable policy options.

This document contains the recommendations for proposed policy changes to address the challenges—identified in the other components of the overall project—affecting poverty, jobs, and upward mobility in California. These recommendations in turn will form the basis for the final component above.

The overall approach contained within the recommendations is to provide more effective delivery systems for the resources the research participants identified as critical to upward mobility. Rather than the current system of multiple bureaucracies trying to guide Californians out of poverty, the focus is on targeting the key barriers, and enabling Californians with the resources to make the decisions that best reflect their circumstances and those of their families.

To be effective, however, disintermediation of the current bureaucratic structures must come through greater engagement at the local level, both from businesses and from Californians seeking to escape from the growing economic divide in the state's two-tier structure. Both can contribute to the identification of problems and the development of new perspectives on those problems, provide advice on the proposed changes to the state and local programs, keep government officials on their toes, and serve as a vital communications link and outreach to intended beneficiaries. The educational outreach component will be structured to incorporate these considerations.

## Project Research Components

Research conducted in support of these recommendations is contained in the following project reports:

1. **Barriers to Economic Development, Qualitative Research Summary Report**
   Vision Strategy and Insights, July 2017

   Contains the results from a series of focus groups held in Oakland, Fresno, Los Angeles, and San Diego. Two sessions with low income, below poverty, and unemployed Californians were conducted in each market: multicultural and less acculturated Latinos. These sessions explored: (1) what barriers those in poverty and the working poor in California perceive as their greatest obstacles to upward economic mobility; (2) understand what these populations need in order to overcome those obstacles—i.e., education, transportation, childcare, housing, good/better paying jobs, etc.; and (3) develop measurable, objective, and widely accepted concepts that can lead to viable public policy options to address the issues affecting poverty, jobs and upward mobility in California.

2. **St. John's Women and Children's Shelter Graduates**

   In addition to focus groups contained in the previous report, another was held with single mothers who formerly were clients of St. John's Women and Children's Shelter in Sacramento. This group was drawn from that program's graduates from 2008 through 2016, all of whom are currently working. Comparable to the insights obtained through the other focus groups, the key findings from the participants in this session were:

   - The safety net system is difficult to navigate, takes too much time, and has no personal contact.
   - A big problem is monitoring income levels for qualification of benefits and having to repay with penalties and interest any payments made once income levels disqualify benefits.
   - Turning benefits on and off is difficult to navigate and time delays in doing so come with big penalties that can set recipients back.
   - As a result, some chose not to seek assistance for which they might be qualified.
   - Housing costs and finding safe, affordable housing is their biggest challenge.
   - Universal income was not well received. Participants believed working develops self-worth, sobriety, independence, purpose, and a sense of community.
   - An online, one-stop portal would be helpful that monitored income levels and qualification of benefits.

- Need budgeting skills, childcare, and mental health services.

- Need more education about EITC.

3. **Barriers to Economic Development in California, Quantitative Research Study, Summary Report**
   Vision Strategy and Insights, November 2017

   Following from the issues identified in the focus groups, this report contains the results of the survey of lower income Californians, addressing the following objectives: (1) survey lower-income Californians about their perceptions of the economy, jobs, wages, and the cost of living, as well as their experience with job training and economic assistance programs; (2) further quantify results of the focus groups in order to more clearly identify the causes of poverty and barriers to upward mobility; and (3) test concepts that might address these barriers to economic development and gauge which might best help Californians in poverty move up the economic ladder.

4. **Barriers to Economic Development in California, Quantitative Employer Survey, Summary Report**
   Vision Strategy and Insights, December 2017

   To understand their views on these issues and the challenges they perceive for their employees, a survey of California employers was conducted to: (1) determine employers' views of the economy, costs of doing business, and business challenges; (2) understand employers' perceptions of employee wages, benefits, and cost of living; (3) learn their plans for hiring, workforce management, and automation for the next year; (4) identify the benefits and opportunities their companies offer to employees and community members; and (5) test concepts for assistance programs that might help employees who are part of the working poor become more upwardly mobile.

5. **Data Report**
   California Center for Jobs & the Economy, February 2018

   This report summarizes data quantifying the issues discussed in the prior reports, with sections on the following issues: (1) demographic data providing basic population information on those in poverty and the working poor; (2) jobs data describing California's changing jobs structure by industry, wages, and hours worked; (3) employment data addressing the changing structure of the labor force; and (4) cost-of-living data to address issues raised frequently in the focus groups, including comparative costs on housing, commuting, and other cost-of-living factors. The corresponding data series have been incorporated into the Center's recent update of its web site data tools and/or are available in a separate pivot table that includes user-defined charts.

6. **California Public Assistance Programs & Economic Mobility**
   California Center for Jobs & the Economy, February 2018

   Identifies the various federal, state, and related local programs that provide income assistance, training, and other services associated with the overall goal of assisting Californians in preparing for, joining, and moving up within the workforce. The report describes the major programs along with funding sources and a general assessment of the applicability of each program to providing Californians with the skills and/or resources to pursue upward mobility in the state's evolving economy.

In the recommendation sections that follow, excerpts from these reports are notated with the number of the source report in brackets. Additional information of each of the points can be obtained in the referenced report.

## Project Participants

Completion of these research components and development of the recommendations contained in this report were guided by ongoing discussions and advice from a number of stakeholders, in particular through the following two groups assembled as part of the project:

**Stakeholder Roundtable Group**

- Nathan Ahle, Fresno Chamber of Commerce
- Robert Apodaca, Greenlining Institute
- Herman Gallegos, Civil Rights Advocate
- John Gamboa, California Community Builders
- Paul Granillo, Inland Empire Economic Partnership
- Nicholas Ortiz, Bakersfield Chamber of Commerce
- Dave Puglia, Western Growers Association
- Nolan V. Rollins, Los Angeles Urban League (formerly)
- Dorothy Rothrock, California Manufacturers & Technology Association
- Jessie Ryan, The Campaign for College Opportunity
- Shawn Lewis, National Federation of Independent Businesses, California
- Michele Steeb, Saint John's Program for Real Change
- Gary Toebben, Los Angeles Chamber of Commerce
- Ronald Vera, Vera & Barbosa

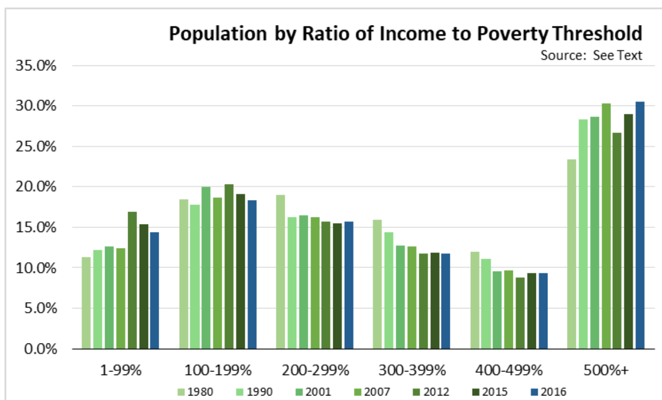
**Research Advisory Group**

- Andrew Chang, Andrew Chang & Company LLC
- David A. Flaks, Los Angeles County Economic Development Corporation
- Michael Shires, Ph.D., Pepperdine University

# Core Issues

## Middle Class has Narrowed in California

Middle income groups have steadily lost ground as the California economy has shifted away from traditional middle class income employment, and increasingly to a two-tiered pattern of jobs creation primarily at the higher and lower wage levels. Combined, the middle three income groups (200-499% of poverty income) went from 46.9% of the population in 1980 to 36.6% in 2015 and 36.8% in 2016. Movement out of the middle incomes, however, has been in both directions: the lowest two income groups grew from 29.7% in 1980 to 34.4% in 2015 and 32.7% in 2016; the highest level—500% and more of poverty income—grew from 23.4% in 1980 to 29.0% in 2015 and 30.5% in 2016.




While growth in the higher incomes has positive attributes, the hollowing out of the middle has diminished space and opportunities on the upward mobility rungs for both middle and lower income aspirations. With fewer supporting job opportunities being created at the necessary wage and income levels, the middle income tranche has become increasingly a gap separating the extremes rather than the path for generational economic progress. [5]

## Growing Costs of Living are a Barrier Making Lower Income Californians Risk Averse to Upward Mobility Opportunities

The growing costs of living—especially for housing—are swamping any progress many lower income Californians are now able to make in moving ahead economically.

- From the focus groups, respondents in all cities reported facing a rising cost of living that outpaces their earnings. Rent, food, gas, and electricity have all increased significantly and steadily in the major California cities where these respondents live. Despite working one or more jobs, getting additional hours or clients, or benefitting from an increase in the minimum wage, respondents can't seem to get ahead of their monthly expenditures. [1]

- High cost of living was the highest perceived barrier to getting ahead financially by far (56% of survey respondents), distantly followed by jobs without benefits that might help respondents otherwise keep up with the high cost of living (9%). [3]

- Employers recognize employees are also having a hard time meeting expenses. Nearly 9 in 10 (86%) employers believe the cost of living has increased for their employees, the majority of which is centered on housing. [4]

- While employers struggle with increasing costs of business, they also recognize their employees are facing rising costs of living. Even though wages are rising and benefits are expanding, employees still don't seem to be able to keep up with the cost of basic necessities, resulting in longer commute times and stagnant net worth. [5]

- As housing costs have risen in response to housing supply constraints and the state's increasing utility costs, the percentage of persons considered rent cost burdened has increased not just in the lower income ranges, but the middle income groups as well. While housing tends to be treated as a low income policy issue, rising rent and utility costs increasingly represent a barrier—by otherwise absorbing available household income—to movement into or through the middle income ranks as well. [5]

- Although housing assistance programs are available, these programs at their base are intended to relieve poverty conditions in the state rather than solve the underlying problem and promote broader affordability, and increasingly are being reshaped to prevent and combat homelessness for those in very low and extreme poverty. While a few are open to moderate incomes, the key program in this respect—redevelopment agencies—no longer exists in California. Rising housing costs, however, are a much broader state-wide issue affecting low and middle incomes and, especially in the Bay Area and coastal regions, upper middle incomes as well. [6]

- These programs are also limited in their potential scope. Using 2016 data, housing subsidy and public housing programs combined were sufficient to cover only a quarter of persons living below poverty, and just over 1 in 10 if those in the 100-199% of poverty income group are included as well. Other current policy responses such as inclusionary housing being adopted by local governments simply raise the barriers to upward mobility higher. By shifting the costs of affordable housing within a development to the market units, the cost of the market rate units goes up. As a result, those shut out are the working poor and the lower rungs of the upwardly mobile who no longer qualify for or have access to the subsidized units and now are unable to afford the higher market rate rents as well, further intensifying the two-tier economic divide in the state. [6]

The primary government response in recent years to this situation has been to increase transfer payments and mandate wage levels in an attempt to ameliorate the effects of these cost impacts, rather than serious reforms tackling their underlying causes. Lower income Californians, however, have come to view their situation as overwhelming, with costs escalating beyond their ability to keep up.

- The survey respondents were nearly twice as likely to believe that their salary doesn't keep up with expenses, rather than that their income isn't growing fast enough. [3]

- This perception is reflected in a more detailed look at the distribution of wages within industries. The Lower Wage industries generally show higher wage growth, with a higher growth rate at the 10th percentile coming primarily as the result of increasing minimum wage, and growth in the subsequent percentiles likely the result of employer responses to wage compaction. While this cascading effect shows general wage improvement across all levels, the result is also seen higher prices especially those felt at the lower income levels. Wage stagnation—considered as wage increases below the CPI rate—is the most prevalent in Middle Class wage industries, particularly in the middle ranges from the 25th to 75th percentiles. These industries are generally traditional, more mature businesses that are generally more subject to the cost pressures from the state's regulatory and taxation policies affecting labor, energy, transportation, rent, and other basic costs of doing business. Wage stagnation is also evident in the Higher Wage industries, but primarily in the lower wage percentiles particularly for the Information and Professional, Scientific & Technical Services industries that have provided the primary growth at this wage level. [5]

The extent of these costs and the potentially severe—if not disastrous in the case of homelessness—consequences of making the wrong choice on education, training, or a job change has made many lower income Californians risk averse. While there is a high awareness of the different avenues for upward mobility, the consequences of making the wrong decision now make them hesitant to pursue these options.

- For the most part, participants in the focus groups expressed not anger but resignation over the economic challenges they face. Without any safety net (savings, confidence in future earnings, stability/security for immigrants), most were highly risk averse. Participants in all 4 cities expressed a "bird in the hand" attitude about their job situation, and fear and doubts over the idea of changing careers. Even some business owners and others who in different circumstances would not be risk averse find themselves severely limited by this situation. [1]

- When asked to describe where they see themselves in 5 years, few respondents have defined plans. Overall, they tend to spend most of their time and energy trying to get by, with little left to "invest" in improving their situation. [1]

- In the top ranked choice, about half of the lower income survey respondents cited fear of change as a moderate or extreme barrier to getting a new or better job. However, just over half also indicated their intent to change jobs in the near future, but primarily to gain more job security. [3]

## Lower Income Californians Retain a Strong Work Ethic

The overwhelming response in both the focus groups and survey indicates lower income Californians continue to show a strong work ethic in spite of the challenges they face. They are looking for actions to deal with the ever-rising living costs that are sapping the purchasing power of what they earn, and options that enable them to improve their skills and employability but that also accommodate the other demands on their time due to commuting, multiple jobs, and family responsibilities.

- Focus group respondents in each city indicated a willingness to work hard, and don't want "something for nothing" from the government. Instead, what they seem to be looking for is help managing the gap between what they make and the high living costs they face. Many also seek on-the-job programs where they could more easily manage additional education or training. [1]

This commitment extends to hopes for their children as well.

- The survey respondents generally believed that their children will be better off than they are, because of the opportunities that advances in technology offer. Several Latino respondents note that they are better parents to their children, as they "know the system" better than their immigrant parents did, and are able to prioritize education for their children. [1]

- Less acculturated Latinos (immigrants) are more invested in their children's future than in their own, and are more committed than their more acculturated counterparts to creating generational upward mobility. For many, it is not so much about working to make a better life for themselves, but rather to make sure their kids have the tools to improve their economic situation. [1]

In this respect, both the focus groups and survey group showed widespread rejection of universal income as policy option that can address their situation:

- The concept of universal income is perceived with suspicion; the focus group respondents believed it would only drive up the cost of living even more. [1]

- Focus group respondents in each of the cities also expressed concern that this type of program might foster laziness and dependency; people would not manage the money properly, and would choose to just take the "handout" instead of working or studying. Most believed that there should be an education, work, or community service requirement attached to this type of program. [1]

- Universal income was not well received. Participants believed working develops self-worth, sobriety, independence, purpose, and a sense of community. [2]

- While considered helpful by two-thirds of the survey respondents, universal income was ranked the second lowest out of a list of 8 potential assistance programs. Programs developing jobs skills and employability—including tuition-free community college, apprenticeship programs, and skills training—ranked at the top. [3]

Reaction to minimum wage increases was more mixed. While many noted they benefited personally from higher minimum wage, there was also a strong perception that it has and will continue to increase the living costs they face.

- Focus group respondents in all cities noted that the minimum wage is increasing across California. However, they were also quick to add that they have experienced two important types of setback as a result of this policy: (1) many businesses just reduce hours in order to reduce the total wage amount and to avoid paying benefits, often leaving workers earning less overall and feeling worse off about their financial situation than before the wage increase; (2) minimum wage increases are not keeping pace with increases in the cost of living, so respondents feel as though they have ended up in the same place (at best) or at a net loss. [1]

- Eight in 10 survey respondents agree ("strongly agree" or "somewhat agree") that the blame for food prices falls on restaurants and grocers raising prices. However, seven in 10 also agree that increased labor and production costs are responsible for food costs going up. [3]

- Two thirds of survey respondents agreed that a higher minimum wage helps workers like themselves. However, three fourths also agreed that a higher minimum wage leads to higher prices, which only exacerbates the problem of their salary not keeping pace with rising expenses. [3]

- These perceptions are mirrored in the employer survey responses: 73% of employers are somewhat or extremely likely to raise prices in response to the mandated wage increases compared to 48% likely to increase automation, 46% likely to reduce hours, and 39% likely to reduce the number of employees. [5]

## California has Split into Two Economies

In a trend that began in the 1990s but that has accelerated through the recent recovery period, California has evolved into a two-tier economy, producing higher wage and middle class wage jobs primarily in the Bay Area and a dominance of low wage jobs and jobs dependent on public spending in much of the rest of the state.

- The focus group respondents noted that while there appear to be plenty of job opportunities in California, the available jobs are not necessarily suitable for them. Available jobs are either entry level or very low-paying positions, appropriate for recent high school graduates but not heads of household. Jobs that pay more require skills, education, certification, and/or experience that they don't have and are not able to get. [1]

- The focus group respondents also noted that the growing California economy has resulted in more jobs available than in recent years. However, these jobs tend to be low-skill, low-wage positions in the fast food industry, housekeeping, or agriculture. [1]

- A number of focus group respondents lost good jobs during the recession, and reported not being able to get a comparable job since then. [1]

- Between 2010 when the recovery began and 2016, California generated 2.2 million wage and salary jobs, producing a net increase of 1.1 million jobs compared to the pre-recession level. However, the nature and distribution of those jobs shifted notably from patterns in the past.

While job opportunities for lower educational attainment groups have grown during the state's recovery, they are at significantly lower wage levels. The opportunities this economic mix now provides either to avoid poverty—especially cost of living adjusted poverty—or provide a base from which to pursue upward mobility are as a consequence significantly diminished. [5]

- The distribution of jobs growth has also shifted. Overall, the Bay Area—with 19.4% of the population—accounted for 30.2% of the recovery jobs growth between 2010 and 2016, and nearly half (46.2%) of the net jobs growth between 2007 and 2016. Breaking these totals out by wage and skills level, the distribution is even more skewed. Los Angeles Region accounted for 47% of the net jobs loss between 2007 and 2016 for the Middle Class, Blue Collar jobs in construction and manufacturing. At the other extreme, the Bay Area secured 84% of the net jobs growth in the Higher Wage industries and 31% of the net jobs growth in the Middle Class, White Collar industries. [5]

- Rather than sustainable private jobs growth, a significant portion of California's recovery growth came from expanded public spending. Health Care & Social Assistance—much of which was directly or indirectly the result of expanded Medicaid and other public health care spending—accounted for 47% of the net jobs growth between 2007 and 2016. Combined with direct job expansions in Government, many of the middle class wage and lower wage jobs created over that period are dependent on uncertain or volatile public funds, which in turn are largely dependent on the economic performance of a single region in the state—in 2014 and 2015, Bay Area taxpayers produced 40% of all personal income tax paid in the state.

## Labor Mobility Eroding

While jobs continue to expand in the state, there is a growing disconnect with the available labor supply as living costs have eroded labor mobility. Reliance on established family/friend networks to cope with rising costs, escalating housing costs, and increasing commute times produce higher costs for food, child care, and commute expenses as workers must travel further for jobs at their skill levels. This trend in turn has eroded the time available for workers to pursue upward mobility strategies such as training and additional education.

- Focus group respondents in each of the cities noted that California cities are getting too crowded, which contributes to high expenses in these cities. People are having to move to the outskirts of their city and commute for longer periods. The exception seemed to be Fresno, which is seen to have lower housing costs overall. [1]

- Not surprisingly, traffic was seen as a major problem in these crowded cities. For most, public transportation is not really alleviating the problem. In San Diego, the new trolley is called out as inefficient and not helpful. Even in Fresno, where traffic is not as heavy as the larger markets, residents have noticed an increase in their commute time. [1]

- People have had to move farther away from their jobs to find affordable housing, increasing commuting times and leaving less time to pursue education or have an acceptable family/work balance. [1]

- One main source of dissatisfaction with their jobs concerns the location of good jobs, which tends to be exacerbated by the overall cost of living and lack of affordable childcare. Several respondents across markets (with the exception of Fresno) note that they can't earn enough to be able to live close to where they work; this tends to affect their ability to progress and their overall quality of life. [1]

- In addition, the pressure caused by the fact that today's salaries and raises are not keeping up with the cost of living is perceived as reducing overall quality of life. People have had to move farther away from their jobs to find affordable housing, increasing commuting times and leaving less time to pursue education or have an acceptable family/work balance. [1]

- Approximately one third of the survey respondents don't believe they have the education or experience to take advantage of job opportunities in their area, while one fourth can't afford to live on the salary offered by jobs in their area. Three in 10 respondents noted that there are very few job opportunities close to where they live. [3]

- In the employer survey, 66% indicated commute times have increased for their employees. [4]

- The difficulty of matching jobs with available skills has led a significant portion of employers to look outside the state—28% indicated they plan to transfer workers or expand hiring outside of California in the next 6 months to a year, with some of these respondents indicating hiring outside of California is a way of testing the talent pool in other locations before moving the entire company. [4]

- While California has created jobs since the recession that can provide an option for upward mobility, their concentration within the Bay Area means that that cost barriers created by housing and commuting result in these jobs not being a viable option for most lower income families. [5]

## Discrimination Still Seen as a Factor

Discrimination in the workplace is still cited by a significant percentage of these income levels as a barrier to upward mobility.

- Female, African American, and Latino respondents in the focus groups noted that their gender and/or ethnicity often work against them in the workplace, making it more difficult to get a job or qualify for better wages. Latino respondents in particular noted an increasing anti-immigrant sentiment that can limit their job opportunities. [1]

- Racism/discrimination ranked 6$^{th}$ out of 7 choices of factors contributing as barriers to getting ahead, with 26% indicating it was a moderate barrier and 27% an extreme barrier (53% combined). This factor was ranked higher in the Bay Area (60%), Central Valley (59%), and Los Angeles (56%), as well as among African Americans (58%) and Latinos

(57%). When asked which factor was the greatest challenge, 7% responded racism/discrimination vs. 56% choosing high cost of housing. [3]

- The ethnic/racial distribution for the 300-399% income group in 2016 substantially reflects the population distribution overall in California. Differences, however, exist in the higher and lower income groups. Latino and Black Californians show a higher relative share in the lower income ranges. In the highest, 500%+ income range, the relative share for non-Latino Blacks is 20% below the income range share, and for Latinos, 60% below. [5]

- On a relative share basis, the race/ethnicity distribution has been essentially stable since before the recession in 2007. The changes shown in the distribution within each income group are largely explained—with some slight differences—instead by the underlying changes in the overall population distributions as Latinos and Asian-Pacific Islanders have grown as a share of total population and the labor force, non-Latino Blacks remained essentially level, and non-Latino Whites declined. [5]

- Incomes, however, reflect the differing effects of the recession on each of these groups. Unemployment rates for Latinos and non-Latino Blacks peaked at much higher levels, and through 2016 still had not returned to recovery levels, in particular for Blacks. While Latinos maintained a higher labor force participation rate than the other demographics throughout this period, the non-Latino Black rate sank well below the others and began to recover only in 2016. [5]

Many of the cost barriers identified through the project research likely contribute to these perceptions, in particular the lack of housing that now makes access to upwardly mobile job opportunities more costly or absent altogether. The functioning of the state's overly complex housing approval process—including CEQA, entitlements, and development permit process—has thereby produced disparate impacts on low income Californians, reducing the available housing supply they can afford in the coastal areas creating the most jobs. Opportunities to move beyond these income levels are also limited by disparate impacts that result from the current focus of the public schools on college-track preparation combined with their persistent failure to close the performance gap between demographic groups. These gaps are becoming even more significant at a time when occupations and the nature of work are shifting in the face of growing technology applications.

- Educational attainment remains associated with income level, but despite a 30% increase in Prop. 98 funding from 2007-08 to 2017-18 and a redirection of significant resources to focus on disadvantaged students through the Local Control Funding Formula (LCFF), major gaps remain in educational outcomes by demographic and region. General comparison of relative performance both before and after 2014 shows a large and continuing gap by Latinos and Blacks especially in the Math skills critical to current jobs in Higher Wage industries and to occupations at all wage levels that are changing in the face of technology. [5]

- Comparing completion rates of the A-G courses required for application to University of California and California State University, the K-12 schools are preparing White and Asian students for college at levels significantly above Latino and Black students. Males, especially Latino and Black Males, show completion rates well below Female levels, with SDA (socioeconomically disadvantaged/low income) students as a group at only just over a third of SDA graduates in the latest 2016 results. In a time of transition when required skill levels are likely to change substantially for many occupations—both the current mix and the yet-to-be-known evolving structure—California schools remain largely focused on college-track education. And in this respect the schools no longer are functioning as the primary asset for adjusting to technological change, but instead now come close to serving as a winnowing process that risks relegating another generation—especially Blacks, Latinos, and low-income males—to the income levels in which they are now without the skills necessary for upward mobility in a changing state. [5]

## Current Public Assistance Programs Do Not Assist in Upward Mobility

As currently structured, the multiple public assistance programs are not effective as a means to promote upward economic mobility. Barriers from accessibility, eligibility, and caseload capacity mean in practice they are too little, too intermittent, and not directed on the primary barriers lower income Californians face.

- Focus group respondents were frustrated with aid programs that are underfunded, require significant time off work, and have seemingly out-of-touch income eligibility levels. Several mentioned that as soon as programs begin to help them manage their expenses, they become ineligible. In addition, the waiting periods for housing and food assistance rendered the programs essentially unavailable. [1]

- Overall, respondents are frustrated by the fact that these programs are all underfunded, there is too much red tape in the application process, and the help does not come as quickly as people need. They cited personal examples where food stamps took 6 months to go into effect, insurance coverage that didn't kick in until after a baby was born, and the Section 8 program with a waiting list of 10 years. [1]

- Single mothers in particular noted that when these assistance programs fail to work as designed, it puts them even further behind. Few seemed to have been able to access a childcare assistance program that would allow them to get a job and/or improve their work situation. [1]

- The safety net system is difficult to navigate, takes too much time, and has no personal contact. A big problem is monitoring income levels for qualification of benefits and having to repay with penalties and interest any payments made once income levels disqualify benefits. Turning benefits on and off is difficult to navigate and time delays in doing so come with big penalties that can set recipients back. As a result, some chose not to seek assistance for which they might be qualified. [2]

- Survey respondents prioritized assistance programs that would help them move on to that next job and those that would help manage their most pressing expense: housing. [3]

- Only about half of survey respondents felt they were "probably" or "definitely" receiving all the help they're entitled to. [3]

- While many of the safety net programs retain their original focus of moving Californians out of poverty, others have evolved more into a purpose of income support and ameliorating the effects and conditions of poverty rather than combating the underlying causes. This policy shift is perhaps best seen in the increased prominence given to expansion of spending on the state's poverty programs in recent Governor's Budget Summaries, under the general heading of "Counteracting the Effects of Poverty." [6]

- This policy shift is also fundamentally grounded in an assumption that many of the core conditions defining the challenges to upward mobility in the state—in particular, the increasing prevalence of low wage, part time jobs outside the Bay Area and the growing cost of housing, energy, and other costs of living—are an inevitable feature of the state's economic future instead of challenges that can be changed and not just offset through government assistance. This outcome is seen in the increasing use of targeted funds and programs to compensate—at best partially—for the cost effects of state policies in areas such as in energy and housing. These ameliorative programs are not reaching the full range of people affected, are not easily accessible due to qualification limits or application burdens, or at best are capable at reaching only a portion of the populations affected due to available funding. [6]

- Individual programs, especially those adopted separately by California, challenge applicants with a broad and inconsistent range of income eligibility criteria. But in particular, the guidelines of the poverty programs and programs supported largely by federal funds are based primarily on federal poverty level either as a hard dividing line or as the base for eligibility determined as a multiple of this income level. As such, the potential for the programs' effectiveness varies widely due to the significant differences in costs of living between California and other states in general, and specifically through the wide differences in living costs between regions in the state. While these disparities reinforce the critical need for actions to reduce rather than subsidize living costs in the state, at least in the near term these cost differences—especially when considering the barriers to labor mobility raised by housing—make the potential effect and eventual success of the current programs structure heavily dependent on geography and where the program beneficiaries live. [6]

# Policy Recommendations: Cost of Living

*Nearly nine in ten survey respondents perceive the cost of housing to be increasing, compared to about two thirds of respondents who note that the costs of food, gas and utilities are increasing. [3]*

*When asked to describe where they see themselves in 5 years, few focus group respondents have defined plans. Overall, they tend to spend most of their time and energy trying to get by, with little left to "invest" in improving their situation. [1]*

The dominant and consistent issue throughout the research conducted by this project was that lower income Californians are aware of what they need to do in order to improve their economic situation and largely are aware of the opportunities to do so. But the rapidly escalating costs of living—led by housing—swamp whatever progress they have been able to make and sap whatever time and household resources they otherwise would have to progress further.

More perniciously, this situation has made them highly risk averse to even attempting to make these changes for fear they will make the wrong choice and risk being overwhelmed by the costs they now face.

## 1. Increase Housing Supply

There is no possible progress that can be made on economic mobility without increasing the supply and thereby reducing the cost of housing in the state. The scale of the current shortfall is prohibitive to using traditional affordable housing tools. The extent of the cost barriers—running across multiple income groups—requires that supply be expanded at multiple price points, not only to deal with the current affordability crisis but to prevent housing costs from being the barrier they are now as households attempt to move from affordable to market rate moderate income housing.

- <u>Reduce the Cost of Constructing New Homes</u>. Current housing construction in the state is essentially limited to affordable housing where subsidies are available and to higher price point market housing that can absorb the high cost of permitting, increasing regulation, inclusionary requirements, and impact and mitigation fees. Moderate income housing is simply uneconomic in many of the state's urban areas under these existing conditions.

    ✓ Enact Governor Brown's original By-Right housing proposal[1] from 2016, but with expansions substantially in line with those recommended by the Legislative Analyst (LAO).[2] The By-Right proposal contained significant streamlining proposals to reduce the current approvals that now add significant time and cost—if not resulting in outright rejections—for new housing. The proposal in summary: (1) created a ministerial permit process for multifamily, infill housing projects conforming with existing general plan and zoning, meeting specified affordability requirements, and were not proposed for various land types; (2) set time limits for city/county objections to streamlined projects; (3) set limits on design review; (4) eliminated CEQA review; and (5) required relocation assistance for any displaced households.

- ✓ Specific expansions consistent with the LAO recommendations would include: (1) expand the range of housing covered; (2) remove or substantially reduce the affordable unit requirements to ensure barriers to moderate income housing are not created; and (3) move any additional affordable unit provisions to the incentives under the state density bonus requirements.

- ✓ For all housing proposals consistent with a local general plan, enact a moratorium on requirements for CEQA until: (1) the housing supply backlog—to be determined by Department of Housing & Community Development—necessary to keep pace with population growth has been reduced by a specified amount (e.g., elimination of the backlog as determined from annual building permit data and prior Department determinations of required supply additions; construction of the 2.8 million units estimated in the Fall 2017 UCLA Anderson Forecast as required to return state housing costs to their 2014 levels), and (2) as determined on a moving three-year average, the state continues to construct new housing without increasing the size of the backlog.

- ✓ Reform CEQA to require transparency on litigants and overall reduce its misuse in litigation, and return to its original intent to ensure environmental considerations in public decisions.

- ✓ Reduce construction costs by reducing other regulatory requirements, costs, and fees: (1) until the housing supply backlog is eliminated (as above) allow new housing to be built according to state building standards—except those related to seismic, fire, and other safety elements—as they existed during 2003-2005, the only period during the last 28 years when California saw new housing construction at the level required to keep pace with population growth; (2) cap impact fees and total mitigation costs at a specified percentage of construction costs; (3) enact a multiple-year bond package to finance local capital improvements that would otherwise be covered through local impact fees, with financing bonuses tied to affordable units; and (4) prohibit prevailing wage requirements for housing, including affordable units, constructed pursuant to By-Right provisions.

- <u>Expand Available Construction Labor Pool</u>. In 2017, the number of construction jobs in California was about 118,000 (13%) below its prior peak before the recession. Even at this lower level, however, construction labor overall appears to be in short supply as former workers have aged out of the labor force, changed occupation, or moved to other states with more construction work and lower housing costs, and as fewer new entrants trained for construction during the recessionary plummet in available work. While regulatory changes are needed to reduce costs and incentive new development, additional construction workers will be required to build it—a factor which will also have a direct improvement to blue collar, middle class wage jobs in the state.

  - ✓ Target current state jobs training funds to a statewide Construction Skills Initiative.

  - ✓ Increase the use of construction apprentices by: (1) require a percentage of apprentices to be used on projects qualifying under By-Right provisions and (2) incorporating an incentive through the state's density bonus requirements based on the number of apprentices employed from the local area.

- <u>Rebuild Local Housing Finance Sources</u>. The previous redevelopment agencies played a key role in financing affordable and, more critically, moderate income housing both directly by providing the local base to leverage other private and public funds, and indirectly by providing the site preparation and infrastructure leading to private developments. While various partial replacements such as infrastructure districts have been enacted since then, none has shown the potential to contribute to the housing crisis the state now faces. Particularly in economically distressed areas, sustained improvements to housing supply can be achieved only through long-term and sustainable capital sources, rather than the short term and often one time improvements that are achieved through tax credits and subsidies.

  - ✓ Authorize a new form of redevelopment agency limited to housing and mixed use applications and associated infrastructure. Limit the property tax increment available to these agencies to the portion that would not otherwise go to K-14 agencies, determined as the greater of: (1) the actual county percentage or (2) the statewide average (46%).

  - ✓ The next Governor should convene a task force to identify efficiencies through streamlining special district services, where appropriate, through existing city and county structures. Specifically, this would include redirecting some portion of existing property tax revenues to affordable housing. In the aftermath of Prop. 13's passage, then-Governor Brown in a June 8, 1978 address immediately responded with a proposal to restructure the state's local governments to better reflect the newly-approved local government revenue framework. Governor Brown specifically called for reforming and overhauling the thousands of special districts as part of the redistribution of future revenues from property tax. This proposal was not pursued, and currently over 3,000 special districts—virtually all of which are generally unknown to the public—continue to draw on local property tax revenues, at $22.5 billion or 19% of the total in FY 2016. While some of these districts—in particular the multi-jurisdiction infrastructure districts—likely are the more efficient means of providing the applicable services, a sunset review should be conducted to designate services that can be absorbed within the component city and county structures, with the hard goal of redirecting $4-5 billion of the existing property tax revenues as an ongoing, sustainable affordable housing source.

## 2. Rebuild Lower Income Home Ownership

The focus of the limited housing reforms adopted to date by the state is on affordable rental units, viewing lower income Californians as only renters and depriving them of the opportunities for asset acquisition—an essential component to reducing income inequality and building long-term wealth—and through the sharing economy, opportunities for income supplements.

- <u>Require a Percentage of Affordable Housing Using Public Financing to be Units for Sale</u>. In addition to requiring a set—and possibly increasing—share of units to be available for sale, additional provisions could be included to promote the transition from an affordable unit, and to overcome the high barriers that now exist for movement into market rate units. As an additional equity sharing option, incorporate deed restrictions limiting resale prices to an amount tied to a specified index (e.g., some multiple of the CPI plus selling fees) in order to keep the units in the affordable and moderate income pools. In return, the sellers would be able to transfer their assessed valuation basis to their subsequent home purchase, in order to control their monthly transition costs and to provide long-term compensation for limiting potential capital gains from ownership of affordable units. Consideration should also be given to modifications to the current federal and state tax exclusion for sale of a primary residence in order to provide for maximum equity preservation, including a provision to allow for the exclusion if the sale does not meet the residency time requirements but was for the purpose of moving for a new job (full exclusion rather than the current prorated amount), or a 1031-like exchange option that ties the exclusion to reinvestment equal to or greater than the amount of equity rather than the value of the properties. These latter considerations would require changes to both state and federal law.

- Create a Housing IRA. Create an IRA-like instrument to allow workers to save pre-tax money for a down payment. This provision would require changes to both state and federal law.

- Reduce Monthly Costs. Adopt 50-year mortgages—similar to those introduced in Japan and Europe—for affordable units, possibly backed through state bonding or the state pension funds. Reduce overall monthly costs through measures to reduce development and construction costs, consistent with the elements in Recommendation 1, to reduce the cost of affordable housing units due to state and local design and cost mandates.

## 3. Expand Cost of Living Considerations in Future State Actions

State laws and regulations have had a profound impact on the costs of living that now serve as the primary barriers to upward mobility. Numerous studies[3] have identified the effect of the CEQA, permitting, and land use policies on restricting or prohibiting new home construction. The way California has chosen to implement its climate change policies has produced higher utility costs and bills—with direct effects on the affordability of housing—along with fuel costs that feed directly into high costs for commuting and many goods and services. As expressed through the research, adoption of the state's escalating minimum wage is having a dual effect—increasing incomes for those who receive it but also contributing to growing costs for basic purchases. State actions continue to be drivers of many of the high costs faced by lower income Californians. The current process should be adjusted to at least consider how future such actions can incorporate these concerns.

- Institute a Cost of Living Committee in the Senate and the Assembly. Mandating that the state take into account the potential impacts of proposed actions on living costs is difficult. The legislative process and at least theoretically the regulatory process exist to weigh the potential costs and benefit of individual actions. The potential disconnects arise because these systems are attuned to weigh individual outcomes and not the cumulative effect of numerous such actions over time, and because in the end they are fundamentally political rather than analytical processes. The need for such consideration, however, has become all the more pressing as a result of blanket regulatory grants of authority that have been issued over virtually the entire economy to single-purpose regulatory agencies. While these processes cannot be mandated to produce a specific outcome, improvements can be made to ensure these considerations are explicitly addressed.

- ✓ Institute committees to consider potential impacts on household budgets of proposed legislation, comparable to the Appropriations Committees that consider potential impacts on the state's budget.

- ✓ Authorize these committees to hold oversight hearings on proposed regulations with potentially significant impacts—based on information contained in the Regulatory Impact Assessments prepared under SB 617.

# Policy Recommendations: Jobs & Employment

*When survey respondents were asked to choose between a better job at the same salary, or the same job with a higher salary, two thirds stated they would prefer the higher salary. However, when asked whether they would prefer a job with benefits or a job with higher pay, six in 10 preferred a job with benefits, possibly due to a belief that medical and dental insurance would be more effective in reducing expenses than a higher salary would be in paying them. [3]*

While the raw number of jobs created during the recovery are often cited as evidence of California as a successful model of high regulation and high taxation, a more detailed look at the geographic distribution and types of jobs shows a different picture. The Bay Area has captured the predominant share of growth in higher wage and middle class wage jobs, based largely on emerging industries not yet subject to extensive regulation and still able to use compensation models and tax strategies that are less affected by the state's high rates. Much of the jobs growth in the rest of the state remains reliant on low wage and low hour jobs, with jobs declining or slowing in traditional industries more affected by these aspects of the state's operating conditions.

Bridging this divide and increasingly the means to temper the effects of this uneven progress in the state is the disproportionate flow of state revenues coming from the Bay Area, a relief valve that already failed once at the beginning of this century when the state's economy was more balanced and more capable of absorbing the loss. Continued reliance on this public revenue structure to fund programs to ameliorate rather than reforms to resolve the fundamental jobs trends that produce the poverty and low income outcomes in the state are consequently likely to be more severe should the Bay Area experience a similar economic event in the future.

This project is not intended to explore ways to counter this trend through underlying changes to the business and jobs investment climate, but instead has focused on strategies to increase the ability of lower income Californians to transverse these conditions in pursuit of upward economic mobility. But the current growth system dominated by low wage jobs in much of the state remains a challenge if not a barrier given the growing risk aversion identified in the other sections of this report.

This situation is all the more critical given that California along with the other developed economies is in a phase of transition, as technology is expected to continue transforming large sectors of the economy. The net effect on jobs is still to be seen: a net loss of jobs as human workers are replaced or a net gain if, as in past technology waves, new jobs are created both within existing industries and others yet to be. What is certain is that the nature of work is likely to change for many occupations, requiring skills and training not provided on a sufficient scale today. While tackling the costs of living is critical to opening up the breathing room lower income Californians need to even contemplate moving ahead, opening up options to prepare for this changing economy is what they will use to get ahead. This aspect is the goal of the recommendations contained in this section and the next that follow.

However, the operating conditions that have helped shape the type of jobs available to Californians now will continue to shape the state's competitiveness for the jobs that will be evolving in the coming years. The challenge to the economy as a whole will be whether the state continues evolving on a two tier path, continuing to grow through high wage knowledge and design jobs on one end and lower wage population serving jobs on the other, with the middle ground shifting to other locations as technology enables ever greater mobility for these functions. Part of the response to the challenges of automation and the other factors affecting income and job opportunities in the state will not only be improving the skills level of Californians to enable them to adapt to and benefit from the shifts, but also to ensure the state embraces policy changes that promotes the jobs to hire them.

While this project has not analyzed them in detail, such job enabling strategies would include those currently being pursued by the Los Angeles Economic Development Corporation:

- Catalyze and accelerate the state's basic, applied and translational research and innovation capacities to strengthen the state's comparative advantages in the current crop of world-leading innovation-intensive industries such as information and communications technology, entertainment, and biotech but also to promote new industries that remain unknown today.

- Build demand-side capacity within the state's key traded or export-oriented innovation-intensive industries, such as aerospace, alternative transportation, biopharmaceuticals, clean energy, digital media, entertainment, information and communications technology, medical devices, professional and technical services, trade/logistics, and others. Approach this challenge through an idea-to-export perspective by looking at the entire product and service value chain associated with these key, traded industries, from research to design to create to build to market and all the way through to export. Rather than simple lip service to gaining jobs through state policies promoting the ideas generation in areas such as clean energy, alternative transportation, and green jobs, building this capacity would require greater attention to identify and develop the infrastructure, skills base, capital structures, regulatory and tax reforms, and other economic development assets necessary to secure a wider wage spectrum of jobs as both the current and new industries evolve in the state and world.

While these concepts would form part of a more detailed consideration of factors affecting the types of jobs and wage levels being created in the state, the following recommendations cover more immediate actions that can be taken based on the research from the current effort.

## 4. Reduce and Standardize Occupational Licensing

Self-employment offers an option to provide either primary or supplementary household income, but with greater flexibility often needed to cope with child care and other family needs. Starting a business also became a necessary response for many during the recent recession, with persons below poverty showing the highest relative incidence of self-employment among the income groups.

Occupational licensing, however, has become an increasing barrier to entry—especially for occupations paying at levels sufficient to carry households beyond poverty—both from the cost of licenses and increasing requirements to qualify. In all, the share of workers requiring a license has risen five-fold, from 5% of the employed nationally in the 1950s to 25% in 2015.[4] In a 2012 detailed review, California required licenses for 62 low income occupations, greater than any other state except Arizona and Louisiana.[5] The current system—administered by a bewildering array of commissions and agencies—imposes large costs in time, money, and bureaucratic process on those least able to afford the challenge, but who also stand to benefit the most from higher income, greater control over their time and working conditions, and the growth opportunities that can come from state's long tradition of entrepreneurship.

Licensing is often justified on consumer confidence and public health factors. However, licensing particularly as it is now practiced has significant economic effects as well: (1) through restricting entry, licensing can increase the holders' income; (2) through restricting entry, licensing can increase prices, contributing to the rising costs that now represent barriers to upward mobility; (3) the cost, required experience, and training is not always commensurate with the services provided, increasing the cost of entry in particular for immigrants with the necessary skills but not the required credentials; and (4) differing requirements between states and increasingly between localities further reduces labor mobility, in particular negating the income flow altogether for lower income workers who are forced to change residences due to rising housing costs.

- <u>Eliminate or Reduce Licensing Requirements for Occupations Requiring Less than a BA Degree</u>. Through an outside commission or joint committee process and building on the work already done by the Little Hoover Commission[6] and the sunset reviews conducted to date by the Assembly Committee on Business & Professions and Senate Committee on Business, Professions & Economic Development, the Legislature should review current licensing requirements, and eliminate those provisions not essential to protection of public health and safety and set licensing costs—considering the total costs associated with the required training, experience, and actual fee process—at levels appropriate to promote entrepreneurship attainable by lower income Californians. Any legislation should include pre-emption of separate local licensing requirements in order to ensure maximum labor mobility within the state.

- <u>Replace Current Licensing Boards and Agencies with Community College Certification</u>. Any remaining licensing requirements for occupations below the BA level should be fulfilled to the extent possible through completion of a certificate program through the community colleges—tuition-free if combined with the other recommendations in this report—in conjunction, if essential, with an apprenticeship or other qualified experience not to exceed a specified reasonable period.

- <u>Enter into Inter-State Agreement for Portability of Licenses</u>. The state should take the lead in developing reciprocity agreements or pursue an interstate compact to ensure acceptance of licenses of persons moving between states. While some provisions now exist for temporary accreditation for otherwise licensed persons moving into the state, the focus of this component should not just be accommodating the differences, but seeking to remove them and allow for greater economic mobility.

## 5. Create Transportable Employment Benefits Package

Obtaining benefits through their employment was one of the highest ranked tools desired by lower income workers as a means to cope with the rising costs they face. As an employment option, providing these benefits through a transportable package is a means to ensure this coverage between jobs, reduce potential disruption between vesting periods, and tailor the benefits to the circumstances of each household. The basic components of such a package already exist within state and federal law, but differ as to their requirements, fungibility, tax treatment, and more critically consideration as an asset for purposes of the public assistance programs in the event the holders face an extended period of unemployment or take time to improve their skills through training and education.

- <u>Develop a Menu of Transportable Benefit Accounts</u>. At minimum, accounts should include healthcare, retirement, childcare, and education. These should build off existing programs (e.g., health savings accounts, flexible spending accounts, 401(k), IRAs, 529 plans), but should be restructured to ensure: (1) full annual rollovers of contributed amounts, (2) use of pre-tax dollars for contributions by employers and employees (including not being subject to payroll taxes comparable to the treatment now provided to employer-provided health benefits), and (3) a degree of transferability between the accounts without penalty as long as the funds are used for approved purposes. Equal tax treatment should also be provided to both wage and salary employees and to self-employed, including provisions potentially addressing unpaid family workers. These changes will require amendments to both state and federal law.

- <u>Set Appropriate Limits for Purposes of Public Assistance Programs</u>. The purpose of this measure is to promote individual responsibility, increase the ability of households to cope with rising costs, and reduce the need for public assistance in the long term. But by being financially responsible, households should not be subject to undue penalty as a result of asset limits under the various assistance programs, including assistance for higher education. There is a balance that needs to be achieved, comparable to the treatment provided ABLE accounts for SSI/SSP recipients that is considered separately from the standard asset tests.

# Policy Recommendations: Public Assistance Programs

*As a result of this catch-22 situation, focus group respondents are experiencing that the help they need is phasing out too soon. Several note that what they truly need is a "bridge", i.e. a little financial help over a longer period of time, to help them work their way toward a better financial future.* [1]

The income assistance, jobs training, child care, and related programs under California's safety net increasingly are being applied to ameliorate the effects of the state's two-tier economy, seeking to make poverty more tolerable but moving away from the fundamental focus of developing the personal resources and creating the opportunities for upward mobility. Using the term from recent state budget documents, these programs now fall more under the goal of "Counteracting the Effects of Poverty" rather than solving it.

A good example in this regard is last year's limited housing reforms adopted by the Legislature. Focused on marginal changes to affordable housing supply, these reforms will at best ameliorate the high housing costs faced by a few thousand at the lowest end of the income scale, rather than addressing the debilitating and growing barriers faced by millions of low and middle income households. Rather than a Marshall Plan to tackle a clear crisis, what emerged instead was a typical solution that tinkered at the edges.

Combating poverty and promoting income mobility means tackling the barriers that stand in the way. When asked what they need most in this regard, lower income Californians to some extent responded with "all of the above," but gave clear priorities to bridge assistance to help them cope with rising costs and to training and education that opens up higher paying jobs and jobs providing benefits.

They were also clear in stating that the current structure of the public assistance and related programs does not provide what they need. As stated earlier, barriers from accessibility, eligibility, and caseload capacity mean in practice they are too little, too intermittent, and not directed on the primary barriers lower income Californians face.

## 6. Restructure Current Public Assistance Programs into an Expanded State EITC

In developing an alternative to the current program structure, the following recommendation is based on several concerns raised during the course of this project's research work by the research participants, namely: (1) assistance should be more certain and should not divert their already limited time for having to maneuver through the bureaucracies; (2) assistance should be tied to work— lower income Californians participating in the research expressed a strong work ethic and want their children to embrace this as well; (3) assistance should provide the resources households need to address their individual circumstances, and not the programs the agencies decide is best for them; and (4) assistance should be a bridge that enables lower income Californians to work through the transition as they move up in income, particularly as they reach the point where assistance is dropped and they are left to cope with the state's high costs on their own.

This last factor will become increasingly critical as the state's minimum wage continues rising, and as many lower income Californians will see their assistance eligibility lapse but at levels that are likely to overwhelmed by the state's rising costs. For example, a single parent with two children ends up with roughly the same or fewer total resources overall working full time at $15 an hour compared to $10 an hour, when all factors are taken into account including payroll taxes, tax credits, and eligibility for the various assistance programs. The current system provides a perverse disincentive to continue working full time as wages rise, and even more perversely leaves the household worse off as the prices they face rise along with the minimum wage increase.

While minimum wage jobs should be a start and not the goal, the results of this project suggest a large portion of the target population may in fact become stuck at this level simply from the growing risk aversion that makes upward mobility actions hard to make. The existing structure of the assistance programs limits their effectiveness in overcoming this challenge now. This aspect will become all the more pressing as the state continues down the path it has currently set.

- <u>Restructure Existing Assistance Programs into an Expanded State EITC</u>. Rather than continuing the multiple and ever expanding number of programs under the state's safety net, the resources should be consolidated to the extent practical and used to expand the current federal EITC by another 2-4 times using current funding from federal, state, and local sources. The expanded state EITC would then be applied as a refundable credit applied to state income taxes (including fully refundable in cases where there is no state tax liability). This approach would eliminate the current bureaucratic oversight under the current programs, including those to ensure compliance with work requirements which are replaced by the current state and federal rules that tie EITC to earned income.

  A portion of the programs identified in the research will likely need to remain outside this consolidation, in particular ones targeted more for the disabled, seniors, foster youth, and others. However, even in these instances, more work needs to be done to consolidate funding for these remaining purposes into single-point delivery systems, rather than the alphabet soup of programs that now exist, and repurpose them to move beneficiaries from dependence to independence, and shifting them into the EITC program. Respondents in the research also strongly stated that Medi-Cal is a program that has worked for them, and is essential in cases where employer health benefits are not available.

  ✓ As is done in other states, the state EITC should be restructured as a percentage add-on to the federal EITC in order to simplify calculation and make it easier for the intended beneficiaries to make their budget plans accordingly. The current state EITC is heavily weighted on poverty incomes, and while the 2017 amendments extend the eligibility closer to the federal structure that provides incentives to pursue higher earned income, the additional state amounts are nominal at best. The federal EITC is also structured to provide incentives for married households. The state EITC remains neutral on this point even though having the potential for two income earners remains the single most effective anti-poverty and upward mobility factor, if not an essential condition to cope with the state's high costs. The current assistance programs instead are permeated with disincentives on this basic solution.

- ✓ Federal funds otherwise available for the targeted programs should be consolidated into a single block grant and combined with existing state and local funding to support the additional State EITC.

- ✓ All or a significant portion of the administrative cost savings should be redirected to fund the education recommendations contained in the next section. To further reduce the need for federal oversight, any maintenance of effort requirements should be simplified and made more transparent, and made enforceable by third party lawsuits. All or at least a portion of the resulting savings in federal administrative costs from this and the overall block grant approach should be reallocated to the state purposes.

- ✓ Provisions should be incorporated to provide the state EITC on a periodic basis over the year, based on some percentage of estimated taxes comparable to the process now used for the Covered California health insurance subsidies. For example, the state and federal tax agencies expect individuals to accurately calculate their tax liabilities on a quarterly basis. This expectation should be reciprocated with the state tax agencies being able to calculate tax refunds on the same schedule.

- ✓ The research revealed a degree of unfamiliarity and some confusion over the existing available EITCs. Additional communication efforts would be required to make this approach more successful, along with creation of a simple electronic filing application accessible through the Franchise Tax Board web site.

- ✓ While there have been previous concepts along these lines extending back to the 1970s, they generally have been made as stand-alone proposals or oriented more to producing efficiencies beyond what is even remotely possible within the current program structure that has evolved since then. However, to be effective in restoring economic mobility, this concept as proposed needs to be done in concert with the other recommendations in this report. Without serious reforms to reduce the costs of living, the potential benefits from this approach simply erode over time much as the existing benefits have been doing. Without the job and education components, this approach may ready households to move up economically, but present them with fewer opportunities to do so.

- ✓ While some of the elements may be accomplished through waivers, the full efficiencies and required flexibility will require both state and federal legislation.

# Policy Recommendations: Education & Training

*When asked directly about what the business community could do to improve the economic mobility of their workers, focus group respondents suggest flexible hours to accommodate school schedules, on-the-job training and apprenticeship programs. [1]*

*Half of survey respondents were asked about the perceived value of vocational education programs in high school in order to prepare them for the workplace, and the other half were asked about the perceived value of college preparatory classes in high school. An overwhelming majority noted that they would have found vocational education (80%) or college preparatory classes (74%) helpful while in high school to better prepare them for work. [3]*

At the beginning of the 20th Century, the economy faced a similar, but far more pervasive technology wave as agriculture transformed and tens of millions of workers with low education levels moved to the cities. The response then was the High School Movement which took what was once available only to a relative few, and made this stage of education universally available. In the process, worker skills overall made a leap forward, helping the US transform into the most productive industrial economy on the planet.

At the beginning of the 21st Century, California along with the other developed economies is faced with another technology wave that over time is likely to change many existing occupations and the overall nature of work. The existing public school system, still largely based on the models from the 20th Century, is only preparing a portion of the population for these shifts.

California in particular must also cope with two demographic challenges:

- We have the highest percentage among the states of adults aged 25 and older with less than a high school education. With declines in the traditional industries that provided this demographic with higher paying jobs in the past, no meaningful progress on reducing poverty let alone promoting economic mobility is possible without addressing their circumstances.

- Youth employment has crashed. The early development of work place skills and experience that once provided another path towards higher lifetime earnings is increasingly not available.

In addition, these challenges are exacerbated within specific population groups where current skills and workforce training remains limited or ineffective, including former inmates, farm workers, and adult immigrants with lower educational attainment.

In a time of transition when required skill levels are likely to change substantially for many occupations—both the current mix and the yet-to-be-known evolving structure—California schools remain largely focused on college-track education. And in this respect, the results—whether measured by the persistent gaps in grade proficiency levels or the equally persistent gaps in the percentage of students graduating with the A-G coursework required for admission to University of California and California State University—suggest that the public schools no longer are functioning as the primary asset for adjusting to technological change, but instead now come close to serving as a winnowing process that risks relegating another generation—especially Blacks, Latinos, and low-income students overall—to the income levels in which they are now without the skills necessary for upward mobility in a changing state.

This current state of education in California also threatens to intensify the current two-tier nature of jobs creation by failing to provide the home-grown skills required for a competitive workforce in future years. Employers are already facing this disconnect in industries as varied as Silicon Valley and construction, where workers at the required skill levels are not being produced in adequate numbers through the state's schools but instead must be filled by increasing reliance on workers coming in from other states and other countries. This disconnect between skills demand and skills supply produced through the state's schools will only intensify as the current workforce continues to age, and Baby Boomer retirements produce a corresponding spike in the need for replacements.

Without new options that open up higher pay jobs for students, the state is simply recreating the generational circumstances that will lock in California as the state with the highest poverty rate for years to come. Without changes that produce better outcomes for all students—in particular Latinos, Blacks, and low income Californians overall—the schools also risk becoming a means of perpetuating the current economic divides rather than being the path to upward mobility for these demographics.

## 7. Reshape Public Education from K-12 to K-14

Regardless of the net effect on the number of jobs, the current technology trends are likely to require an increasing level of skills for many occupations, especially for those paying higher than minimum wage. The public schools now fail to instill these skills across many demographics. The Community Colleges are an existing resource that can be used to ensure broader dispersion.

- For students not otherwise going directly to a 4-year college or university, provide universal Community College for students enrolled in a certificate program or an AA/AS for Transfer program. Currently, just under half of students attend community college tuition-free, while another fifth receive grants and scholarships achieving nearly the same result. The range of programs provided through this system contains the necessarily broad opportunities that can prepare students for higher paying jobs, whether through the career technical education route available through certification program or preparation for 4-year institutions through the AA/AS Transfer degree. The community colleges also embody the concept of "stackable certificates" that enables students to obtain the skills needed immediately for higher paying jobs, while building the base for further education and training in the future that can lead to other job opportunities or a 4-year degree.

- Given the high percentage of students already attending tuition free, the costs of this concept is difficult to estimate. In 2015, 47% of Californians age 18-24 were in college, with 30% of that group in community college. Applying these factors to the 2015-16 cohort results, at maximum, in the community colleges accommodating about another 500,000 students each 2-year period. At the 2017-18 annual per student funding rate, the additional cost would be $2.6 billion but likely smaller given that not all this group would attend, not all would go full time or the full two years, and many already qualify for tuition-free attendance and would not represent an addition to current costs within the system. Potential funding sources, however, for this and the related components below would include the following:

- ✓ Redirection of administrative costs related to the programs transformed into a broader state EITC, including funds currently allocated for this purpose from federal, state, and local sources.

- ✓ As contained within Recommendation 1, consolidation of local agency services would also free up existing property tax revenues for reallocation to the community college districts.

- The overall costs and effectiveness of this system is also dependent on improving completion rates, facilitating the transfer process, and reducing the current situation where Community College students take substantially more than two years to complete their transfer requirements, but then take 6.4 years to finish a BA degree at UC and 7 years at a CSU.[7]

  - ✓ Achieve greater standardization of General Education requirements across the three higher education systems so that students have greater certainty on the required courses and that students from any Community College have the ability to transfer to any CSU or UC without the need to take additional courses after transfer. The state's private universities should be invited to participate in this effort as well.

  - ✓ Simplify/standardize the transfer process to a CSU or UC 4-year degree program through the AA/AS Transfer degree.

It is important to recognize, however, that reshaping public education to K-14 is a response to the increasing technical demands likely to be faced in many if not most future occupations. Simply adding two years, however, is not a substitute for continuing efforts at the K-12 levels to reintroduce career technical education early both as a component of teaching life skills now absent in the public schools and as an early introduction to a broader range of career paths leading to higher life-time earnings. Simply adding two years also is not a replacement for the continuing need to improve public school outcomes overall including equal access to the A-G offerings, especially for the demographics—including Latinos, Blacks, and low income students—not being fully served by the current system.

## 8. Allow Dual Enrollment for Students Beginning in Their Junior Year

While some funding has been added in recent years for career technical education (CTE)—in particular funds from the various training and assistance programs described in the project's report—the funding still remains well below levels previously provided through the schools to provide alternative paths leading to higher paying jobs. More critically, they remain well below the levels required to provide viable alternatives—including paths that eventually lead to a 4-year degree—for the major demographic components not being prepared for the 4-year institutions and those who otherwise drop out because the schools do not provide them with these options. To complement these existing efforts, dual enrollment provides a pathway to increase the CTE options substantially within a short time frame that can immediately provide options to students currently within the K-12 schools. Dual enrollment would also contribute to degree completion rates by giving students options beyond those that now exist only through AP courses.

- For students choosing this education option, require that they continue to complete the core requirements in their first two years of high school, but provide for dual enrollment in classes at the local community college beginning their junior year. These courses should be in a certificate program, leading into further skills development following graduation or into an AA/AS Transferable degree program.

- Propose a bond—including consideration of a multi-year bond package—to finance the required capital additions at the community colleges. Ongoing funding would be from the current LCFF apportionments attributable to the students choosing this option, distributed between the school district and community college based on classes taken.

## 9. Expand Online Learning

Governor Brown's Proposed Budget for 2018-19 calls for creation of a California Online College, to provide an alternative skills development option for those who lack the time or, often due to related high housing costs, the ability to enroll in traditional classes. This proposal is fully consistent with the skills training needs and a means to overcome some of the skills training barriers identified in the project's research. Expanded to incorporate considerations under Recommendations 7, 8, and 10, this proposal also can be an efficient means to help accomplish these recommendations at lower overall cost while also accelerating degree completion rates.

## 10. Expand Apprenticeships

A number of northern European countries have been able to achieve very low youth unemployment rates while also supporting retention and expansion of jobs in traditional blue collar, middle class wage industries through extensive apprenticeship programs. This option is possible in those economies due to differing labor laws and customs and through laws that accommodate employer participation that would not be allowed in the US under its anti-trust laws. As a result, it is far more difficult to sustain such programs in the US as employers are reluctant to incur the substantial training costs involved without assurances that apprentices will go on to become employees. Consequently, programs such as this require relatively higher involvement by the schools or other public agencies.

California does have an active apprentice program for the building trades, along with others in areas such as automotive, barbers, information technology, health services, and hospitality. Many of these, however, are local efforts and do not provide the scale of opportunities needed to deal with the potential demand as measured by such factors as the drop in youth employment, drop-outs, and high school graduates who do not go on to college. Expansion potential is also limited by the fact that current programs have been developed on an individual basis, rather than a structure that applies universally and can be applied to a broader range of occupations and population. In the most recent report,[8] California in 2016 had only 74,000 active apprentices, and 9,000 total completions. The potential applications, however, are much broader including gateway occupations into the state's higher wage industries.

- Convene working group of state business associations, including those in Silicon Valley, to identify occupations amenable to apprenticeships and develop recommendations for changes to state law required to produce a broader effort tied more closely to the state's educational systems. This step should be expansive and look at a broader range of occupations beyond those traditionally covered by apprenticeships, as a means to broaden the in-state training options to match with areas of looming skill shortages and to expand the opportunities, especially for the student populations with currently unacceptable educational outcomes, to augment existing education and training programs with applied experience. In the second stage, broaden the group to include community colleges and other interests to develop specific programs.

- Incorporate apprenticeship opportunities/requirements into the certificate programs under Recommendations 7 and 8 to build experience and reduce dropout rates.

- As applicable, incorporate apprenticeship periods as alternative to satisfy any experience requirements for licensing as discussed under Recommendation 4.

# Attachment: Program Benefit Examples

Based on the information contained in the project's Report on California Public Assistance Programs & Economic Mobility [6], the following charts illustrate the interactions of the different eligibility under the current public assistance programs, along with examples of the effects of instead providing the assistance directly through an expanded state EITC.

The examples are based on the following sample households:

- Single adult.
- Single parent with one child, head of household tax filing status.
- Single parent with two children, head of household tax filing status.
- Married adults, no children, joint filing.
- Married adults, one child, joint filing.
- Married adults, two children, joint filing.

To simplify the presentation and the calculations, all examples assume income only from wage and salary earned income, with no other sources including interest, dividends and capital gains, pensions, IRA distributions, social security, alimony, veteran's benefits, SSI/SSP, and unemployment compensation. No family members are assumed to be over 65, blind, or disabled. Taxes assume use of the standard deduction, with no additional credits for items such educator expenses, IRA, student loan interest, and tuition and fees. All households are assumed to be renters, with asset levels complying with the various assistance program requirements. These assumptions allow earned income to also be treated as AGI.

The tables compare three wage level scenarios in 2022 at the full base expansion of the California minimum wage: $15 an hour to reflect the minimum wage in that year, hypothetical $10 to illustrate the net income effect of this measure when considering effects on taxes and program eligibility, and $20 to illustrate a third, more upwardly mobile step beyond minimum wage. Calculations are made with all adults working part time (20 hours a week) and full time (40 hours a week), with no adjustment for the potential effect of the higher minimum wage on usual hours worked.

Items adjusted by the CPI and components of the California CPI use the California Department of Finance projections, with the rate for 2022 extended from 2021. Federal tax items now subject to the Chained CPI are adjusted to 2022 using the CPI projections less 0.25%.

Federal tax calculations are based on the recent federal tax reform. State tax calculations are based on current state law, and assume no changes to conform to the federal reforms.

Benefit estimates are based on the factors discussed in the project's Programs report [6], with adjustments to estimated 2022 factors and payments. All estimates are based on the maximum amount available to each example family, although actual eligibility and benefit receipts would also vary based on children's ages, actual use of the different benefit programs, and other factors including caseload capacity in each of the programs (e.g., rental assistance).

CalWORKS is based on current program calculations applied to the earned income levels, using the Region 1 factors and assuming all family members are non-exempt.

CalFresh benefits similarly are calculated from earned income, but assume maximum adjustments for shelter and utility costs.

Childcare is based on the California Department of Education Family Monthly Fee Schedule. The benefit amount is estimated as the difference between the maximum and calculated fee amounts, with the calculated fee amount used to determine the child and dependent care tax credit. The benefits also assume full time childcare for each child.

School lunch benefit amounts are estimated based on an average of breakfast and school lunch prices charged in several school districts. The benefit amount for free meals is estimated as the average full price charged. The benefit amount for reduced price meals is estimated as the difference between full price and reduced price, with each child eating both breakfast and lunch each day.

Medi-Cal benefits are estimated from the most recent cost per eligible from the California Department of Health Care Services, although a valuation based on comparison to similar plans available through Covered California would show a higher benefit level. These amounts are adjusted to 2022 using projections from Centers for Medicare & Medicaid Services for the Personal Health Care Price Index, although other recent estimates show more rapidly growing costs.

Benefit estimates for health insurance subsidies through Covered California are based on the current average cost (all ages and rating zones) for a Silver Plan, adjusted to 2022 using the Personal Health Care Price Index, although recent cost changes exceed these levels significantly.

Utility subsidy estimates are based on current per household or per eligible person amounts, distributed over the potentially eligible population amount when caseload is not available.

Housing assistance is based on the average household Section 8 assistance amount for California from the Department of Housing & Urban Development.

These tables cover the primary, more generally application public assistance programs. They do not cover all the programs and assistance for which individuals and families would be eligible based on specific circumstances, including WIC, SSI/SPP, veterans' benefits, unemployment insurance, disability payments, tuition, job training and other benefits provided as services rather than cash assistance, and others.

Finally, the tables show two scenarios: (1) benefits under the existing programs and (2) benefits as they would be affected by at least one approach to implementing this report's recommendations for an expanded state EITC. Combined, these tables can be used to illustrate the effects of this proposed policy change, along with other factors discussed in the project's research, including the difficulty of maintaining these benefit levels given the differing eligibility and availability of the various programs, the impact on poverty and mobility by state policies that facilitate jobs creation at higher wage levels and with higher available hours per work, and the immediate impact on poverty from two-wage earner households.

For example, ignoring any other effects such as decrease in available hours or effects on living costs as identified by low income Californians in the project research, the net effects of the rise in minimum wage can be shown by comparing the $10 an hour and $15 estimates. For a single parent with two children working full time, the $5 dollar an hour increase results in an effective after tax increase of $3.40. Taking into account the effects on program eligibility, the total net change is the equivalent of only $1.03 an hour in total income and benefits, an amount easily overtaken by cost rises in housing, food, energy, and commuting. This net result fully illustrates the frustration voiced by many lower income Californians in their inability to get ahead economically.

Comparing the two sets of tables illustrates the effect of the proposed higher state EITC. Looking at the same household, going from working part time to full time at $15 an hour produces little change in the total potential income and benefits—the increase in after tax income is essentially offset by a reduction in benefits under the current multiple-program benefits structure. There is no incentive to increase work. Shifting the programs to an EITC not only frees resources now used by agencies for administrative and program purposes, but produces a net increase in resources in this example. While the net total potential benefits is somewhat lower here, the benefit flow is tied more closely with earned income increases and adjustments in the final numbers can be made to produce results different from those in the two times federal EITC assumed here.

## Current Programs 2022: Part Time Work; $10/hour

| Filing Status | Single | Single, HofH | Single, HofH | Married, Joint | Married, Joint | Married, Joint |
|---|---|---|---|---|---|---|
| *Number of Children* | *0* | *1* | *2* | *0* | *1* | *2* |
| **Earned Income** | 10,400 | 10,400 | 10,400 | 20,800 | 20,800 | 20,800 |
| Payroll Taxes | 900 | 900 | 900 | 1,800 | 1,800 | 1,800 |
| *Disposable Income* | 9,500 | 9,500 | 9,500 | 19,000 | 19,000 | 19,000 |
| **Federal PIT** | | | | | | |
| Standard Deduction | 12,930 | 19,400 | 19,400 | 25,870 | 25,870 | 25,870 |
| AGI | 0 | 0 | 0 | 0 | 0 | 0 |
| Tax | 0 | 0 | 0 | 0 | 0 | 0 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 0 | 0 |
| *Child Credit* | 0 | 650 | 1,300 | 0 | 650 | 1,300 |
| Net Tax | 0 | 0 | 0 | 0 | 0 | 0 |
| Refundable Credits | | | | | | |
| *EITC* | 460 | 3,540 | 4,440 | 140 | 3,740 | 6,170 |
| *Child Credit* | 0 | 1,510 | 3,020 | 0 | 1,510 | 3,020 |
| Tax Owed (Refund) | -460 | -5,050 | -7,460 | -140 | -5,250 | -9,190 |
| *Income After Federal Tax* | 9,960 | 14,550 | 16,960 | 19,140 | 24,250 | 28,190 |
| **State PIT** | | | | | | |
| Standard Deduction | 4,710 | 9,420 | 9,420 | 9,420 | 9,420 | 9,420 |
| Exemptions | 130 | 520 | 910 | 260 | 650 | 1,040 |
| AGI | 5,560 | 460 | 70 | 11,120 | 10,730 | 10,340 |
| Tax | 60 | 0 | 0 | 110 | 110 | 100 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 0 | 0 |
| *Renters Credit* | 70 | 130 | 130 | 130 | 130 | 130 |
| Net Tax | 0 | 0 | 0 | 0 | 0 | 0 |
| Refundable Credits | | | | | | |
| *EITC* | 60 | 300 | 1,930 | 0 | 80 | 120 |
| Tax Owed (Refund) | -60 | -300 | -1,930 | 0 | -80 | -120 |
| *Income After Federal & State Tax* | 10,020 | 14,850 | 18,890 | 19,140 | 24,330 | 28,310 |
| **Benefits** | | | | | | |
| CalWORKS Grant | 0 | 3,440 | 5,780 | 0 | 580 | 2,920 |
| CalFresh Benefit | 2,520 | 4,560 | 6,600 | 2,080 | 4,120 | 5,680 |
| Childcare | 0 | 7,900 | 15,800 | 0 | 7,900 | 15,800 |
| School Lunch | 0 | 630 | 1,260 | 0 | 630 | 1,260 |
| Medi-Cal | 6,500 | 13,000 | 19,500 | 13,000 | 19,500 | 26,000 |
| Covered California | 0 | 0 | 0 | 0 | 0 | 0 |
| Utility Subsidies | 1,670 | 2,050 | 2,050 | 1,860 | 2,050 | 2,240 |
| Housing Assistance | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 |
| Total Benefits | 11,840 | 32,730 | 52,140 | 18,090 | 35,930 | 55,050 |
| **Total Income & Benefits** | 21,860 | 47,580 | 71,030 | 37,230 | 60,260 | 83,360 |
| *Estimated Poverty Level* | *13,210* | *17,920* | *22,620* | *17,920* | *22,620* | *27,320* |

## Current Programs 2022: Part Time Work; $15/hour

| **Filing Status** | **Single** | **Single, HofH** | **Single, HofH** | **Married, Joint** | **Married, Joint** | **Married, Joint** |
|---|---|---|---|---|---|---|
| *Number of Children* | *0* | *1* | *2* | *0* | *1* | *2* |
| **Earned Income** | 15,600 | 15,600 | 15,600 | 31,200 | 31,200 | 31,200 |
| Payroll Taxes | 1,350 | 1,350 | 1,350 | 2,700 | 2,700 | 2,700 |
| *Disposable Income* | 14,250 | 14,250 | 14,250 | 28,500 | 28,500 | 28,500 |
| **Federal PIT** | | | | | | |
| Standard Deduction | 12,930 | 19,400 | 19,400 | 25,870 | 25,870 | 25,870 |
| AGI | 2,670 | 0 | 0 | 5,330 | 5,330 | 5,330 |
| Tax | 270 | 0 | 0 | 530 | 530 | 530 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 0 | 0 |
| *Child Credit* | 0 | 650 | 1,300 | 0 | 650 | 1,300 |
| Net Tax | 270 | 0 | 0 | 530 | 0 | 0 |
| Refundable Credits | | | | | | |
| *EITC* | 70 | 3,740 | 6,170 | 0 | 2,960 | 5,140 |
| *Child Credit* | 0 | 1,510 | 3,020 | 0 | 1,510 | 3,020 |
| Tax Owed (Refund) | 200 | -5,250 | -9,190 | 530 | -4,470 | -8,160 |
| *Income After Federal Tax* | 14,050 | 19,500 | 23,440 | 27,970 | 32,970 | 36,660 |
| **State PIT** | | | | | | |
| Standard Deduction | 4,710 | 9,420 | 9,420 | 9,420 | 9,420 | 9,420 |
| Exemptions | 130 | 520 | 910 | 260 | 650 | 1,040 |
| AGI | 10,760 | 5,660 | 5,270 | 21,520 | 21,130 | 20,740 |
| Tax | 120 | 60 | 50 | 250 | 240 | 230 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 0 | 0 |
| *Renters Credit* | 70 | 130 | 130 | 130 | 130 | 130 |
| Net Tax | 50 | 0 | 0 | 120 | 110 | 100 |
| Refundable Credits | | | | | | |
| *EITC* | 10 | 180 | 270 | 0 | 0 | 0 |
| Tax Owed (Refund) | 40 | -180 | -270 | 120 | 110 | 100 |
| *Income After Federal & State Tax* | 14,010 | 19,680 | 23,710 | 27,850 | 32,860 | 36,560 |
| **Benefits** | | | | | | |
| CalWORKS Grant | 0 | 840 | 3,180 | 0 | 0 | 0 |
| CalFresh Benefit | 2,520 | 4,560 | 6,600 | 0 | 0 | 0 |
| Childcare | 0 | 7,900 | 15,800 | 0 | 7,900 | 15,800 |
| School Lunch | 0 | 630 | 1,260 | 0 | 500 | 1,260 |
| Medi-Cal | 6,500 | 13,000 | 19,500 | 0 | 19,500 | 26,000 |
| Covered California | 0 | 0 | 0 | 9,550 | 0 | 0 |
| Utility Subsidies | 1,670 | 2,050 | 2,050 | 1,920 | 2,050 | 2,240 |
| Housing Assistance | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 |
| Total Benefits | 11,840 | 30,130 | 49,540 | 12,620 | 31,100 | 46,450 |
| **Total Income & Benefits** | 25,850 | 49,810 | 73,250 | 40,470 | 63,960 | 83,010 |
| *Estimated Poverty Level* | *13,210* | *17,920* | *22,620* | *17,920* | *22,620* | *27,320* |

# Current Programs 2022: Part Time Work; $20/hour

| Filing Status | Single | Single, HofH | Single, HofH | Married, Joint | Married, Joint | Married, Joint |
|---|---|---|---|---|---|---|
| *Number of Children* | *0* | *1* | *2* | *0* | *1* | *2* |
| **Earned Income** | 20,800 | 20,800 | 20,800 | 41,600 | 41,600 | 41,600 |
| Payroll Taxes | 1,800 | 1,800 | 1,800 | 3,600 | 3,600 | 3,600 |
| *Disposable Income* | 19,000 | 19,000 | 19,000 | 38,000 | 38,000 | 38,000 |
| **Federal PIT** | | | | | | |
| Standard Deduction | 12,930 | 19,400 | 19,400 | 25,870 | 25,870 | 25,870 |
| AGI | 7,870 | 1,400 | 1,400 | 15,730 | 15,730 | 15,730 |
| Tax | 790 | 140 | 140 | 1,570 | 1,570 | 1,570 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 550 | 300 |
| *Child Credit* | 0 | 650 | 1,300 | 0 | 650 | 1,300 |
| Net Tax | 790 | 0 | 0 | 1,570 | 370 | 0 |
| Refundable Credits | | | | | | |
| *EITC* | 0 | 3,640 | 6,030 | 0 | 1,290 | 2,950 |
| *Child Credit* | 0 | 1,510 | 3,020 | 0 | 1,510 | 3,020 |
| Tax Owed (Refund) | 790 | -5,150 | -9,050 | 1,570 | -2,430 | -5,970 |
| *Income After Federal Tax* | 18,210 | 24,150 | 28,050 | 36,430 | 40,430 | 43,970 |
| **State PIT** | | | | | | |
| Standard Deduction | 4,710 | 9,420 | 9,420 | 9,420 | 9,420 | 9,420 |
| Exemptions | 130 | 520 | 910 | 260 | 650 | 1,040 |
| AGI | 15,960 | 10,860 | 10,470 | 31,920 | 31,530 | 31,140 |
| Tax | 230 | 110 | 100 | 460 | 450 | 440 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 280 | 150 |
| *Renters Credit* | 70 | 130 | 130 | 130 | 130 | 130 |
| Net Tax | 160 | 0 | 0 | 330 | 40 | 160 |
| Refundable Credits | | | | | | |
| *EITC* | 0 | 80 | 120 | 0 | 0 | 0 |
| Tax Owed (Refund) | 160 | -80 | -120 | 330 | 40 | 160 |
| *Income After Federal & State Tax* | 18,050 | 24,230 | 28,170 | 36,100 | 40,390 | 43,810 |
| **Benefits** | | | | | | |
| CalWORKS Grant | 0 | 0 | 580 | 0 | 0 | 0 |
| CalFresh Benefit | 40 | 2,080 | 4,120 | 0 | 0 | 0 |
| Childcare | 0 | 7,900 | 15,800 | 0 | 6,330 | 14,100 |
| School Lunch | 0 | 630 | 1,260 | 0 | 500 | 1,000 |
| Medi-Cal | 0 | 13,000 | 19,500 | 0 | 6,500 | 13,000 |
| Covered California | 5,760 | 0 | 0 | 7,080 | 7,080 | 7,080 |
| Utility Subsidies | 1,700 | 2,050 | 2,050 | 1,480 | 2,140 | 2,360 |
| Housing Assistance | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 |
| Total Benefits | 8,650 | 26,810 | 44,460 | 9,710 | 23,700 | 38,690 |
| **Total Income & Benefits** | 26,700 | 51,040 | 72,630 | 45,810 | 64,090 | 82,500 |
| *Estimated Poverty Level* | *13,210* | *17,920* | *22,620* | *17,920* | *22,620* | *27,320* |

## Current Programs 2022: Full Time Work; $10/hour

| **Filing Status** | **Single** | **Single, HofH** | **Single, HofH** | **Married, Joint** | **Married, Joint** | **Married, Joint** |
|---|---|---|---|---|---|---|
| *Number of Children* | *0* | *1* | *2* | *0* | *1* | *2* |
| **Earned Income** | 20,800 | 20,800 | 20,800 | 41,600 | 41,600 | 41,600 |
| Payroll Taxes | 1,800 | 1,800 | 1,800 | 3,600 | 3,600 | 3,600 |
| *Disposable Income* | 19,000 | 19,000 | 19,000 | 38,000 | 38,000 | 38,000 |
| **Federal PIT** | | | | | | |
| Standard Deduction | 12,930 | 19,400 | 19,400 | 25,870 | 25,870 | 25,870 |
| AGI | 7,870 | 1,400 | 1,400 | 15,730 | 15,730 | 15,730 |
| Tax | 790 | 140 | 140 | 1,570 | 1,570 | 1,570 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 550 | 300 |
| *Child Credit* | 0 | 650 | 1,300 | 0 | 650 | 1,300 |
| Net Tax | 790 | 0 | 0 | 1,570 | 370 | 0 |
| Refundable Credits | | | | | | |
| *EITC* | 0 | 3,640 | 6,030 | 0 | 1,290 | 2,950 |
| *Child Credit* | 0 | 1,510 | 3,020 | 0 | 1,510 | 3,020 |
| Tax Owed (Refund) | 790 | -5,150 | -9,050 | 1,570 | -2,430 | -5,970 |
| *Income After Federal Tax* | 18,210 | 24,150 | 28,050 | 36,430 | 40,430 | 43,970 |
| **State PIT** | | | | | | |
| Standard Deduction | 4,710 | 9,420 | 9,420 | 9,420 | 9,420 | 9,420 |
| Exemptions | 130 | 520 | 910 | 260 | 650 | 1,040 |
| AGI | 15,960 | 10,860 | 10,470 | 31,920 | 31,530 | 31,140 |
| Tax | 230 | 110 | 100 | 460 | 450 | 440 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 280 | 150 |
| *Renters Credit* | 70 | 130 | 130 | 130 | 130 | 130 |
| Net Tax | 160 | 0 | 0 | 330 | 40 | 160 |
| Refundable Credits | | | | | | |
| *EITC* | 0 | 80 | 120 | 0 | 0 | 0 |
| Tax Owed (Refund) | 160 | -80 | -120 | 330 | 40 | 160 |
| *Income After Federal & State Tax* | 18,050 | 24,230 | 28,170 | 36,100 | 40,390 | 43,810 |
| **Benefits** | | | | | | |
| CalWORKS Grant | 0 | 0 | 580 | 0 | 0 | 0 |
| CalFresh Benefit | 40 | 2,080 | 4,120 | 0 | 0 | 0 |
| Childcare | 0 | 7,900 | 15,800 | 0 | 6,330 | 14,100 |
| School Lunch | 0 | 630 | 1,260 | 0 | 500 | 1,000 |
| Medi-Cal | 0 | 13,000 | 19,500 | 0 | 6,500 | 13,000 |
| Covered California | 5,760 | 0 | 0 | 7,080 | 7,080 | 7,080 |
| Utility Subsidies | 1,700 | 2,050 | 2,050 | 1,480 | 2,140 | 2,360 |
| Housing Assistance | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 |
| Total Benefits | 8,650 | 26,810 | 44,460 | 9,710 | 23,700 | 38,690 |
| **Total Income & Benefits** | 26,700 | 51,040 | 72,630 | 45,810 | 64,090 | 82,500 |
| *Estimated Poverty Level* | *13,210* | *17,920* | *22,620* | *17,920* | *22,620* | *27,320* |

## Current Programs 2022: Full Time Work; $15/hour

| **Filing Status** | **Single** | **Single, HofH** | **Single, HofH** | **Married, Joint** | **Married, Joint** | **Married, Joint** |
|---|---|---|---|---|---|---|
| *Number of Children* | *0* | *1* | *2* | *0* | *1* | *2* |
| **Earned Income** | 31,200 | 31,200 | 31,200 | 62,400 | 62,400 | 62,400 |
| Payroll Taxes | 2,700 | 2,700 | 2,700 | 5,400 | 5,400 | 5,400 |
| *Disposable Income* | 28,500 | 28,500 | 28,500 | 57,000 | 57,000 | 57,000 |
| **Federal PIT** | | | | | | |
| Standard Deduction | 12,930 | 19,400 | 19,400 | 25,870 | 25,870 | 25,870 |
| AGI | 18,270 | 11,800 | 11,800 | 36,530 | 36,530 | 36,530 |
| Tax | 1,990 | 1,180 | 1,180 | 3,970 | 3,970 | 3,970 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 750 | 1,020 |
| *Child Credit* | 0 | 650 | 1,300 | 0 | 650 | 1,300 |
| Net Tax | 1,990 | 530 | 0 | 3,970 | 2,570 | 1,650 |
| Refundable Credits | | | | | | |
| *EITC* | 0 | 1,970 | 3,850 | 0 | 0 | 0 |
| *Child Credit* | 0 | 1,510 | 3,020 | 0 | 1,510 | 3,020 |
| Tax Owed (Refund) | 1,990 | -2,950 | -6,870 | 3,970 | 1,060 | -1,370 |
| *Income After Federal Tax* | 26,510 | 31,450 | 35,370 | 53,030 | 55,940 | 58,370 |
| **State PIT** | | | | | | |
| Standard Deduction | 4,710 | 9,420 | 9,420 | 9,420 | 9,420 | 9,420 |
| Exemptions | 130 | 520 | 910 | 260 | 650 | 1,040 |
| AGI | 26,360 | 21,260 | 20,870 | 52,720 | 52,330 | 51,940 |
| Tax | 530 | 240 | 230 | 1,060 | 1,040 | 1,030 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 260 | 350 |
| *Renters Credit* | 70 | 130 | 130 | 130 | 130 | 130 |
| Net Tax | 460 | 110 | 100 | 930 | 650 | 550 |
| Refundable Credits | | | | | | |
| *EITC* | 0 | 0 | 0 | 0 | 0 | 0 |
| Tax Owed (Refund) | 460 | 110 | 100 | 930 | 650 | 550 |
| *Income After Federal & State Tax* | 26,050 | 31,340 | 35,270 | 52,100 | 55,290 | 57,820 |
| **Benefits** | | | | | | |
| CalWORKS Grant | 0 | 0 | 0 | 0 | 0 | 0 |
| CalFresh Benefit | 0 | 0 | 0 | 0 | 0 | 0 |
| Childcare | 0 | 7,900 | 15,800 | 0 | 2,240 | 7,680 |
| School Lunch | 0 | 500 | 1,000 | 0 | 0 | 0 |
| Medi-Cal | 0 | 6,500 | 19,500 | 0 | 0 | 13,000 |
| Covered California | 4,780 | 4,780 | 0 | 0 | 0 | 0 |
| Utility Subsidies | 0 | 2,050 | 2,050 | 0 | 0 | 1,480 |
| Housing Assistance | 0 | 1,150 | 1,150 | 0 | 0 | 0 |
| Total Benefits | 4,780 | 22,880 | 39,500 | 0 | 2,240 | 22,160 |
| **Total Income & Benefits** | 30,830 | 54,220 | 74,770 | 52,100 | 57,530 | 79,980 |
| *Estimated Poverty Level* | *13,210* | *17,920* | *22,620* | *17,920* | *22,620* | *27,320* |

California Business Roundtable

## Current Programs 2022: Full Time Work; $20/hour

| Filing Status | Single | Single, HofH | Single, HofH | Married, Joint | Married, Joint | Married, Joint |
|---|---|---|---|---|---|---|
| *Number of Children* | *0* | *1* | *2* | *0* | *1* | *2* |
| **Earned Income** | 41,600 | 41,600 | 41,600 | 83,200 | 83,200 | 83,200 |
| Payroll Taxes | 3,600 | 3,600 | 3,600 | 7,200 | 7,200 | 7,200 |
| *Disposable Income* | 38,000 | 38,000 | 38,000 | 76,000 | 76,000 | 76,000 |
| **Federal PIT** | | | | | | |
| Standard Deduction | 12,930 | 19,400 | 19,400 | 25,870 | 25,870 | 25,870 |
| AGI | 28,670 | 22,200 | 22,200 | 57,330 | 57,330 | 57,330 |
| Tax | 3,240 | 2,370 | 2,370 | 6,470 | 6,470 | 6,470 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 760 | 500 | 0 | 600 | 1,200 |
| *Child Credit* | 0 | 650 | 1,300 | 0 | 650 | 1,300 |
| Net Tax | 3,240 | 960 | 570 | 6,470 | 5,220 | 3,970 |
| Refundable Credits | | | | | | |
| *EITC* | 0 | 310 | 1,660 | 0 | 0 | 0 |
| *Child Credit* | 0 | 1,510 | 3,020 | 0 | 1,510 | 3,020 |
| Tax Owed (Refund) | 3,240 | -860 | -4,110 | 6,470 | 3,710 | 950 |
| *Income After Federal Tax* | 34,760 | 38,860 | 42,110 | 69,530 | 72,290 | 75,050 |
| **State PIT** | | | | | | |
| Standard Deduction | 4,710 | 9,420 | 9,420 | 9,420 | 9,420 | 9,420 |
| Exemptions | 130 | 520 | 910 | 260 | 650 | 1,040 |
| AGI | 36,760 | 31,660 | 31,270 | 73,520 | 73,130 | 72,740 |
| Tax | 1,000 | 450 | 440 | 1,990 | 1,970 | 1,950 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 380 | 250 | 0 | 200 | 410 |
| *Renters Credit* | 70 | 130 | 130 | 130 | 130 | 130 |
| Net Tax | 930 | 0 | 60 | 1,860 | 1,640 | 1,410 |
| Refundable Credits | | | | | | |
| *EITC* | 0 | 0 | 0 | 0 | 0 | 0 |
| Tax Owed (Refund) | 930 | 0 | 60 | 1,860 | 1,640 | 1,410 |
| *Income After Federal & State Tax* | 33,830 | 38,860 | 42,050 | 67,670 | 70,650 | 73,640 |
| **Benefits** | | | | | | |
| CalWORKS Grant | 0 | 0 | 0 | 0 | 0 | 0 |
| CalFresh Benefit | 0 | 0 | 0 | 0 | 0 | 0 |
| Childcare | 0 | 5,540 | 12,660 | 0 | 0 | 1,740 |
| School Lunch | 0 | 0 | 1,000 | 0 | 0 | 0 |
| Medi-Cal | 0 | 6,500 | 13,000 | 0 | 0 | 0 |
| Covered California | 3,540 | 3,540 | 3,540 | 0 | 0 | 0 |
| Utility Subsidies | 0 | 2,140 | 2,140 | 0 | 0 | 0 |
| Housing Assistance | 0 | 1,150 | 1,150 | 0 | 0 | 0 |
| Total Benefits | 3,540 | 18,870 | 33,490 | 0 | 0 | 1,740 |
| **Total Income & Benefits** | 37,370 | 57,730 | 75,540 | 67,670 | 70,650 | 75,380 |
| *Estimated Poverty Level* | *13,210* | *17,920* | *22,620* | *17,920* | *22,620* | *27,320* |

California Business Roundtable

## Expanded State EITC (2 x Federal) 2022: Part Time Work; $15/hour

| Filing Status | Single | Single, HofH | Single, HofH | Married, Joint | Married, Joint | Married, Joint |
|---|---|---|---|---|---|---|
| *Number of Children* | *0* | *1* | *2* | *0* | *1* | *2* |
| **Earned Income** | 15,600 | 15,600 | 15,600 | 31,200 | 31,200 | 31,200 |
| Payroll Taxes | 1,350 | 1,350 | 1,350 | 2,700 | 2,700 | 2,700 |
| *Disposable Income* | 14,250 | 14,250 | 14,250 | 28,500 | 28,500 | 28,500 |
| **Federal PIT** | | | | | | |
| Standard Deduction | 12,930 | 19,400 | 19,400 | 25,870 | 25,870 | 25,870 |
| AGI | 2,670 | 0 | 0 | 5,330 | 5,330 | 5,330 |
| Tax | 270 | 0 | 0 | 530 | 530 | 530 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 0 | 0 |
| *Child Credit* | 0 | 650 | 1,300 | 0 | 650 | 1,300 |
| Net Tax | 270 | 0 | 0 | 530 | 0 | 0 |
| Refundable Credits | | | | | | |
| *EITC* | 70 | 3,740 | 6,170 | 0 | 2,960 | 5,140 |
| *Child Credit* | 0 | 1,510 | 3,020 | 0 | 1,510 | 3,020 |
| Tax Owed (Refund) | 200 | -5,250 | -9,190 | 530 | -4,470 | -8,160 |
| *Income After Federal Tax* | 14,050 | 19,500 | 23,440 | 27,970 | 32,970 | 36,660 |
| **State PIT** | | | | | | |
| Standard Deduction | 4,710 | 9,420 | 9,420 | 9,420 | 9,420 | 9,420 |
| Exemptions | 130 | 520 | 910 | 260 | 650 | 1,040 |
| AGI | 10,760 | 5,660 | 5,270 | 21,520 | 21,130 | 20,740 |
| Tax | 120 | 60 | 50 | 250 | 240 | 230 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 0 | 0 |
| *Renters Credit* | 70 | 130 | 130 | 130 | 130 | 130 |
| Net Tax | 50 | 0 | 0 | 120 | 110 | 100 |
| Refundable Credits | | | | | | |
| *EITC* | 140 | 7,480 | 12,340 | 0 | 5,920 | 10,280 |
| Tax Owed (Refund) | -90 | -7,480 | -12,340 | 120 | -5,810 | -10,180 |
| *Income After Federal & State Tax* | 14,140 | 26,980 | 35,780 | 27,850 | 38,780 | 46,840 |
| **Benefits** | | | | | | |
| School Lunch | 0 | 630 | 1,260 | 0 | 500 | 1,260 |
| Medi-Cal | 6,500 | 13,000 | 19,500 | 0 | 19,500 | 26,000 |
| Covered California | 0 | 0 | 0 | 9,550 | 0 | 0 |
| Total Benefits | 6,500 | 13,630 | 20,760 | 9,550 | 20,000 | 27,260 |
| **Total Income & Benefits** | 20,640 | 40,610 | 56,540 | 37,400 | 58,780 | 74,100 |
| *Estimated Poverty Level* | *13,210* | *17,920* | *22,620* | *17,920* | *22,620* | *27,320* |

## Expanded State EITC (2 x Federal) 2022: Part Time Work; $20/hour

| Filing Status | Single | Single, HofH | Single, HofH | Married, Joint | Married, Joint | Married, Joint |
|---|---|---|---|---|---|---|
| *Number of Children* | *0* | *1* | *2* | *0* | *1* | *2* |
| **Earned Income** | 20,800 | 20,800 | 20,800 | 41,600 | 41,600 | 41,600 |
| Payroll Taxes | 1,800 | 1,800 | 1,800 | 3,600 | 3,600 | 3,600 |
| *Disposable Income* | 19,000 | 19,000 | 19,000 | 38,000 | 38,000 | 38,000 |
| **Federal PIT** | | | | | | |
| Standard Deduction | 12,930 | 19,400 | 19,400 | 25,870 | 25,870 | 25,870 |
| AGI | 7,870 | 1,400 | 1,400 | 15,730 | 15,730 | 15,730 |
| Tax | 790 | 140 | 140 | 1,570 | 1,570 | 1,570 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 550 | 300 |
| *Child Credit* | 0 | 650 | 1,300 | 0 | 650 | 1,300 |
| Net Tax | 790 | 0 | 0 | 1,570 | 370 | 0 |
| Refundable Credits | | | | | | |
| *EITC* | 0 | 3,640 | 6,030 | 0 | 1,290 | 2,950 |
| *Child Credit* | 0 | 1,510 | 3,020 | 0 | 1,510 | 3,020 |
| Tax Owed (Refund) | 790 | -5,150 | -9,050 | 1,570 | -2,430 | -5,970 |
| *Income After Federal Tax* | 18,210 | 24,150 | 28,050 | 36,430 | 40,430 | 43,970 |
| **State PIT** | | | | | | |
| Standard Deduction | 4,710 | 9,420 | 9,420 | 9,420 | 9,420 | 9,420 |
| Exemptions | 130 | 520 | 910 | 260 | 650 | 1,040 |
| AGI | 15,960 | 10,860 | 10,470 | 31,920 | 31,530 | 31,140 |
| Tax | 230 | 110 | 100 | 460 | 450 | 440 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 280 | 150 |
| *Renters Credit* | 70 | 130 | 130 | 130 | 130 | 130 |
| Net Tax | 160 | 0 | 0 | 330 | 40 | 160 |
| Refundable Credits | | | | | | |
| *EITC* | 0 | 7,280 | 12,060 | 0 | 2,580 | 5,900 |
| Tax Owed (Refund) | 160 | -7,280 | -12,060 | 330 | -2,540 | -5,740 |
| *Income After Federal & State Tax* | 18,050 | 31,430 | 40,110 | 36,100 | 42,970 | 49,710 |
| **Benefits** | | | | | | |
| School Lunch | 0 | 630 | 1,260 | 0 | 500 | 1,000 |
| Medi-Cal | 0 | 13,000 | 19,500 | 0 | 6,500 | 13,000 |
| Covered California | 5,760 | 0 | 0 | 7,080 | 7,080 | 7,080 |
| Total Benefits | 5,760 | 13,630 | 20,760 | 7,080 | 14,080 | 21,080 |
| **Total Income & Benefits** | 23,810 | 45,060 | 60,870 | 43,180 | 57,050 | 70,790 |
| *Estimated Poverty Level* | *13,210* | *17,920* | *22,620* | *17,920* | *22,620* | *27,320* |

## Expanded State EITC (2 x Federal) 2022: Full Time Work; $15/hour

| **Filing Status** | **Single** | **Single, HofH** | **Single, HofH** | **Married, Joint** | **Married, Joint** | **Married, Joint** |
|---|---|---|---|---|---|---|
| *Number of Children* | *0* | *1* | *2* | *0* | *1* | *2* |
| **Earned Income** | 31,200 | 31,200 | 31,200 | 62,400 | 62,400 | 62,400 |
| Payroll Taxes | 2,700 | 2,700 | 2,700 | 5,400 | 5,400 | 5,400 |
| *Disposable Income* | 28,500 | 28,500 | 28,500 | 57,000 | 57,000 | 57,000 |
| **Federal PIT** | | | | | | |
| Standard Deduction | 12,930 | 19,400 | 19,400 | 25,870 | 25,870 | 25,870 |
| AGI | 18,270 | 11,800 | 11,800 | 36,530 | 36,530 | 36,530 |
| Tax | 1,990 | 1,180 | 1,180 | 3,970 | 3,970 | 3,970 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 750 | 1,020 |
| *Child Credit* | 0 | 650 | 1,300 | 0 | 650 | 1,300 |
| Net Tax | 1,990 | 530 | 0 | 3,970 | 2,570 | 1,650 |
| Refundable Credits | | | | | | |
| *EITC* | 0 | 1,970 | 3,850 | 0 | 0 | 0 |
| *Child Credit* | 0 | 1,510 | 3,020 | 0 | 1,510 | 3,020 |
| Tax Owed (Refund) | 1,990 | -2,950 | -6,870 | 3,970 | 1,060 | -1,370 |
| *Income After Federal Tax* | 26,510 | 31,450 | 35,370 | 53,030 | 55,940 | 58,370 |
| **State PIT** | | | | | | |
| Standard Deduction | 4,710 | 9,420 | 9,420 | 9,420 | 9,420 | 9,420 |
| Exemptions | 130 | 520 | 910 | 260 | 650 | 1,040 |
| AGI | 26,360 | 21,260 | 20,870 | 52,720 | 52,330 | 51,940 |
| Tax | 530 | 240 | 230 | 1,060 | 1,040 | 1,030 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 0 | 0 | 0 | 260 | 350 |
| *Renters Credit* | 70 | 130 | 130 | 130 | 130 | 130 |
| Net Tax | 460 | 110 | 100 | 930 | 650 | 550 |
| Refundable Credits | | | | | | |
| *EITC* | 0 | 3,940 | 7,700 | 0 | 0 | 0 |
| Tax Owed (Refund) | 460 | -3,830 | -7,600 | 930 | 650 | 550 |
| *Income After Federal & State Tax* | 26,050 | 35,280 | 42,970 | 52,100 | 55,290 | 57,820 |
| **Benefits** | | | | | | |
| School Lunch | 0 | 500 | 1,000 | 0 | 0 | 0 |
| Medi-Cal | 0 | 6,500 | 19,500 | 0 | 0 | 13,000 |
| Covered California | 4,780 | 4,780 | 0 | 0 | 0 | 0 |
| Total Benefits | 4,780 | 11,780 | 20,500 | 0 | 0 | 13,000 |
| **Total Income & Benefits** | 30,830 | 47,060 | 63,470 | 52,100 | 55,290 | 70,820 |
| *Estimated Poverty Level* | *13,210* | *17,920* | *22,620* | *17,920* | *22,620* | *27,320* |

# Expanded State EITC (2 x Federal) 2022: Full Time Work; $20/hour

| Filing Status | Single | Single, HofH | Single, HofH | Married, Joint | Married, Joint | Married, Joint |
|---|---|---|---|---|---|---|
| *Number of Children* | *0* | *1* | *2* | *0* | *1* | *2* |
| **Earned Income** | 41,600 | 41,600 | 41,600 | 83,200 | 83,200 | 83,200 |
| Payroll Taxes | 3,600 | 3,600 | 3,600 | 7,200 | 7,200 | 7,200 |
| *Disposable Income* | 38,000 | 38,000 | 38,000 | 76,000 | 76,000 | 76,000 |
| **Federal PIT** | | | | | | |
| Standard Deduction | 12,930 | 19,400 | 19,400 | 25,870 | 25,870 | 25,870 |
| AGI | 28,670 | 22,200 | 22,200 | 57,330 | 57,330 | 57,330 |
| Tax | 3,240 | 2,370 | 2,370 | 6,470 | 6,470 | 6,470 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 760 | 500 | 0 | 600 | 1,200 |
| *Child Credit* | 0 | 650 | 1,300 | 0 | 650 | 1,300 |
| Net Tax | 3,240 | 960 | 570 | 6,470 | 5,220 | 3,970 |
| Refundable Credits | | | | | | |
| *EITC* | 0 | 310 | 1,660 | 0 | 0 | 0 |
| *Child Credit* | 0 | 1,510 | 3,020 | 0 | 1,510 | 3,020 |
| Tax Owed (Refund) | 3,240 | -860 | -4,110 | 6,470 | 3,710 | 950 |
| *Income After Federal Tax* | 34,760 | 38,860 | 42,110 | 69,530 | 72,290 | 75,050 |
| **State PIT** | | | | | | |
| Standard Deduction | 4,710 | 9,420 | 9,420 | 9,420 | 9,420 | 9,420 |
| Exemptions | 130 | 520 | 910 | 260 | 650 | 1,040 |
| AGI | 36,760 | 31,660 | 31,270 | 73,520 | 73,130 | 72,740 |
| Tax | 1,000 | 450 | 440 | 1,990 | 1,970 | 1,950 |
| Nonrefundable Credits | | | | | | |
| *Child & Dependent Care Credit* | 0 | 380 | 250 | 0 | 200 | 410 |
| *Renters Credit* | 70 | 130 | 130 | 130 | 130 | 130 |
| Net Tax | 930 | 0 | 60 | 1,860 | 1,640 | 1,410 |
| Refundable Credits | | | | | | |
| *EITC* | 0 | 620 | 3,320 | 0 | 0 | 0 |
| Tax Owed (Refund) | 930 | -620 | -3,260 | 1,860 | 1,640 | 1,410 |
| *Income After Federal & State Tax* | 33,830 | 39,480 | 45,370 | 67,670 | 70,650 | 73,640 |
| **Benefits** | | | | | | |
| School Lunch | 0 | 0 | 1,000 | 0 | 0 | 0 |
| Medi-Cal | 0 | 6,500 | 13,000 | 0 | 0 | 0 |
| Covered California | 3,540 | 3,540 | 3,540 | 0 | 0 | 0 |
| Total Benefits | 3,540 | 10,040 | 17,540 | 0 | 0 | 0 |
| **Total Income & Benefits** | 37,370 | 49,520 | 62,910 | 67,670 | 70,650 | 73,640 |
| *Estimated Poverty Level* | *13,210* | *17,920* | *22,620* | *17,920* | *22,620* | *27,320* |

# Endnotes

[1] California Department of Finance, Streamlining Affordable Housing Approvals—Proposed Trailer Bill, May 2016.

[2] California Legislative Analyst's Office, Considering Changes to Streamline Local Housing Approvals, May 17, 2016.

[3] For example: The White House, Housing Development Toolkit, September 2016; Furman, Jason, Barriers to Shared Growth: The Case of Land Use Regulation and Economic Rents, The Urban Institute, November 2015; Shoag, Daniel and Peter Ganong, Why Has Regional Income Convergence Declined?, Brookings Institution, August 2016; Glaeser, Edward L. and Joseph Gyourko, The Economic Implications of Housing Supply, Wharton, Samuel Zell & Robert Lurie Real Estate Center Working Paper #802, January 2017; California Department of Housing & Community Development, California's Housing Future: Challenges and Opportunities, January 2017; Legislative Analysts' Office, California's High Housing Costs, Causes and Consequences, March 2015; Legislative Analysts' Office, Do Communities Adequately Plan for Housing?, March 2017; McKinsey Global Institute, Closing California's Housing Gap, October 2016; Next10, Comparative State of the California Housing Market: A Comparative Analysis, March 2016.

[4] The White House, Occupational Licensing: A Framework for Policymakers, July 2015.

[5] Institute for Justice, License to Work, A National Study of Burdens from Occupational Licensing, May 2012.

[6] Little Hoover Commission, Jobs for Californians: Strategies to Ease Occupational Licensing Barriers, October 2016.

[7] The Campaign for College Opportunity, The Transfer Maze: The High Cost to Students and the State of California, September 2017.

[8] Department of Industrial Relations, Division of Apprenticeship Standards, 2016 Legislative Report.