chaired by Tom Steyer

convened by
NextGen California and
The Center for American Progress
Note from the authors:

This report reflects a diagnosis and analysis of key challenges facing our state. While all commissioners agree on the broad analysis and principles articulated here, there may be specific matters on which some have different views.

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Fair Shake Commission

Commissioners

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**Laphonza Butler,** President, SEIU California State Council, SEIU Local 2015  
**Angela Glover Blackwell,** Founder and CEO, PolicyLink  
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The Fair Shake Commission was created to find ways to address the growing economic inequality in our state, and to help ensure the dream of entering or staying in the middle class remains a reality for all Californians.

Since the Commission’s work began, we have seen a tectonic shift in our national politics. We saw the election of a president who uses fear and division to achieve his political ends, and who continues to attack the fundamental principles and institutions of our democracy.

The 2016 election was a wake-up call for all of us who believe in an inclusive, diverse, and dynamic society. It was a stark reminder that economic uncertainty can give oxygen to the politics of hate. It also upped the stakes for the work of this commission and for California’s success.

California stands as an alternative to Donald Trump’s America. Our economy is the sixth largest in the world, and our state is the most ethnically and racially diverse in the nation. A majority of our residents and more than 75 percent of our children are people of color. We are a state that has been built by immigrants, and one that continues to see the benefits of their contribution to our society and our economy — nearly three of every ten California residents were born in a foreign country.

While we are leaders in policies of growth and inclusion, we have one of the nation’s highest poverty rates and a shrinking middle class. We are not immune to the economic shifts that, coupled with decades of public disinvestment, have unleashed insecurity and hatred across the country. We can and must do more to respond to the economic change that has occurred and to the change that is to come, to ensure we continue to be a place of opportunity, equity, and inclusive prosperity.

While recent years have been a boon for those at the top, most workers have seen their wages stagnate. Too many people are struggling, even as our economy continues to grow. We are the richest state in the nation, yet more than 20 percent of our people live in poverty.
Like much of America, we are increasingly becoming a state of haves and have-nots. As working people face growing threats from economic and political change, millions of Californians find themselves being pushed toward an uncertain future. More and more are working multiple jobs just to pay the bills. Meanwhile, the strong public infrastructure that allowed so many creators and entrepreneurs to attain great success here has been starved.

Our shared prosperity has been undermined by decades of disinvestment in our public schools, universities, and infrastructure. This shrinking of public resources stems, in part, from a sustained political attack on the social contract at the heart of our democracy. Concerted efforts to reduce public assets — or make them private, for-profit products — have devastated many communities.

Without publicly financed roads, bridges, water systems, ports, schools — and technologies like communications satellites and the Internet — most corporations could not survive. Therefore, the constant attacks on public investment are shortsighted and self-defeating.

The failures of extreme ideologies, lack of investment, and insufficient policy action to level the playing field have led to vast economic inequality. At a time when the top one percent of wealthy Americans possess more than the bottom 80 percent of working Americans, big corporate interests push for income tax loopholes for multimillionaires. At a time when the United States is falling behind the rest of the world in educational achievement, anti-government ideologues push for deeper cuts to public schools and universities. At a time when hardworking Americans must sometimes hold down multiple jobs to make ends meet, these interests want to gut important public programs that help keep families out of poverty. At a time when technology is moving us rapidly forward into the future, they push economic policies that move us back into the past.

Big corporate interests behave this way because their primary purpose is to maximize their self-interest and increase the profits of their shareholders. Unfortunately, the rules — as currently written — validate that view and fail to protect the public interest.

We can fight back against the economic and political pressures on our middle class and those left out of our recent growth by reinvesting in our people and our public works. Investing in our physical and social infrastructure will make the California Dream, and the American Dream, more attainable for our 40 million residents.

In California, we have led with a more inclusive vision. In recent years, California voters and policy leaders have taken important steps to lessen the impacts of economic upheaval and transformation and to reverse decades of disinvestment in our people.

Working together, we are making progress. But we have much more work to do.
This report is an effort to help build a consensus about how we can come together to meet our common challenges. For those of us who still believe that America is stronger when we use government to level the playing field for all, it is time to articulate a vision for what the future should be and to make a plan together about how to get us there.

Californians know we are at our best when we are living up to our ideals — when we lift up more of our people and fulfill the vision espoused by our nation’s founders. That foundation gave us a framework to base a society on the progressive idealism of the Enlightenment.

Despite the promises of our nation’s founding documents and principles, many of those ideals have never been fully realized, even by the founders themselves. While we talked about liberty and justice for all, it explicitly did not include women, African Americans, and many others in 1776.

Over time, sometimes in fits and starts, we have realized more of our American ideals, expanding those inalienable rights to groups that have historically been disenfranchised. There is much left to be done, but our job must always be to work toward a more perfect union.

We cannot achieve this by being passive. We know that the only option is to move forward. And we know that we can do better.

It is up to those of us who still believe in the California Dream to articulate a coherent vision for an inclusive future and economic policies that can bring broad prosperity and expand opportunity for all.

Our efforts will offer an alternative vision to the cynicism we see coming out of Washington. By coming together to find solutions to help our working people thrive, we can show the nation and the world that American ideals are still alive and well, and are not bound by race, color, or creed.

We must be clear-eyed about the challenges that lie ahead, and realistic about the challenges we face. But together, we can take lessons from our past success, and our failures, to build a better vision for our future.

This is hard work, and there will be organized, well-funded opposition. There is no one silver bullet or magic potion to cure what ails us. Problems get solved through clear diagnosis of the problem and its root causes, an understanding of the forces at work, and a sharing of well-reasoned ideas to build a common consensus about how to move forward.

This report offers ideas to level the playing field and to create opportunity for all Californians. It is born from the understanding that a more inclusive, diverse California is key to a stronger future and that more inclusive prosperity leads to more, not less economic growth.

We cannot be afraid. We must live up to our ideals. And through our success, California can show the nation a more hopeful vision for the 21st century.
Now more than ever, our nation needs California ingenuity and California optimism. We need collective action and imagination. We need to tap the spirit of collaboration that has been lost in our national politics but remains at the vibrant heart of our great state.
Executive Summary and Ideas for Change

About the Fair Shake Commission

The Fair Shake Commission was convened in 2015 to tackle the issue of eroding opportunity in California — a state where growing economic insecurity and poverty coexist with unprecedented levels of wealth creation. The Commission’s goal was to examine income inequality in California, to consider its causes and effects, and to identify opportunities for change in the context of persistent racial inequities that threaten the prospects for sustained growth, innovation, and competitiveness.

More than 60 percent of all Californians and nearly 75 percent of California’s youth are people of color. Almost 30 percent of Californians are foreign born. And Californians of color are disproportionately affected by rising inequality. In 2012, the median wage for workers of color was almost 35 percent less than the median wage for white workers. California cannot succeed without investing in the success of all Californians, particularly its growing communities of color.

Ensuring that all Californians have a fair shake at opportunity is not only just — it is essential to growth, prosperity, social stability, and democracy.

The Commission held eight meetings across the state. Commissioners considered input from dozens of experts on a range of issues including housing, transportation, employment trends, criminal justice, poverty, healthcare, social services, retirement, climate change, civic engagement, economic development, taxes, early education, banking, access to credit, higher education, workforce development, water, changing demographics, and the changing nature of work.

This report is informed by Commission meetings, research, and the considerable expertise of Commission members. It is also informed by the work of the Center for American Progress, analysis by the University of Southern California’s Program for Environmental and Regional Equity, research from PolicyLink, and the work of many academics, advocates, community-based organizations, legislative committees, and leaders across the state and nation.

This process has been driven by the fundamental belief that investing in our greatest asset — our people — and giving every Californian a fair shake will be better for our democracy, our economic growth, and our social stability.
The ideas for change discussed in this report are based on four core principles:

1. **Too many people are being left out of our modern economy**

   Decades of underinvestment and employment rules that have been undermined and are outdated are hampering economic growth and leaving far too many Californians behind. Given all economic systems and societies have and need rules, we need updated ones — simple, effective, and fair rules that enable opportunity for all Californians.

2. **A robust public sector is key to a vibrant private sector**

   A strong physical and social infrastructure — including access to quality, affordable education, banking, housing, and childcare — is necessary for our economy to thrive.

3. **Targeted efforts are needed to expand opportunity to strengthen and grow the middle class**

   Making higher education more affordable will promote opportunity and support economic growth. Smart workforce training can help provide career advancement and skills for workers in a changing economy. Investments in early childhood programs can help address root causes of inequality.

4. **An engaged and empowered citizenry and an inclusive government**

   Working together to expand opportunity, are fundamental to an effective democracy and to a thriving economy.
Build on California’s Recent Progress

California has lived through the failed policies of division and scapegoating, and has chosen another course. Over the past several years, policymakers have taken action to move forward together. We have promoted public policies that respect the work and contribution of immigrants. We have enacted landmark environmental legislation and reformed our criminal justice laws. We have worked to protect workers and those at the bottom of the economic ladder. We have also begun to reverse decades of disinvestment by raising necessary revenues to invest in infrastructure, education, healthcare, and a stronger safety net. While we have made important progress, we need to do more to reconcile the two great challenges of our time — climate change and diminishing opportunity — and to continue to tackle both in an inclusive way that overcomes the persistent racial inequities that have for too long plagued our state.

Government must play a role in expanding opportunity, eliminating barriers to participation, and creating a California that works for all. Promising efforts are underway. The state has adopted increases in school funding aimed primarily at school districts serving low-income students and English-language learners. We have implemented reforms in criminal justice to reduce mass incarceration and increase rehabilitation. We have aggressively expanded access to healthcare. We have strengthened our safety net. And we are on our way to a $15 minimum wage. Commissioners agree that California should remain committed to these important recent changes that promise to strengthen our state. We recommend that California:

- Continue making K-12 school funding more equitable
- Stay the course on implementation of the Affordable Care Act
- Support scheduled minimum wage increases
- Provide a national model for inclusive policies supporting immigrant rights

The passage of Proposition 55 by California voters will maintain the state’s progressive income tax structure and continue to generate $8 billion per year in much needed funding for education and other important programs. With these funds, we should continue providing additional resources to virtually all school districts and granting the largest funding increases to districts serving low-income students, English-language learners, and children in foster care.

Implementation of healthcare reform has expanded coverage to millions of Californians, slowed down the rise in healthcare costs, and made it possible for Californians with preexisting medical conditions to get health insurance. Providing accessible and affordable healthcare should remain a priority even as the state wrestles with uncertainty and the potential scaling back or repeal of the Affordable Care Act by federal lawmakers.

We must continue state policy that acknowledges and reflects the important role of immigrants in our economy and society, and ensures that all California families are treated with dignity and respect.
We should increase the minimum wage to $15 per hour by 2023, as scheduled in current law, so the income of millions of hardworking Californians continues to rise — not to decline, as it has for too long. (It should be noted that as the cost of living varies across our state, as will the level of a “livable” minimum wage — some regions, like the San Francisco Bay Area, should go above and beyond.)

Path Toward a Better Future

While we have made progress in recent years, far more needs to be done to increase the incomes of working people who are struggling to get by and to achieve racial equity. Damaging policies that are widening the wealth gap need to be changed. More needs to be done to prepare the next generation of students and workers for jobs in a rapidly changing economy, and to give greater voice to all Californians. This report offers a roadmap to move forward in an inclusive way.

California is experiencing growing inequality amid a demographic transformation. The state’s diversity can be a tremendous economic advantage in a global economy — if people of color are fully included as workers, entrepreneurs, and leaders. But growing inequality and persistent racial inequities threaten the prospects for sustained growth. In 2014, California’s economy would have been almost $800 billion or 34 percent larger if there had been no racial gaps in income. Ensuring that all Californians have a fair shake at opportunity is not only just — it is essential to growth, prosperity, social stability, and democracy.

California should build on its work to expand and improve access to the middle class and to promote continued, more inclusive economic growth. This is even more important given efforts by the Trump Administration to roll back healthcare and environmental protections, to scapegoat immigrants, to decimate the safety net, and to reduce key federal protections. The Commission offers suggestions to promote the next generation of California prosperity:

- Update employment regulations to ensure workers — whether employed full time, part time, or as independent contractors — have the necessary protections and benefits that will allow them to realize the California Dream.
- Transform our colleges, universities, and workforce development programs to allow Californians to reskill and upskill throughout their lives and reform financial aid policies to make higher education more affordable.
- Invest in physical and human infrastructure to allow a robust private sector to thrive, and to ensure workers get the compensation and protection they need to secure a place in the middle class.
- Modernize services including education and childcare, so parents have the necessary supports to work full time and to pursue opportunities for advancement.

To support a stable and functioning democracy and to promote broader economic growth and opportunity, California should make the investments and regulatory changes needed to update and improve our infrastructure and restore the purchasing power of important safety net programs.
The challenge before us is monumental. Widening income inequality undermines the California Dream. Persistent racial inequities hold our economy back and unfairly deny opportunity to far too many Californians. Our rapid economic transformation without necessary changes in public policy has led to an unlevel playing field. This change has destabilized the middle class and put basic economic security entirely out of reach for far too many people in our state. We have shown throughout our history that we can overcome big challenges and emerge stronger. We must recommit to addressing our new challenges and work toward a better future for all Californians.
Chapter One:
Inequality in California
California is ground zero for inequality in the United States. Our state has the highest gross domestic product in the nation, but increasingly, gains are not shared by all. California is home to more millionaires, billionaires, and families living in poverty than any state in the nation. Amid this economic polarization, our once-vibrant middle class is rapidly eroding.

According to the Public Policy Institute of California, more than 60 percent of California families were middle-income earners in 1980. By 2013, that number had fallen to less than 44. A study by the Center for American Progress found that since the Great Recession, California’s middle-class household income has fallen by 6.9 percent — the largest decline in the nation.

**Figure 1.1**

*Growth of Inequality in California (Household Gini Coefficient)*

*Source: US Census*
Over the past four decades, inequality has grown faster in California than it has in almost every other state. Wage stagnation, the loss of manufacturing and other middle-class jobs, and the growth of low-wage work combined with soaring costs of basic needs like housing, education, transportation, and childcare have made it harder for those earning a median wage to keep up, let alone get ahead. People of color have been disproportionately affected. In 2014, 18.4 percent of Latino adults ages 25 to 64 were working full time and living below 200 percent of the federal poverty level compared to 9.4 percent of all working adults and 3.8 percent of white adults.

The state’s economy has grown, but increasingly, the growth is being enjoyed by a small segment of the population. Since 1989, California’s economy has more than quadrupled, going from a GDP of about $600 billion to more than $2.5 trillion. But this new wealth is not being shared. As the California Budget Center found in its 2016 report, “Most Californians live in an area where the top 1 percent has captured most, and in some cases all, of the income gains made since 1989.”

Incomes at the top are exploding, but wages for many have stagnated. A growing number of people are struggling to keep pace. Rents and housing prices have skyrocketed, particularly in the Bay Area and much of Southern California. The state’s legislative analyst found that rents in California are 50 percent higher than in the rest of the country. Other costly elements of daily life, including childcare, healthcare, and higher education, are straining working families across our state. An average working couple has to spend more than 20 percent of its income to cover the childcare costs for an infant and a school age child. A single mom would have to spend almost 70 percent of her income to cover these costs.

![Figure 1.2](image-url)

**The Growth of Top Incomes Has Outpaced Growth of Incomes of the Bottom 99 Percent in Most California Regions**

Percent Change in Inflation-Adjustment Average Income, by Income Segment, 1989 to 2013

<table>
<thead>
<tr>
<th>Metropolitan &amp; Nonmetropolitan Area</th>
<th>Top 1%</th>
<th>Bottom 99%</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Jose-Sunnyvale-Santa Clara</td>
<td>238.8%</td>
<td>23.2%</td>
</tr>
<tr>
<td>San Francisco-San Mateo-Redwood City</td>
<td>219.3%</td>
<td>34.7%</td>
</tr>
<tr>
<td>San Luis Obispo-Paso Robles</td>
<td>197.9%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Napa</td>
<td>159.3%</td>
<td>62.2%</td>
</tr>
<tr>
<td>Oxnard-Thousand Oaks-Ventura</td>
<td>102.3%</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Oakland-Fremont-Hayward</td>
<td>87.8%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Santa Cruz-Watsonville</td>
<td>81.2%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>San Diego-Carlsbad-San Marcos</td>
<td>58.6%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Santa Ana-Anaheim-Irvine</td>
<td>58.2%</td>
<td>-11.9%</td>
</tr>
<tr>
<td>Los Angeles-Long Beach-Glendale</td>
<td>55.5%</td>
<td>-12.1%</td>
</tr>
<tr>
<td>Hanford-Corcoran</td>
<td>54.2%</td>
<td>-17.1%</td>
</tr>
<tr>
<td>Bakersfield-Delano</td>
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<td>-11.1%</td>
</tr>
<tr>
<td>Santa Barbara-Santa Maria-Goleta</td>
<td>44.1%</td>
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</tr>
<tr>
<td>North Valley Region of California</td>
<td>43.9%</td>
<td>-16.1%</td>
</tr>
<tr>
<td>Salinas</td>
<td>43.6%</td>
<td>-4.9%</td>
</tr>
<tr>
<td>Santa Rosa-Petaluma</td>
<td>40.8%</td>
<td>-10.4%</td>
</tr>
<tr>
<td>Chico</td>
<td>37.9%</td>
<td>-6.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Metropolitan &amp; Nonmetropolitan Area</th>
<th>Top 1%</th>
<th>Bottom 99%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visalia-Porterville</td>
<td>25.9%</td>
<td>-17.7%</td>
</tr>
<tr>
<td>Madera-Chowchilla</td>
<td>25.2%</td>
<td>-16.8%</td>
</tr>
<tr>
<td>Fresno</td>
<td>23.6%</td>
<td>-13.4%</td>
</tr>
<tr>
<td>Sacramento-Arden-Arcade-Roseville</td>
<td>22.1%</td>
<td>-7.6%</td>
</tr>
<tr>
<td>Vallejo-Fairfield</td>
<td>20.6%</td>
<td>-12.1%</td>
</tr>
<tr>
<td>Merced</td>
<td>16.7%</td>
<td>-20.2%</td>
</tr>
<tr>
<td>Northern Mountains Region of California</td>
<td>15.8%</td>
<td>-16.1%</td>
</tr>
<tr>
<td>Yuba City</td>
<td>15.7%</td>
<td>-7.9%</td>
</tr>
<tr>
<td>Stockton</td>
<td>13.3%</td>
<td>-14.5%</td>
</tr>
<tr>
<td>Mother Lode Region of California</td>
<td>12.2%</td>
<td>-19.8%</td>
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<tr>
<td>Modesto</td>
<td>10.9%</td>
<td>-19.3%</td>
</tr>
<tr>
<td>North Coast Region of California</td>
<td>9.4%</td>
<td>-22.0%</td>
</tr>
<tr>
<td>El Centro</td>
<td>7.2%</td>
<td>-15.4%</td>
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<tr>
<td>Riverside-San Bernardino-Ontario</td>
<td>-3.7%</td>
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</tr>
<tr>
<td>Redding</td>
<td>-7.9%</td>
<td>-18.3%</td>
</tr>
<tr>
<td>Eastern Sierra Region of California</td>
<td>-18.3%</td>
<td>-13.1%</td>
</tr>
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</table>

Within our state, there are profound regional differences in wealth and income distribution, which adversely impacts the overall well-being of residents in poorer parts of the state. People who live in Silicon Valley live more than four years longer than the average American, with a per capita income nearly double the national average. Just a few miles away in the state's Central Valley, however, residents live nearly a year less than the national average, with a per capita income that is among the lowest in the nation.

Rising inequality comes as the face of California is also changing. California is the most ethnically diverse state in the nation. We are now a plurality Latino state, and a majority of California children are Latino. More than 60 percent of all Californians and nearly 75 percent of California’s youth are people of color. About 27 percent of Californians are immigrants, and more than half of California’s children have at least one parent who was born outside the United States. However, today, the majority of the growth in the state’s Latino population is among native-born Californians, and for the first time since the Gold Rush, California-born residents make up the majority of residents in the state.

There is only one way to build a stronger, fairer, more equitable California: Invest in our greatest asset — our people.
Over the past three decades, the state’s gross domestic product has increased by 123 percent, making it the highest in the nation, while median income has gone up by only 7 percent. Wage stagnation, the loss of manufacturing and other middle-class jobs, and the growth of low-wage work combined with the soaring costs of basic needs, such as housing and transportation make the American Dream ever-more elusive for millions of people, particularly people of color.

People of color working full time are more likely to have income below 200 percent of the federal poverty level. Only 63 percent of people of color were earning at least $15 an hour in 2014, compared to 85 percent of whites. Latinos, African Americans, and other people of color are more likely to live in poverty. Specifically, in California in 2014, 24.8 percent of African Americans, 23.3 percent of Latinos, and 23.1 percent of Native Americans were living in poverty, compared to 10.2 percent of whites.

The bottom line is that most workers have been adversely affected by rising inequality but people of color have been impacted the most heavily.

Rising inequality has coincided with the most significant population shift since the Gold Rush. In 1980, 67 percent of residents were white. In the 1990s, people of color became the majority, a pivot the nation as a whole will make by 2045. People of color now represent nearly 62 percent of Californians and nearly 73 percent of youth, and the percentages continue to climb.

California is America in fast-forward. The state has an opportunity — indeed, an obligation — to show the nation how to be responsive to the needs and realities of all its people and how to benefit from the energy, skills, and talents of all Californians.
Yet too many Californians in the fastest-growing communities have been left behind. People of color are disproportionately burdened by failing schools, jobs that pay less than a living wage, and underinvested communities.

This has stark implications for the health of our economy and democracy, especially when considering several other important demographic shifts. Californians are getting older. According to the California Department of Finance, the population of state residents 65 and older is expected to grow more than twice as fast as the total population. Previously, the population in terms of age looked more like an “age pyramid,” with fewer older people and more children and younger working people. Now, it looks more like an “age cylinder,” with a larger elderly population that will require services to be provided, and largely funded, by a younger workforce. It is in the interest of the current and next generations of seniors to ensure the state’s workforce can support and sustain the services aging Californians will require in order to keep our state moving forward.

The state’s seniors are far less diverse than its youth, which means that California increasingly relies on young people of color to replace white retirees as workers, business owners, taxpayers, consumers, homeowners, and civic leaders. Moreover, because falling birth rates have led to a decline in the number of children, every child will have to be more productive to keep the economy strong. Dowell Myers, a demographer at the University of Southern California, has calculated that a newborn in California today will carry twice the weight of social and economic responsibility as a child born in 1985.

**Fig 1.5**

*Statewide Change in Demographics (1980-2015)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Asian/Pacific Islander</th>
<th>Black</th>
<th>Latino</th>
<th>Native American</th>
<th>White</th>
<th>Other</th>
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</thead>
<tbody>
<tr>
<td>1980</td>
<td>5%</td>
<td>19%</td>
<td>8%</td>
<td>67%</td>
<td>57%</td>
<td>6%</td>
</tr>
<tr>
<td>1990</td>
<td>9%</td>
<td>26%</td>
<td>7%</td>
<td>69%</td>
<td>57%</td>
<td>6%</td>
</tr>
<tr>
<td>2000</td>
<td>3%</td>
<td>32%</td>
<td>6%</td>
<td>57%</td>
<td>47%</td>
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<tr>
<td>2015</td>
<td>3%</td>
<td>39%</td>
<td>6%</td>
<td>57%</td>
<td>47%</td>
<td>6%</td>
</tr>
</tbody>
</table>

*Source: USC Program for Environmental and Regional Equity*
In short, long-term prosperity hinges almost completely on our next generation, which is overwhelmingly composed of young people of color. Investments in their success are investments in our collective future.

As we try to find ways to expand opportunity and reduce inequality, we must keep in mind these concurrent economic and demographic changes, as well as important regional differences across our state. We must be cognizant of opportunities that used to exist and no longer do, and of the implications of diminishing opportunity in our increasingly diverse state.

The closing of the door to the middle class in California is disproportionately affecting people of color. This disproportionate impact of diminishing opportunities adds a broader social urgency to the economic questions at the heart of this report. The social costs of failing people of color increase as our population continues to shift. We cannot separate what is good for communities of color and what is good for California. Ensuring the success of communities of color means ensuring California’s success. But failure to address economic inequality and to expand opportunity threatens to split California in unhealthy ways, along racial and ethnic lines. Failure to act poses a fundamental threat not only to our economy, but to our society and our democracy.

This does not have to be so. Our demographic shifts can have a positive, transformational effect on our economy. They can lead to new kinds of jobs and create demands for new kinds of services. However, it is essential that these new opportunities do not just provide the same low-wage work that makes upward mobility an impossibility for many Californians. Of the seven fastest-growing employment sectors in the state in terms of total jobs, all of them are low-wage employers, according to projections from the California Employment Development Department, with median wages ranging from $9 to $11 per hour.25
The Commission looked at ways to ensure that emerging industries offer opportunities for meaningful employment, where workers can receive just compensation and have access to a secure place in the middle class. Understanding these trends is key to finding policy solutions that meet the needs of our changing society.

California’s job market, like its demographic profile, has changed dramatically over the past several decades. We have been hard-hit by a decades-long decrease of jobs in our manufacturing sector — jobs that offered livable wages and on-the-job training for millions of Californians during the state’s post-war industrial boom.

As late as 1990, the manufacturing sector was California’s largest employer. Today, the healthcare sector is the largest employer in the state. California’s technology sector has also exploded, giving rise to new, high-wage jobs for some, but also creating massive demand for new, low-wage service jobs and contributing to the erosion of middle-class manufacturing jobs.

Many of today’s fastest-growing areas of employment do not offer the same middle-class wages and compensation packages that the largest parts of our post-war economy traditionally offered. Today’s workers do not have the kind of long-term relationships with an employer that were common through much of the 20th century. Employment and labor laws create incentives for businesses to use more contract services and part-time workers. The shift away from long-term, full-time employees in many industries has translated into less opportunity for advancement and upward mobility for many workers.

The Commission considered the changing nature of work and ways to ensure California workers are appropriately compensated and protected in the new economy.

While changes in the job market have had a dramatic effect on the California workforce, workers and families have also suffered from sustained attempts to undermine government rules and limit public funding for key programs and services. Worker protections and a stronger government safety net complemented and enhanced a booming economy, leading to the largest expansion of the middle class in our state’s history. Public investments in schools, universities, transportation systems, and reliable energy led to economic strength and widely shared prosperity.

But an active and effective effort to tip the scales, weaken key government rules and regulations, and limit public investments took hold in the late 1970s. The belief that the market will take care of all, that wealth will trickle down, and that government should stand idle all contributed greatly to the inequality we see today.
As a result, profits have been siphoned off while workers have been shortchanged. Wages for California workers have stagnated, despite the fact that they are more productive than ever. Between 1979 and 2013, according to statistics from the UC Berkeley Labor Center, worker productivity was up 89 percent. Median hourly compensation was up just 3 percent during that same period.

As the power of workers has diminished and wages have stagnated, we have seen a systematic shift in risks and costs to workers and taxpayers. In California, as elsewhere, employers have moved away from covering healthcare and retirement costs for their employees. Job training programs have been cut. There is less private-sector investment in workforce training. Work has become less secure.

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**Fig 1.6**

**Percent Change in Inflation Adjusted Compensation & Productivity Since 1979**

- CA Productivity
- Compensation of Median CA Earner
- US Productivity
- Compensation of Median US Earner

**Note:** Data are for production of nonsupervisory workers ages 18 to 64. "Compensation" includes wages plus the value of additional benefits such as employer contributions to health care or retirement plans.

The Affordable Care Act was designed to address these trends, encouraging employer-based health insurance and building upon it with reforms to the individual health insurance market and expansion of publicly supported health insurance programs. It has made healthcare more affordable and accessible in the face of shifts in risk and costs from employers to individuals and taxpayers. Not only has the ACA reduced the number of uninsured Americans and provided access to coverage for people with preexisting health conditions, but it has reduced income inequality and addressed a key cause of personal bankruptcies in the United States. The ACA funded a coverage expansion to low-income Americans, as well as tax credits for middle-income Americans with taxes on high-income individuals. Its repeal would not only reduce coverage for millions of Californians and destabilize the healthcare delivery system, but it would increase income inequality and deliver a massive tax cut to high-wage earners.

Insecure work and employer efforts to contain wage growth and reduce benefits have increased dependence on government assistance — even for those who are working full time. This places additional burdens on taxpayers, who are left to cover these costs.

While employer actions have increased demand for taxpayer-funded services, corporate taxes, as a percentage of profits, are lower than ever. California’s corporate tax rate is 8.84 percent; however, actual corporate tax liability as a percentage of profits was 4.2 percent in 2012, according to Franchise Tax Board data. That is the lowest percentage since such data started being recorded in the 1940s.
Profits have soared. Income at the top has skyrocketed. Workers are more productive than ever but are no longer sharing in the wealth they are generating for others. According to the International Monetary Fund, technology is the largest contributor to the change in labor shares of profits — a trend that is likely to continue.

The growing gap between the haves and have-nots does not only affect those who are left behind. It has slowed our overall rate of economic growth and threatens our future economic health. Reducing inequality is not only fair; but it is good economic policy. A 2011 report by International Monetary Fund economists found that every 10 percent increase in equality increased the length of a country’s growth periods by 50 percent.

Growing disparity is also a threat to political stability. As we see in our national politics, political angst and anger grows as economic opportunity diminishes.

More inclusive prosperity would not only strengthen our economy, but it would create a stronger and more stable society.

Government can and must be part of the solution. It has been before, and it needs to be again. That does not necessarily mean a simple redistribution of wealth. Government must play a central role in leveling the playing field for workers and ensuring more Californians get a fair shake at economic opportunity.
Much of this hard work is well underway. California has a history of taking bold action, of leading, of forging new paths. We have made recent changes that will help increase opportunity and fairness in our state. We have adopted increases in school funding primarily aimed at schools serving low-income students. We have aggressively implemented healthcare reform. We are on our way to a $15 state minimum wage. We are making important investments in our future—particularly in transportation, climate change, and K-12 education. We have moved beyond the politics of the past to build a better collective future. We must continue to move forward.

California can offer an alternative to the raw emotional response and divisive strains we see in our national politics. Our state is America in fast-forward. We are at the forefront of economic and demographic changes that will have a transformational impact on our country.

We must resist the national politics of division and continue to build on recent success to ensure our businesses, our communities, and our government are all responsive to the needs and realities of our people. The stakes are high. But if we can continue to come together to solve difficult problems, we can lay the foundation for the next generation of California prosperity.
Chapter Two: Making the economy work for all Californians

1 Level the Playing Field for All Workers:

Promote Full-Time Work:
Close the “part-time” loophole by expanding benefits to include part-time workers, requiring businesses to offer additional hours to part-time workers before hiring more employees and otherwise eliminating disincentives for full-time work. This will encourage businesses to hire full-time employees.

Extend Basic Protections to Contract Workers:
California should level the playing field for all workers by establishing a floor for compensating contract workers that reflects the minimum wage plus costs usually borne by employers, including the cost of healthcare, unemployment insurance, workers’ compensation, and employment-related taxes.

2 Control Healthcare Costs:
The cost of benefits can be unpredictable, and when they rise rapidly, they cripple businesses and stifle wage growth, hurting employers and workers alike.

3 Enhance Worker Protections:
Protect workers and ensure corporations abide by the laws aimed at protecting workers.

4 Simplify Workplace Rules:
Reducing the distinctions between different types of workers will offer clarity and consistency to businesses.
Commission Work

The profound changes in California’s workforce and the nature of work, the erosion of workers’ collective voice, the impact of rising benefit costs on wages, and the shift in costs and risks to individuals and taxpayers were all issues considered at the Commission’s meetings in Los Angeles and Sacramento. Experts, including researchers and academics from the Center for American Progress, the UC Berkeley Labor Center, the UCLA Center on Labor and Employment, the Institute for the Future, the USC Program for Environmental and Regional Equity, and the State Treasurer’s Office shared data, insights, and recommendations about these issues. Based on the discussion and expert input, Commissioners concluded that California laws need to be updated to ensure basic protections are available to all workers, regardless of how they are employed, and that new portable structures supported by employee and employer contributions are needed to better meet worker needs and to ensure costs and risks are not simply transferred to employees and taxpayers.

Background

The way we work has fundamentally changed over the past several decades, and yet we are still governed by laws and regulations that grew out of the 20th-century industrial economy. As the National Research Council described in its report on the changing nature of work, “the basic framework for labor and employment law in place today originated from the New Deal legislation of the 1930s. Thus, much of it still reflects the images of industrial work and organizational structures that dominated at that time.”

Key laws and regulations, including our unemployment compensation system, the National Labor Relations Act, and the Fair Labor Standards Act, date as far back as the 1930s. They are based on a post-Industrial Revolution economy and were tailored to the production workers and traditional management of that era.
Since then, the economy has changed in significant ways. Technology has made work more mobile and has created the need for new kinds of jobs, while leading to the elimination of others. Businesses, in turn, have changed the way in which they meet their needs. They have increasingly turned to contractors for janitorial services, food services, assembly, teller services, manufacturing, and other functions. They have also increased their reliance on part-time workers, maintaining an especially high number of temporary workers during the recovery period. The shift to contract services has created more distance between workers and the entities that ultimately pay their salaries. Employment has become more insecure, and issues like wage theft have become more pervasive. A recent study from the Economic Policy Institute found that more than 19 percent of low-wage workers in California had experienced some form of wage theft or underpayment costing low-wage workers more than $2 billion per year. Work has also become more dangerous for some workers — as the rate of workplace injuries for temporary employees is higher than the injury rate for other workers.

Historically, worker productivity and compensation were linked. In “The Middle Class Squeeze,” the Center for American Progress found workers in post-World War II America saw their compensation rise as they became more productive. “A worker in 1973 was almost twice as productive as a worker in 1948 and earned nearly twice as much. This golden age built a strong middle class as prosperity was increasingly shared. The economy grew by an average of 3.9 percent from 1948 to 1973, and the bottom 90 percent of families reaped 68 percent of the gains.”

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**Figure 2.1**

**Decoupling of Employee Compensation & Productivity**

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Productivity</th>
<th>Hourly Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948-1973</td>
<td>96.7%</td>
<td>91.3%</td>
</tr>
<tr>
<td>1973-2014</td>
<td>72.2%</td>
<td>9.2%</td>
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</tbody>
</table>

**Note:** Data are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. “Net productivity” is the growth of output of goods and services minus depreciation per hour worked.

**Source:** EPI analysis of data from the BEA and BLS (See technical appendix of Understanding the Historic Divergence Between Productivity and a Typical Worker’s Pay for more detailed information)
The connection between a worker’s productivity and his or her compensation is now tenuous. Since 1973, worker productivity has increased nearly eight times more than worker pay. The income, wages, and wealth generated over the last four decades have failed to ‘trickle down’ to the vast majority largely because policy choices made on behalf of those with the most income, wealth, and power have exacerbated inequality,” according to the Economic Policy Institute.

Wages for low-skill workers have stagnated and are outpaced by a higher cost of living and inflation. This wage stagnation and reduced access to the middle class has coincided with the weakening of the labor unions. Union membership has steadily declined over the past half-century. The percentage of private sector workers represented by a union has declined from about 35 percent in the mid-1950s to less than 7 percent today. Given the evidence of the positive impact of union density on wages and benefits, the decline in labor representation has contributed to weaker wage growth. Income and wealth is clearly not trickling down, while inequality, insecurity, and lack of opportunity are on the rise.

**Figure 2.2**

**Unions and Shared Prosperity**

- Share of Income Going to the Top 10 Percent
- Union Membership

Source: Author’s analysis of *Historical Statistics of the United States*, unionstats.com, Piketty and Saez 2003, and *The World Top Incomes Database*
Many of our old workplace rules and structures assume employees have long-term relationships with their employers. We know that in today’s workforce, those long-term employer-worker relationships are increasingly uncommon. The average American changes jobs every 4.4 years, according to the U.S. Bureau of Labor Statistics.\textsuperscript{41} Workers in growing sectors of the economy, especially the service sector, have much shorter relationships with their employers. Men between the ages of 45 and 64 have been forced to change jobs more frequently.\textsuperscript{12} Relatively unstable patterns of job tenure since the 1980s may be linked to a decline in job security and reduced opportunities for advancement.

As family structures, work hours, the organization of work, and the composition of our workforce change, government policies need to adapt. California needs laws and business practices that better fit today’s workforce. Today’s jobs are more mobile, more flexible, and more insecure. New needs and challenges have arisen from these transformations, and policies need to be adjusted accordingly.

**Issues**

**Level the Playing Field for All Workers**

California’s workplace rules and regulations are outdated and out of alignment with today’s economy. We essentially operate under a 1930s framework that increasingly excludes growing sectors of work, offers inadequate protections to today’s workers, and encourages businesses to behave in ways that do not benefit workers.

The economy and the way we work has changed in significant ways over the past several decades. Our manufacturing sector has declined sharply, while lower-wage service jobs have grown. Automation and globalization have changed the job market, offering opportunities for some, while placing massive pressures on sectors of the economy that once provided the foundation for California’s middle class. We’ve seen the rise of the “gig economy” and a sharp increase in the number of people working part time. We have also seen large shifts from relying on traditional employees to contracted services.

Specifically, recent data show an increase in self-employment — a rise in the so-called 1099 workforce.\textsuperscript{43} Some of these workers are employees, misclassified as independent contractors. However, those who truly are independent contractors are not covered by basic worker protection laws, including the minimum wage. They also lack access to unemployment insurance, workers’ compensation, and structures that make a collective worker voice possible.

Because these workers are often cheaper to use than full-time employees, business reliance on contract workers, as well as on part-time workers, has increased substantially. The United States Small Business Administration even touts the many benefits of using contractors over hiring employees, including savings in labor costs, reduced liability, and more flexibility in hiring and firing.\textsuperscript{44}
Since 2006, the number of involuntary part-time workers in California has more than doubled. The high numbers of part-timers is a byproduct of the new economy and the new kinds of available work. According to a November 2015 analysis from the Bureau of Labor Statistics, “There have been structural shifts — not just cyclical ones — that are keeping involuntary part-time employment high.”

We have also seen an expansion in the use of contractors throughout the growing service sector, including janitorial services, food services, assembly, teller services, and other functions. Many of these sectors are among the fastest-growing types of jobs in our economy.

These shifts, including the move to part-time work, contract workers, and contract services, have been driven by efforts by businesses to reduce their risks and costs. Not surprisingly, many businesses have taken advantage of the misalignment between our work rules and today's work. But the effects of this misalignment are financial incentives for companies that work at cross-purposes with desired social outcomes.

Outdated rules create an unlevel playing field and effectively penalize employers who want to do right by their workers. Businesses that offer long-term employment that pays a living wage and benefits can be at a competitive disadvantage to other businesses who skirt compliance and offer inferior working conditions to their employees or independent contractors.

We must level the playing field so that doing right by workers does not place businesses at a competitive disadvantage.

We need a system that supports worker flexibility but ensures that those workers still have basic protections in place, regardless of whether they are working full time, part time, as employees, or as independent contractors. We must change the current structure of financial and tax rules that create disincentives to hiring employees, making it cheaper to contract for services, hire independent contractors, and adopt strategies that reduce worker wages, security, and benefits.
We must update the labor code to extend protections to workers regardless of whether they work full time, part time, as employees, or as independent contractors. Basic employment should pay a livable wage, include employer contributions for healthcare, and help provide for a secure retirement.

Establish Basic Protections for Contract Workers

California should consider requiring employers to pay higher hourly wages to independent contractors than they do to full-time workers to reflect costs traditionally borne by employers.

Wage and hour provisions, such as minimum wage, overtime, etc., establish a floor for employee compensation. But compensation and worker protections are broader than just wages. State and federal law require Social Security, Medicare, workers’ compensation, disability insurance, and other protections and compel employers to bear a significant share of the costs for these benefits. Independent contractors do not have these basic worker protections.

A higher minimum wage for contract work would level the playing field for all workers and employers regardless of work arrangements. It would establish a higher hourly minimum wage to account for healthcare, retirement costs, and employment-related taxes. It would make sure all workers are fairly compensated and ensure all employers meet their responsibilities to their workers — including paying a fair share of benefit costs. The higher wage for independent contractors would help offset shifts in risks and costs to workers when they are retained as contract employees. The wage could be the equivalent of the minimum wage plus mandated contributions from employers to Social Security, Medicare, unemployment insurance, and workers’ compensation. Contracts would outline the scope of work, an estimate of the time required to complete the work, and compensation that meets or exceeds the higher minimum wage for contract work.

Close the “Part-Time” Loophole and Expand Benefits to Include Part-Time Workers

California should consider expanding benefits to part-time workers by prorating benefit requirements and other obligations based on the number of hours worked. It should also consider requiring that employers first offer additional hours to part-time workers before hiring additional employees.

Employment rules and employer taxes can vary based on the number of hours an employee works. While well intentioned, these laws can add marginal costs for additional hours worked, creating a disincentive to hiring full-time employees. Some corporations limit work hours and hire more part-time workers to avoid paying for healthcare and other costs driven by the number of hours an employee works. Since the law bases benefit requirements and other employment-driven costs on the number of hours worked, some big corporations limit the workweek to save money. This loophole leads to workers getting a raw deal.
California should examine these laws, identify areas where increases in costs are not incremental, and adopt alternatives that prorate obligations and requirements based on the number of hours worked. This would eliminate cliffs related to the number of hours worked and create incentives for employers to hire more full-time workers.

**Protect Workers and Ensure Corporations Can No Longer Act With Impunity to Undermine Worker Protections**

California should consider strengthening enforcement to ensure all workers have the same workplace and wage-theft protections whether they're full- or part-time employees, independent contractors, or employed by a small entity or subcontractor.

Violations like wage theft are not only a problem for hard-working Californians, particularly immigrant workers, but undermine the responsible business owners in our state. Employers who disregard the law must be held accountable. Similarly, employers who provide fair compensation and promote opportunity should be supported. Under current enforcement strategies, some companies exploit loopholes in minimum wage, overtime laws, and other wage laws. Frequently, they do so by contracting for services or otherwise entering into relationships that shield them from liability and responsibility.

Policy-makers should examine the multiple places the state interacts with employers and other business entities and identify options to efficiently ensure laws are being followed. As part of business-licensing, banking, insurance, and in other interactions, monitoring requirements could be established to ensure contract terms are consistent with labor laws, rates are sufficient to provide employees minimum wage, overtime, etc., and oversight structures are in place to ensure contractors and subcontractors are covered. Similarly, public contracting practices should be modified to consider whether labor laws are being followed. When awarding contracts, investing in pension funds, and spending taxpayer resources, including when awarding tax credits, the state or pension fund governing boards should ensure applicable labor law requirements and any contract monitoring requirements are being met. Technology can play a key role in ensuring compliance in a way that does not create an undue burden for good actors. New strategies to ensure compliance with legal requirements are particularly important in the context of other changes to update the law to better work in today’s economy, including the proposed extension of key protections to contract workers.

**Control Healthcare Costs and Support Gig Workers**

Benefits are an important form of compensation. Healthcare coverage, retirement security, and other essential benefits have been provided through the workplace and funded wholly or in large part by employers through much of the 20th century.
The percentage of Americans with employer-sponsored healthcare insurance increased substantially during and after World War II as a way of attracting workers and providing compensation. After peaking late in the 20th century, the percentage of non-elderly Americans receiving health coverage through their jobs declined from more than two-thirds to 56 percent. The share of recent college graduates who receive health coverage through their jobs has declined from 61 percent in 1989 to 31 percent in 2012. The decline has been much steeper for workers with a high school education. That said, employer sponsored-coverage remains the principal way in which non-elderly Americans access health insurance. But the rising costs of these benefits has hit many businesses and individuals hard.

Small and medium employers are particularly challenged in managing what can be unpredictable and rapidly climbing costs, as their purchasing power is limited. These growing healthcare costs can have a direct impact on compensation. According to data from the Bureau of Labor Statistics, employer costs for benefits have increased by 60 percent since 2001, compared to a 37 percent increase in salary/wage costs. We must control the rise of healthcare costs and make these costs more predictable to help businesses grow and to help encourage wage growth.

Figure 2.3
Increases in Premiums Between 1999 and 2015 have Outpaced Inflation and Workers’ Earnings (Cumulative Increase)

Source: Kaiser Family Foundation
As the price of providing healthcare and retirement security climbs, many employers have shifted costs and risks onto employees and taxpayers. Workers are increasingly absorbing costs and risks of providing basic health coverage, retirement security, and other benefits traditionally associated with employee compensation. Over the past decade, the average deductible that workers must pay for medical care before their insurance kicks in has more than tripled, from $303 in 2006 to $1,221 today, according to the report from the nonprofit Kaiser Family Foundation. In addition, more and more working Californians are insured by publicly funded programs like Medi-Cal and Covered California.

The rising cost for businesses of providing these benefits has contributed to wage stagnation over the past several decades. When employers are paying more for healthcare, it reduces the amount of money available for worker wages. We are seeing the impacts here in California. As the California Budget Center found in a recent study on wage stagnation, “Low-wage and mid-wage workers still earned significantly less in 2013 than before the Great Recession began, after adjusting for inflation. This wage erosion continues a decades-long trend of widening wage inequality.”

To put it simply, workers are being hit twice — once by stagnating wages and again by paying more for their own healthcare and retirement — putting immense economic pressure on working Californians.

We must ensure that employers pay their fair share of worker benefits and that we do not simply transfer costs and risks onto workers. We must also work to contain the growth in benefit costs to make benefits more affordable for employers and working families. As we change the way we work, and how benefits are received, employers must contribute to worker protections including healthcare and retirement.
The Affordable Care Act reflects many of these important principles and was a massive step forward to reduce income inequality in the nation. It builds on and strengthens employer-based health insurance by requiring that employers offer health insurance or pay a fee, reducing the number of uninsured Americans and making coverage more affordable and accessible. Its repeal would be a massive step backward for the millions of Californians who are now insured and for the healthcare delivery system we all rely on and would increase income inequality in our state and nation.

While recent progress has been remarkable, it is increasingly at risk. More work is needed to protect the gains we’ve made and to keep making progress. Controlling healthcare costs is central to reducing economic inequality. We must preserve the Affordable Care Act and work to make benefits more portable, since workers often switch jobs or increasingly work a series of gigs or other types of contract labor. We must continue to embrace benefit structures that are more mobile and portable, but as we do, we must ensure that employers continue to pay their fair share instead of shifting costs onto workers and taxpayers.

**Control Healthcare Costs**

California can ease the burden of rising healthcare costs on employers and employees by adopting policies that expand bulk purchasing, encourage prevention, increase transparency, promote value-based contracting and share risk more broadly to more effectively contain costs. California should build on the passage of Proposition 56 (tobacco tax) and take other measures to address preventable costs and make healthcare more affordable for everyone. In addition, California should take steps to increase transparency in pricing, particularly in the area of prescription drugs.

Healthcare is a shared responsibility between workers and employers, and skyrocketing costs are placing financial pressures on both. Although the way we work is changing, funding healthcare must continue to be a shared responsibility. Healthcare exchanges, a marketplace through which employers and individuals can purchase health insurance, can be a key platform for efficiently providing access to affordable healthcare coverage. They can allow people to maintain coverage as they change employers. Exchanges can also help keep costs down, promote quality care, distribute risk among a broader base, and accrue the benefits of larger purchasing power. While they can be a key tool for promoting continuity of coverage and high-quality care at efficient rates, appropriate policies must be in place to ensure they are not a mechanism to reduce coverage and shift costs from employers to workers and taxpayers.

In addition to expanding exchanges, value-based contracting, and bulk purchasing, California can do more to prevent illness. One important way to reduce healthcare costs is to reduce smoking — the No. 1 preventable cause of death among Californians that has already cost the state an estimated $18 billion per year. Proposition 56 increased the per-pack tax on tobacco products by $2, an important step in reducing the healthcare costs associated with smoking and raising revenues to strengthen the state’s Medi-Cal program. California should build on this measure with policies that invest in prevention and reduce healthcare costs.
Rapidly rising costs in prescription drugs, hospital rates, and other areas require attention and intervention. Skyrocketing prescription drug costs and the advent of new “super drugs” are making healthcare more expensive for employers, taxpayers, and individuals. Increased transparency and bulk purchasing can keep those costs in check. Drug manufacturers should give more advance notice to purchasers before major price hikes and should release data on drug purchasing trends that can bring more openness to the process and help control costs.

**Support Gig Workers**

California can better support contract workers and new work arrangements by establishing and supporting portable structures for healthcare, retirement, and other benefits. Portable structures that are better tailored to today’s workforce can be more affordable and can prevent a shift in risk and costs from employers to taxpayers and workers. With key cost controls in place, portable structures can help ensure that work, in whatever form, provides basic health coverage, greater retirement security, and essential worker protections. Given this has the potential to burden some small- and medium-sized businesses, any policy prescription must be considered in a way that acknowledges the impacts on different types of employers, as well as on different industries.
As the National Institute of Retirement Security has found, a growing number of Californians are not on a pathway to a secure retirement. In fact, we fare worse than the rest of the nation in participation in retirement plans and savings levels. More than 7.5 million Californians work for employers who do not provide a retirement plan. Most of these workers work for companies of less than 100 employees, and roughly two-thirds of these workers are people of color. Last year, California took a critical step to make it easier for workers to save by laying the foundation for a state-based, portable retirement platform. That program is now threatened, following congressional action to repeal the federal regulations that paved the way for this important program. California should consider alternatives to deliver on the promise of California Secure Choice despite changes at the national level. California should also consider adopting appropriate funding mechanisms and requirements that prevent a further shift in risk and costs to taxpayers and workers. To support increased savings, the state should consider providing a tax credit to small employers that match employee retirement contributions and open the program to gig workers and the self-employed.

Full-time employees currently have access to essential protections that part-time employees or independent contractors do not. These programs are funded by both employers and employees. As work becomes more transient, we need structures in place to ensure core protections are extended to all workers. California should expand access to worker’s compensation, disability benefits, unemployment insurance, and other benefits for current full-time employees and ensure that costs are paid the same way they are for full-time workers (i.e., independent contractors pay for the employee share, and those contracting for the work pay the employer share). Legislation awarding independent contractors workers’ compensation benefits has been floated in New York, but with the caveat that would block workers from pursuing misclassification claims. Receipt of these benefits should not be conditioned on a worker’s inability to pursue claims of misclassification.

During much of the 20th century, a strong collective worker voice helped move employers to provide better wages and overall compensation and benefits for their workers. In addition to bold government action to build a safety net with programs like Social Security and, later, Medicaid and Medicare, higher standards and more stringent rules to protect workers helped build the largest middle-class expansion in American history.
Over the past several decades, we have seen the erosion of labor unions and other instruments of labor’s voice in many sectors of the economy. Today, just 17 percent of California workers are represented by unions, according to the U.S. Bureau of Labor Statistics — down from 33 percent in 1964. That decline in worker representation has coincided with a growth in inequality and a shift of wealth from the middle to the top. In fact, according to analysis by the Economic Policy Institute, the decline in collective bargaining can explain between one-fourth and one-third of the growth in wage inequality between 1973 and 2007.

As the Center for American Progress notes in its Report of the Commission on Inclusive Prosperity, the result is that “many workers have little power to create upward pressure on wages. Major corporations have opted to use subcontracting to perform basic functions, and many workers are now classified as independent contractors, eroding basic labor-law protections.”

If we are to build a sustainable middle class in California, we must give workers a stronger voice in dealing with employers. As the nature and definition of work changes, the structures through which workers can be heard must also evolve to ensure that workers can still collectively bargain for fair compensation.

Promote stronger worker power and representation

California should explore appropriate strategies to support workers as it awards contracts, makes public pension-fund investments, awards tax credits, or otherwise spends taxpayer funds. California should also consider creating new structures to facilitate organizing efforts in today’s workforce.

As the Economic Policy Institute notes, the income gains of the top 10 percent have mirrored the decline in workers covered by a collective bargaining agreement. A strong collective voice for workers can help improve wages and benefits, as well as address fiscal incentives that hurt responsible business owners who want to do well by their workers without being disadvantaged relative to their competitors.

Today’s employer-employee relationships have changed. Workers are far more likely to change employers and even careers across their lifetimes. In today’s environment, new strategies are needed to support workers. In addition to exploring changes in contracting practices, investment policies, and other areas, California should explore sector-wide strategies to facilitate organizing, including sector-wide wage orders, sector-wide organizations, and other alternative ways to ensure a stronger worker voice at the bargaining table and in the workplace.
Chapter Three: A foundation for jobs and economic growth

1. **Fortify Infrastructure to Grow the Economy:**
   Make strategic investments in vital public resources — climate-smart transportation, clean energy, broadband, information technology systems, and a clean and reliable water supply — to support job creation and prepare our state for long-term economic growth.

2. **Support Work Through Childcare:**
   Expand access to affordable childcare and afterschool programs to support work and to make it easier for working families to meet basic needs, save for retirement, and have a greater opportunity to climb the economic ladder. Consider providing publicly supported year-round, full-day care at all public schools by supplementing the school day with before-school and after-school activities that keep kids active, healthy, and safe while making it possible for parents to work full time without incurring massive childcare expenses.

3. **Increase Affordable Housing:**
   Create permanent funding for building affordable housing, and take action to preserve existing affordable housing stock and to protect tenants. Make it easier to increase housing stock, and use the tax code and economic incentives to promote wiser land use to make housing more affordable. Make it easier to convert surplus state-owned property into affordable housing.

4. **Promote Fair Banking and Lending:**
   Expand access to credit and to fair and transparent banking solutions for all Californians, and crack down on predatory payday lenders. Promote community-based lending, and regulate the ability of private lenders to charge unreasonable fees for working Californians, including those who receive state benefits.
Commission Work

The Commission considered the physical and social structures necessary to support work, economic growth, and individual opportunity. It considered ways that California can better support work and job creation and help control rising costs of housing and childcare — the largest expenses for most California working families. At meetings in Sacramento, Oakland, and Fresno, the Commission considered input from a wide range of experts from the Advancement Project, Bay Area Council, Beneficial State Bank, the California Budget and Policy Center, Enterprise Community Partners, Estolano LeSar Perez Advisors, Greenlining Institute, Transportation California, the UC Berkeley Terner Center for Housing Innovation, and the Western Center on Law and Poverty. The Commission considered the extent of the wealth gap in California and strategies to expand access to credit, as well as the importance of community-based lending institutions that offer reasonable credit products to underserved communities. It discussed the state housing crisis and the ways in which tax policies and land-use regulations have inadvertently worsened the problem, putting the dream of home ownership out of reach for millions of Californians. It also discussed the state’s infrastructure needs and the importance of modern transportation, and water and energy systems for a thriving economy and private sector. The Commission also considered policies — including an expanded state earned income tax credit and increased access to quality, affordable childcare — to better meet the needs of working Californians and to support work.
A strong K-12 public education system is a critical element in expanding opportunity and reducing inequality. It is a key component of the infrastructure necessary to support jobs in our state and central to the long-term goals discussed in this report. California has made important inroads in investing in and improving our public education system. Voter approval of Propositions 30, 55, and 57, the enactment of the Local Control Funding Formula, and the new local school accountability system are all important changes developed to strengthen and improve public education. While funding for schools and community colleges has increased substantially in recent years, per-pupil funding for K-12 schools remains far below the national average, ranking 41st among the 50 states based on analysis from the National Education Association. Implementation of the Local Control Funding Formula and of the new accountability system remains in its infancy, and ongoing work will be required to ensure its goals are fulfilled. While we recognize the importance of the K-12 public schools in expanding opportunity, as well as the need to continue building on recent progress, the Commission did not closely examine the K-12 system.

Background

Californians have a history of coming together to invest in our future. In the earliest days of statehood, public and private investments like the Transcontinental Railroad connected California to a broader world. Depression-era investments in highways and bridges helped prime the state for future growth and created new economic opportunity for millions. Post-World War II, California taxpayers and companies invested billions of dollars in the transportation, water, education, energy, and communications infrastructure that has made our state an economic powerhouse, and that built and sustained the strongest middle class in history.

Robust shared physical and social infrastructure allows our economy — including the private sector and individuals — to grow and thrive. Throughout much of our history, a key element of California’s strength has been in its smart, robust public and private investment that makes economic activity possible — whether that means access to clean water, reliable energy, efficient transportation, a state-of-the-art communications network, or quality, affordable public education.

California has not only built the physical infrastructure to allow our economy to grow, it has invested in services needed to increase economic activity. These investments in our physical and social infrastructure have also been important in creating economic opportunity in our state. California created public education and higher education systems that became the envy of the world. We provided funding for childcare services that enabled single-parent families and low- and middle-income earners to work. This social infrastructure is critical to our economic well-being and opportunity.
After decades of disinvestment, California is once again investing in its physical and social infrastructure. It has restored billions of cuts to school funding, higher education, and other important services. It is raising new revenues to invest in our roads, transit systems, and our future. It has invested in clean energy in our schools and has begun restoring access to subsidized childcare and early childhood education in our state.

While much work remains, our state is moving in the right direction. However, in the wake of the 2016 election, future disinvestment from the federal government could undermine the state’s efforts and poses additional threats to our state’s economic well-being. Resisting that disinvestment and continuing to make progress is important for our future economic growth and for realizing a more inclusive prosperity in our state.

Shared investment and a sense of common purpose has led to shared prosperity before and can do so again. We all benefit from a strong, shared, and sustainable foundation upon which we can collectively build an economy that is not only among the largest in the world, but offers opportunity for all of those willing to work.

Public and private investment in our physical and social infrastructure creates the platform for economic growth and individual advancement. California had fallen behind, and the underinvestment in our physical and social infrastructure has undermined economic growth and limited economic opportunities for a growing number of Californians.

Through strategic investments that build on our recent progress, we can set a course for a strong collective future. We must do more to increase the availability of affordable housing located within a reasonable distance to good-paying employment and to expand access to quality, affordable childcare that allows parents to go to work knowing their children will be safe and cared for.

We must also enable individuals and families to make the kinds of investments in their own future that can fortify our middle class. We can do more to ensure a fair and transparent banking industry that helps low-income families rather than preys upon them.

Basic services, programs, and institutions are out of alignment with today’s families, society, and economy. We can better support families and enable parents to work hard. We can meet families’ needs in a way that is more efficient, affordable, and effective. Broader investments and more inclusive institutions can support continued, inclusive growth. We all need — and we all benefit from — a strong infrastructure, accessible and affordable housing, and affordable childcare. These are the basics of providing opportunity, facilitating growth, and supporting work.
Modern and reliable physical infrastructure — a system of roads, water storage and delivery, transit ways, and energy generation and transmission — is essential for a strong California. Public and private investments in a strong infrastructure create the foundation for our economy to be one of the strongest and most productive in the world. Clean water, reliable energy, and the ability to move goods and people have allowed California to thrive. We must continue to invest in our physical infrastructure for the health and benefit of all Californians. We must also ensure that low-income communities receive their fair share of the benefits from infrastructure investments, as they have been particularly affected by our deficient infrastructure. Further, our work to strengthen California’s infrastructure must be inextricably tied to our efforts to fight climate change.

Our infrastructure investments will set a course for our future and can help ensure broader economic opportunity and environmental health for all Californians. Since the lifespan of large infrastructure projects is often more than half a century, the investments we make today dramatically influence the way our state will function in the future. For example, as California works to decarbonize its economy, any investment made today in fossil fuel infrastructure would likely become a stranded asset — having to be retired prior to fulfilling its useful life. It is essential to prioritize climate-smart, sustainable projects and models that will help us wrestle with our climate challenges and strengthen our economy. Our continued economic prosperity and future economic opportunity requires an infrastructure that reduces emissions and is resilient to the environmental challenges facing our state. This is particularly critical in low-income communities and communities of color that have far too often been disproportionately burdened by transportation decisions.
In later sections, we will discuss the role infrastructure investments can play in the direct creation of good-paying jobs — the actual construction and other jobs created to physically build and maintain our built environment. But infrastructure also serves as the vital platform upon which our economy, particularly the private sector, is built.

California has massive infrastructure needs — upward of $500 billion over the next 20 years, according to the League of California Cities.

This enormous price tag is due in part to serious underinvestment in public works over the past several decades, hampered by a limited amount of dedicated funding and other state laws that have handcuffed public investment. In recent years, the state has made important down payments in infrastructure by directing funds from Proposition 39 and the cap-and-trade program to invest in climate-smart, sustainable projects. Earlier this year, California took decisive action to address these massive, unmet infrastructure needs by enacting SB 1 (Beall, 2017), a transportation financing package that will invest in mass transit, roads, and other critical infrastructure.

As we continue to invest in the state’s infrastructure, we must continue to examine how existing rules limit our ability to meet the people’s needs unintended consequences of policy decisions, as well as work to find more equitable funding mechanisms to support needed investments. Infrastructure has made California’s problems worse. As the Public Policy Institute of California found, “California’s infrastructure finance system is hamstrung by strict supermajority voter-approval requirements (two-thirds) on local revenue measures, a decline in user fees, and insufficient ability to engage in public-private partnerships.”

New investments and infrastructure improvements can also have unintended consequences by putting new economic pressures on low-income communities. These impacts should be considered and thought through as we decide how to invest public dollars. Further, our tax and regulatory system has had a profound impact on land-use decisions affecting housing, infrastructure and a concentration of decision making and financing at the state level. We must also pay particular attention to California’s current Infrastructure Bank and explore ways to use its authority and power.

Finally, with the innovation industry as a key component of our economy, the state of California must find opportunities to utilize technology to complement and help modernize how we currently deliver vital programs.

Fortify Infrastructure to Grow the Economy

Make strategic investments in vital public assets — climate smart transportation, clean energy, information technology, and a clean and reliable water supply — to support job creation and prepare our state for long-term economic growth.
Develop sustainable financing for California’s broad-based infrastructure needs: Modern and reliable public infrastructure is essential to goods movement, quality of life, work, and continued economic growth. For decades, California has been failing to build and maintain critical infrastructure. Sustained public investment in infrastructure is an investment in our economic future and an engine for the direct and indirect generation of middle-class jobs.

Maintain California’s cap-and-trade program to address our climate crisis and infrastructure needs: Strengthening our policies to combat climate change can support continued growth. California has proven that carbon emissions are not tied to GDP growth, as our economy has grown faster than the national average while carbon emissions have declined. California’s cap-and-trade program uses market forces to reduce greenhouse gas emissions and provides important funding for climate-smart infrastructure. Providing market certainty with California’s cap-and-trade program can help grow middle-class jobs and incomes if the revenue from auctioning emission permits is invested appropriately and with an emphasis on addressing the needs of disadvantaged communities.

Sustained funding for transportation: California’s transportation infrastructure has been in need of an overhaul. California's roads, bridges, and highways have fallen into disrepair. The increased funding for transportation improvements recently passed by the legislature and signed into law by Governor Brown will create thousands of good-paying construction jobs, make it easier for families to commute to good-paying jobs, and decrease congestion. Transit investments will help improve the economic, physical, and environmental health of all communities by connecting workers to jobs and reducing environmental harm. These transportation investments must be made with an eye toward minimizing displacement of low-income communities, which is often an unintended consequence of infrastructure upgrades. It is important that low-income residents be able to access the good-paying jobs supported by the increased funding for transportation, and community-based organizations with a proven track record of success can be instrumental in ensuring this occurs. Improvements should be focused on reducing the carbon emissions from the transportation sector and electrifying our roads and railways. Further, the necessary work at the state and local levels must be done to ensure the mobility, safety, and health needs of low-income communities of color are understood and prioritized so these investments lead to meaningful benefits and connect vulnerable residents to jobs, education, and other critical resources.

Improve water infrastructure and provide subsidies for communities without clean water: Clean, affordable, and reliable water is a basic human right, and while water financing generally comes from water users, infrastructure costs for small, isolated, low-income communities can be massive. Too often, it is those least able to pay who bear the largest cost to access clean water. We must ensure access to a safe, reliable water supply for all Californians in a manner that is affordable for all our residents.
Continued support to update California’s energy infrastructure:
California is a national leader in the transition away from fossil fuels and to clean energy. The state should stop investing in fossil fuel infrastructure and focus new investments in clean energy infrastructure, including energy-efficiency retrofits, electric vehicle fleets and charging networks, smart-grid applications, and energy storage, as well as clean energy sources. California should also extend its renewable energy mandate to reach 100 percent clean energy by mid-century to support increased private investment in renewable energy.

Consider the impact of climate change on infrastructure needs: Climate change is making extreme weather events more frequent, more prolonged, and more severe. With this new normal, California needs to consider the impacts that prolonged drought, sea-level rise, and other climate-related events will have on the state’s vital infrastructure and vulnerable communities and to examine the new infrastructure needs created by climate change. The impacts of climate change are disproportionately felt by the state’s lower-income populations, and while reducing heat-trapping pollution is essential, so too are preparedness and resilience strategies to protect our state and our citizens.

Childcare

Our social contract provides that able-bodied individuals are expected to work. For parents, having access to affordable childcare is essential to enabling work. But childcare is increasingly expensive and for many families, cost-prohibitive. For middle-class families with young children, childcare is often the largest expense outside of housing. In some cases, the cost of care can eclipse that of rent or a mortgage — especially for families with more than one young child.

The average annual price of daycare for infants is more than $13,000 a year, according to the Lucile Packard Foundation for Children’s Health. For a preschooler, the cost is about $9,000 a year. An analysis by the Economic Policy Institute found that it may be cheaper for a California family to send their child to college than to pay for childcare for an infant. According to research by the California Budget and Policy Center, childcare costs for a school-age child and an infant equals 22 percent of the income of the typical California two-parent working family, almost 70 percent of the income of the typical California single-mother, and 99 percent of the annual income of a single mother with two kids living at the federal poverty level, yet only 1 in 7 children eligible for state-subsidized childcare receive services. The bottom line is that unaffordable childcare is already a massive problem for working families, and childcare costs are likely to rise as minimum-wage increases take effect, as many childcare providers currently receive less than the new state minimum of $15 per hour.
As we work to meet working families’ needs for affordable childcare, we must think about where these services will be delivered. Maximizing and expanding the use of existing public school sites makes sense — getting more use out of existing public facilities, centering care and expanded services around facilities that are familiar to parents, and capitalizing on the integration of schools into communities, planning efforts, and transportation networks. Further, given the near universal need for childcare among working parents, it makes sense to consider alternatives to benefit from economies of scale as well as the possibility for expanded public support.

Since 2012, the state has invested hundreds of millions of dollars in childcare programs, but much of that was restoring cuts made during the Great Recession. However, despite these restorations, childcare slots remain below the prerecession level. The state has also invested in rate increases to retain providers in the program and to help address the impacts of the minimum wage increase on the cost of state-funded or subsidized care. While the state does not currently track demand for childcare services, analysis by the California Budget and Policy Center concluded that only 1 in 7 children eligible for subsidized childcare is currently being served. Reinstating Centralized Eligibility Lists could help track demand for subsidized care and could provide the data necessary to make smart funding decisions — particularly as the needs of parents and families continue to change.

As the nature of work changes for parents, we need more nimble, adaptable programs that fit the needs of working parents. Reliability in scheduling, particularly for lower-wage workers, is also another part of having a system of workplace rules and benefits that fit together to provide essential supports for families.

Figure 3.1
Affordability of Child Care in California

Percent of Families who Cannot Afford Child Care

Support Work Through Childcare

Expand access to affordable childcare and to before and after-school programs to support work and to make it easier for working families to meet basic needs, save for retirement, and have a greater opportunity to climb the economic ladder. Consider providing publicly supported year-round, full-day care and activities at all public schools. Supplement the school day with before-school and after-school activities that keep kids active, healthy, and safe while making it possible for parents to work fulltime without incurring massive childcare expenses.

- **Modernize services and policies to better support working families:** In today’s world, most parents must work full time to have any chance of covering the cost of a family’s basic needs. Childcare is expensive. Paying for this massive cost hampers parents’ ability to buy a home, save for retirement, and set aside money for college. Given our expectation that parents will work full time, we can do more to support working families. We can also do more to help low-income families keep a greater share of the dollars they earn.

- **Expand access to before-school and after-school care:** Parents have to arrange transportation for their children to and from school. We already invest in building and maintaining our schools. We recognize access to free public education as a right and as an investment in our future. We can do more to maximize the use of our school facilities year-round to better meet the needs of working families. Expanded access to taxpayer-supported before- and after-school care, and year-round school or expanded summer activities, offered on school sites can be an efficient way to provide a safe place for kids while parents work, as well as to promote physical activity and support better education outcomes.

- **Increase childcare subsidies for low-income parents and those working nights and weekends:** Many parents work nontraditional hours or have unpredictable work schedules. Increased subsidies for childcare for lower- and middle-income families will help support work and keep children safe.

- **Expand and extend the earned income tax credit:** California took an important first step when it joined 25 other states in establishing a state EITC. The EITC is an important tool to promote work and reduce poverty. California should expand this credit to serve more working families. (The EITC is not an alternative to a minimum wage, but is complementary.)
Housing in California is more expensive than in most of the country. While this has long been the case, a recent report from the state legislative analyst’s office points out that since the 1970s, the gap between California’s home prices and those in the rest of the country started to widen.

“Between 1970 and 1980, California home prices went from 30 percent above U.S. levels to more than 80 percent higher. This trend has continued. Today, an average California home costs $440,000, about two-and-a-half times the average national home price ($180,000). Also, California’s average monthly rent is about $1,240, 50 percent higher than the rest of the country ($840 per month).”

Costs are substantially higher in most of the state’s large population centers.

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**Figure 3.2**

**Housing Affordability by Region**

<table>
<thead>
<tr>
<th>Region</th>
<th>Median Home Price</th>
<th>Min. Qualifying Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA: Single Family Home</td>
<td>$511,360</td>
<td>$100,800</td>
</tr>
<tr>
<td>CA: Condo/Townhomes</td>
<td>$413,700</td>
<td>$81,550</td>
</tr>
<tr>
<td>Los Angeles Metropolitan</td>
<td>$463,050</td>
<td>$91,280</td>
</tr>
<tr>
<td>Inland Empire</td>
<td>$317,710</td>
<td>$62,630</td>
</tr>
<tr>
<td>S.F. Bay Area</td>
<td>$797,170</td>
<td>$157,140</td>
</tr>
<tr>
<td>US</td>
<td>$235,000</td>
<td>$46,320</td>
</tr>
</tbody>
</table>

**Source:** California Association of Realtors
These high housing costs have created unique challenges for California and our middle class. The problems have become particularly acute with the rise of low-wage work in our state. As a result, incomes are often insufficient in California to pay for skyrocketing rents. Low-income people and people of color have been disproportionately impacted by the state’s housing affordability crisis. The state Housing and Community Development Department found that “Housing-cost burden is experienced disproportionately by people of color. The percentage of renters paying more than 30 percent of their income toward rent is greater for households that identify as Black or African-American, Latino or Hispanic, American Indian or Alaska Native, or Pacific Islander, compared to renter households that identify as White.” The dream of homeownership — long a ladder to wealth generation and the middle class — is simply out of reach for millions of Californians. Our state’s rate of homeownership (54.5 percent) is the second-lowest in the nation, behind only New York, according to the U.S. Census Bureau, and is far lower among African Americans and Latinos than it is among non-Hispanic whites.70

The housing crisis has an impact on our environment, our economy, and our communities. As the LAO found in its recent report, “Workers in California’s coastal communities commute 10 percent further each day than commuters elsewhere, largely because limited housing options exist near major job centers. Californians are also four times more likely to live in crowded housing. And, finally, the state’s high housing costs make California a less attractive place to call home, making it more difficult for companies to hire and retain qualified employees, likely preventing the state’s economy from meeting its full potential.”71

The housing issue also illustrates the divide between more affluent coastal California and the less prosperous inland areas. The LAO states that to mitigate state problems with housing affordability, the state would have to build as many as 100,000 additional units annually — almost exclusively in its coastal communities.72

The disconnect between the placement of affordable housing and good-paying jobs also creates long commute times, which leads to additional stress on our infrastructure and our environment, as well as on families.

In recent years, housing has emerged as a major issue for state lawmakers. Under a 2016 budget agreement between the governor and the legislature, $400 million in affordable housing funds would have become available if they could have reached an agreement on regulatory reform. Those efforts failed.

The LAO identifies the failure to build new housing in coastal communities as one of the main causes of the current lack of affordability. Despite persistent challenges, change is possible. High land costs can be overcome with increased density. Construction costs are not dissimilar from other more affordable jurisdictions. Similar growing metropolitan areas, such as Seattle, have been able to build substantially more housing and keep prices more affordable.

The growth in inequality has also made it harder for low-income and middle-class families to find quality housing in a safe neighborhood close to a good job. By reforming house-flipping rules and strengthening protections for tenants, we can ensure more affordable housing for all Californians.
Increase Affordable Housing

Create permanent funding for affordable housing, and take action to retain the existing affordable housing stock. Make it easier to increase housing stock and promote wiser land use to make housing more affordable.

- **Address skyrocketing housing costs:**
  California is in the midst of a housing crisis. It is increasingly difficult for working families to afford a safe place to lay down at night, let alone achieve the dream of home ownership. The high costs lead to unequal wealth generation and homelessness and contribute to the economic segregation of our state. Again, communities of color are disproportionately impacted by homelessness. State limits on rent control have undermined local jurisdictions’ abilities to address the housing-affordability crisis. Also, the dissolution of redevelopment agencies by the state has robbed local jurisdictions of significant funding for affordable housing.

The impacts have been felt particularly hard among low-income Californians and in communities of color. According to the state Housing and Community Development Department, African Americans make up 6.5 percent of the state’s population but represent 27 percent of persons experiencing homelessness. An essential piece to the broader inequality puzzle is to make housing more affordable in our state. Meeting this challenge will require creativity from the private sector and careful study of tax, land-use, and other policy decisions that may be contributing to the problem.

- **Create a permanent source of funding for affordable housing:** The state should pursue a model similar to the bipartisan proposal crafted by state Senator Toni Atkins to use recording fees in real estate transactions to generate funding for new affordable-housing projects.
• Promote infill development and increased housing density: Infill development helps address both climate change and critical housing needs. Developers have identified underutilized commercial property as a potential major source of infill development, and some cities have pursued these policies, encouraging greater density, development located closer to mass-transit and mixed-used development. We should do more to promote infill development and consider options to add in-law and second units. A series of laws passed during the 2015-16 legislative session, including AB 2299 (Bloom), AB 2406 (Thurmond) and SB 1069 (Wickowski) will work to ease the regulatory burden associated with bringing second units online. California must also tighten rules on house flipping that have driven up the cost of housing.

• Consider tax policy impact on infrastructure: Tax decisions made in California over the past several decades have created incentives for local planning decisions that may not best serve our communities. Tax policy has inadvertently contributed to our housing crisis by incentivizing the wrong kind of growth in many communities. We must work to promote more thoughtful urban planning that better meets the needs of all Californians and will help provide more land availability for infill development.

• Protect tenants: Strengthen and regulate tenant rights and protections to ensure access to quality affordable housing.

• Housing first: Embrace a housing-first approach that gets people off the street and into permanent housing with access to the services and treatment they need and that increases state and local support for other cost-effective efforts to reduce homelessness and housing insecurity.

Banking

Expanded access to fair and transparent credit and banking services can be an important tool in expanding opportunity to more Californians. Unfortunately, many of our financial institutions are run based on misguided practices that have become institutionalized and wind up harming efforts to spark community investment.

The link between growing inequality and diminished social investment is well documented. As Richard Wilkinson and Kate Pickett write in their book, *The Spirit Level*, “America in the 1950s and 1960s was more egalitarian than it had been in more than a century. … Those same decades were also the high point of social connectedness and civic engagement. … Conversely, the last third of the twentieth century was a time of growing inequality and eroding social capital.”

By establishing new rules and best practices, lending institutions can help alleviate and ameliorate inequality and stimulate more equitable economic growth.

Promote Fair Banking and Lending

Expand access to credit and to fair and transparent banking solutions for all Californians, and crack down on predatory payday lenders. Promote community-based lending and regulate the ability of private lenders to charge unreasonable fees.
• **Expand access to fair and transparent credit and banking services:** Access to affordable banking and credit is critical to wealth creation and growth. Because banks are fundamental to our economy, they are provided public insurance and taxpayer backing. We know that banking and credit rules and practices can have a dramatic impact on our economy. They can expand access to opportunity or exacerbate economic inequality. Knowing the importance of these institutions and policies, as well as the critical role of access to capital in our economic system, we must examine ways to promote community development and shared economic growth. Too often, low-income Californians proportionately pay higher fees, have access to the least affordable credit, and lack necessary access to credit. They are adversely affected by overreliance on traditional credit scores and limited evaluation of a borrower’s risk. We must expand access to affordable credit for lower-income Californians and promote financial education and good borrowing behavior.

• **Banks for and by the community:** Community banking can help expand access to fair and transparent credit for underserved communities and can fundamentally change our approach to lending. We need financial institutions that are more responsive to the interests of its customers. Too many banking decisions are driven by traditional credit scores that often fail to fully capture credit risk. Banks’ lending and credit practices should be guided by the values of depositors and support the kind of future that depositors want to see. Investment should support a new economy that is fully inclusive, sustainable, and just. We need rules that encourage bank lending to much-needed housing and other community-development projects. Banks are government-insured, and this public support should come with a responsibility. The ability to provide capital to community banks and community-development financial institutions (e.g., the COIN program) has been enhanced in small ways by the state. An expanded role for community-development finance offers a potential opportunity for addressing some of the needs in lower-income communities.

• **Crack down on predatory payday lenders:** Expand access to credit in low-income communities, with more traditional, responsible products. The state should work to expand and encourage access to finance and credit in disadvantaged communities to promote community development through entrepreneurship, education, housing, and other opportunities for upward mobility. It should help support more micro-enterprise/lending circles and effective community lending. It should also ensure predatory practices do not erode taxpayer-funded programs aimed at helping lower-income Californians. The state should strengthen regulations on payday and car-title lending. Payday and car-title lenders have saddled the state’s residents with substantial debt and usurious fees.

For example, the average APR on a $300, two-week payday loan in the state is 460 percent. High-interest loans such as these often lead borrowers to take out additional loans to cover the cost of their initial loans. According to the CFPB, 67 percent of loans are re-borrowed on the same day that a previous loan is repaid, and 90 percent are re-borrowed within 60 days of repayment. Due to this cycle of re-borrowing, Californians pay over $747 million annually in fees related to payday and car-title loans.
Payday and car-title loans are particularly detrimental to California’s communities of color, which are targeted and exploited by lenders. A 2009 study of California found that payday lenders are 2.4 times more likely to be located in a black or Latino neighborhood than a white one. The study also showed that Latinos and blacks comprise nearly 60 percent of payday lending borrowers and that people of color pay nearly half (48 percent) of the $507 million in payday loan fees accumulated in California each year.

- **Use power of public pension funds to influence better lending practices:** CalPERS and CalSTRS are the two largest public pension funds in the nation. These funds can lead by example, using their market position to influence best banking practices and invest more directly in community-based institutions.

- **Reform rules for Donor Advised Funds to expand opportunity:** A Donor Advised Fund (DAF) is a philanthropic vehicle established as a public charity. DAFs allow donors to make a charitable contribution, receive an immediate tax benefit, and then recommend grants from the fund over time. DAFs are soaring in population, and sparked by the entrance of financial investment firms into the DAF marketplace, they are causing controversy in the philanthropic world. Some say it is not clear that DAFs actually increase the amount of charitable giving and that their tax breaks mainly benefit the wealthy. Others say the lack of transparency and accountability associated with these funds allow them to be used as tax shelters and sidestep the federal rules requiring foundations to make annual donations to charities.

The industry is booming — from about 180,000 DAFs in 2010 to over 270,000 in 2015 — they easily outnumber the number of foundations. Last year, a DAF overtook United Way, a traditional nonprofit organization to become America’s biggest charity by donations. The Chronicle of Philanthropy estimates that 85 of the largest DAF sponsors managed $51 billion in assets in 2013, an increase of 159 percent since 2008.

Weighing the pros and cons of DAFs is very difficult due to the lack of data. The amounts in individual accounts are not published, so it is truly impossible to know what is actually happening with dispersal rates versus those just sitting on assets. Increasing the annual investment threshold and requiring more transparency could facilitate the movement of these philanthropic dollars into communities around the state to help serve their intended charitable purpose.
Chapter Four: Economic Development, Upskilling, and Workforce Training

1 Expand Access to Higher Education:
Reform state financial aid policies to eliminate barriers for returning students and to reflect the total cost of college, reduce the debt burden for our lowest-income students, and protect students from for-profit, predatory diploma mills. Pursue federal changes to ease the burden of repaying existing education debt to promote opportunity and make it possible for Californians to begin their careers without the crushing burden of student loans.

2 Improve Workforce Training:
Prepare workers for the changing economy, with an emphasis on healthcare and clean energy jobs. Expand opportunities for advancement and better meet the needs of businesses by expanding access to career technical education, increasing coordination of workforce training programs and their alignment with market needs, and expanding upskilling opportunities for entry and low-skill workers.

3 Reduce Barriers to Employment:
Ease the transition of the formerly incarcerated to reenter the workforce.
**Commission Work**

The burden of education debt and its impact on opportunity for Californians and the need to modernize and upskill California’s workforce, as well as the major barriers to employment faced by members of our community, were constants throughout much of the Commission’s work. At its meetings in San Diego, Los Angeles, and Fresno, the Commission considered input from a wide range of experts and leaders from the California Community Colleges, the California Labor Federation, the California Long-Term Care Education Center, the Greenlining Institute, the Institute for College Access and Success, the Minority Male Community College Collaborative, the National Employment Law Program, the Opportunity Institute, and the UCLA Center on Labor and Employment. The Commission discussed the student debt crisis that is saddling the next generation with crippling financial obligations before their careers even begin, the gap between California’s workforce needs and the number of college graduates, strategies to improve graduation rates, and options to improve coordination between K-12, community colleges, universities, and employers. It considered the rise of low-wage work, the erosion of opportunities for career advancement, the decline in employer-supported training, as well as promising strategies for career advancement in particular sectors, such as healthcare and construction. Lastly, the Commission paid particular attention to individuals and communities that face specific barriers to employment (e.g., veterans, foster youth, and the formerly incarcerated) and considered promising strategies to divert people from the criminal justice system and to expand access to gainful employment for persons with criminal backgrounds and other barriers to employment.

**Background**

The gap between the haves and have-nots in California is alarming, especially when we consider the state’s changing demographics and persistent racial inequities. In this context, it is particularly troubling that the pathways to upward mobility and the middle class seem to be disappearing. Economic upward mobility is increasingly out of reach for an ever-growing number of Californians as our workforce struggles to keep pace with our changing economy. The way we are educating, training, and supporting our workforce is not aligned with the demands or the jobs our economy is creating.

A high-quality, trained workforce is critical to our continued growth. Too often, those who can most benefit from training and education are unable to access it, as it is unavailable, impractical, or financially out of reach. While California has robust financial aid programs in place, they fail to recognize the full cost of college and therefore do not meet the needs of our lowest-income students, as they focus on subsidizing tuition and provide inadequate support for living expenses. Similarly, the state’s financial aid programs fail to meet the needs of reentry students. Further, our systems are slow to adapt. We can do more to better meet the needs of students, workers and employers. Doing so will make for a stronger future, train the workers that employers need, and support workers’ abilities to advance.
California needs to focus on the types of jobs being created and encourage the creation of jobs that pay living wages and offer a path toward upward mobility.

We can also do more to remove barriers to employment for Californians who have been left out of the new economy, including the millions of Californians who have a criminal record and particularly the African American and Latino men who are disproportionally represented in our criminal justice system. Over the past several years, Californians have enacted significant reforms to our criminal justice system, including Propositions 47 and 57. These reforms build on the move of tens of thousands of nonviolent, nonserious offenders from prisons to local jails, probation, and alternative custody settings. California established a new workforce training program in 2016 focused solely on reentry men and women as a strategy for reducing recidivism, improving safety, and building stronger local economies. However, to realize its full impact, our state must prioritize and invest in these types of efforts. To fulfill the promise of those reforms, reduce recidivism and enhance public safety, we must now focus on ways to increase diversion, reduce incarceration, and ease the transition of former inmates back into the workforce.

Issues

Expand Access to Higher Education

The value and importance of higher education is increasing in California’s 21st-century economy. The number of jobs requiring some postsecondary education or skills training has doubled over the past four decades and is expected to continue to rise.\(^77\) In 1979, the wage premium for college graduates was roughly 100 percent more than those without a high school diploma. By 2009, the wage premium had grown to nearly 200 percent.\(^78\) For workers today, a postsecondary education is as much of a necessity for success as a high school education was for their parents. But rather than making our higher education system more accessible, affordable, and inclusive, we have spent the past few decades disinvesting in our public education system and reducing access to high-quality, affordable education.

According to data released by the budget offices of the University of California\(^79\) and California State University,\(^80\) students in 2014 were paying three times the tuition of their 1992 counterparts. (Adjusted for inflation, not including room and board.) And the average student was leaving school with more than $20,000 in debt.\(^81\)

Student debt in California is relatively low when compared to other states. However, it remains a serious burden young workers face right as they join the job market. The burden of student debt is disproportionately borne by low-income students and students of color. Student debt delays the ability of young people to live independently, to start a family, and to buy a house, and it can limit career choices.
Financial aid reform and investments should be targeted at the students for whom college costs are most burdensome, posing a barrier to enrollment and completion. California’s current system of financial aid needs to be reformed with a particular eye on increasing college access and success.

California’s current financial aid system, like many, is tuition-based, meaning the majority of money available is for tuition-based expenses. The Cal Grant entitlement program does a good job helping cover tuition costs for low-income students who go to California State University or the University of California straight after high school. This system, however, does not account for the full cost of college and thus provides insufficient support to low-income students. It also does not meet the needs of students who are not on traditional timelines.

The cost of postsecondary education goes beyond tuition. Textbooks, room and board, transportation, healthcare, and other living expenses drastically increase the financial burden of higher education on students and their families. While Cal Grants are good at covering tuition for low-income students, Cal Grant B Awards (Cal Grants designed to be used on non-tuition expenses) fall far short. Most students and their families cannot afford to pay the full cost of attending college from savings alone, and many students reduce their chances of graduating by working long hours or enrolling part time to help cover costs. This worsens their future economic prospects because students not only remain low-skilled, but are burdened by student debt.

Figure 4.1
Changing Returns to Education in CA 1979-2009

Real wage earned at various education points — note that the return has increased for college grads such that the wage premium was about 100% in 1979 and is now nearly 200% in 2009.

Source: USC Program for Environmental and Regional Equity
Currently, under the Cal Grant system, low-income students are eligible to receive up to $1,670 in aid for non-tuition costs (via a Cal Grant B award). However, this amount has barely increased since the program’s introduction in 1969. For Cal Grant B awards to be as valuable today as they were in 1969, the value would need to be increased to $6,300. California needs to increase support for Cal Grant B awards to help reduce the financial burden of the full cost of college for low-income students and to increase the number of community college students who graduate and transfer to four-year institutions.

Cal Grant entitlement awards are designed for students who go to college straight after high school. Students who need to work to support their families after graduating high school or who lack access to information and supports to apply for college or who otherwise delay college enrollment are not eligible for entitlement awards and must instead rely on the very few competitive Cal Grant awards available. From 2015 to 2016, only 25,750 Competitive Cal Grants were awarded to students, while 353,250 students — who met the eligibility requirements — were denied. Dedicated students who meet eligibility requirements for aid should not be denied the opportunity of postsecondary education and a shot at upward mobility.

**Figure 4.2**

**Cal Grant B Access Awards**

2014-15 Budget Act and SB 798 / SB 174 enacted increases to low-income students’ grants for non-tuition costs.

Source: The Institute for College Access and Success
According to The Institute for College Access and Success, less than one-quarter of the lowest income aid applicants in California receive a Cal Grant. On average, lower-income grant recipients receive smaller awards than higher income recipients, as eligible low-income students tend to attend institutions with lower tuition — like California Community Colleges and CSU. Increasing Cal Grants to better reflect the total cost of attending college will benefit lower-income students the most. It will expand opportunity and upward mobility, as well as work to reduce racial inequity in our state.

As we look to improve our educational system with an eye on access and opportunity, particular attention must be paid to for-profit colleges and predatory diploma mills. Across the state, thousands of low-income students are being roped into high-cost, low-quality institutions on the false promise of guaranteed wealth. As California’s financial aid system is reformed, the state should continue to look at the quality of education being provided at these for-profit institutions and to ban the use of Cal Grants at colleges with a history of low graduation rates and high default rates.

**Figure 4.3**

**Competitive Cal Grant Access**

2015-16 Budget Act authorized more “competitive” Cal Grants for older students, but the odds for eligible applicants remain long.

![Chart showing competitive Cal Grant access](image)

The majority of applicants turned away are living in poverty.

**Note:** Estimates of the number of eligible applicants without grants are based on CSAC reports for the 2014-15 award year: CSAC. Operations Memos. May 22, 2014.

**Source:** The Institute for College Access and Success
An inclusive educational system also means one that is accessible to students from all racial, ethnic, and socioeconomic backgrounds. Within California, there are stark differences in educational attainment across racial/ethnic lines. The college achievement gap in California separating white and Asian students from African American and Latino students in terms of degree attainment is the highest in the country at 32 percent. At the same time, California is at the leading edge of a national demographic shift, as the majority of the state’s population consists of people of color, and Latinos are the single largest ethnic group in the state. The Opportunity Institute estimates that California must produce 5.5 million degrees and certificates by 2025 to keep pace with our economic growth. However, we are currently on track to produce just 3.2 million. Closing the racial/ethnic gap in college attainment will not only reduce racial inequity and expand opportunity in California, but it will yield the degree graduates our economy will need going forward.

- **Reduce debt burden for our lowest-income students:** Cal Grant awards are largely based on tuition, not on the total cost of attending college. Thus, lower-income students have to borrow significant sums to cover their living expenses and often cannot afford to go to school full time. The effect is a larger debt burden and lower graduation rates for our lowest-income students. Increasing support for non-tuition expenses for low-income students (Cal Grant B Award) will reduce their debt burdens, improve graduation rates, promote upward mobility, and address persistent racial inequities.

- **Better meet the needs of returning students:** Our financial aid and support models are designed for students who progress straight through the community college or public university systems on a regimented timeline. Many students do not progress directly from high school to community college or a university, in part based on a need to work right after high school to support themselves and their families. Increasing the number of Competitive Cal Grants will enable low-income students to obtain an affordable degree.

- **Protect students from for-profit, predatory diploma mills:** Too many low-income students attend high-cost, low-quality, for-profit training institutes and colleges that promise access to high-paying jobs but deliver little more than crippling debt. California should build on recent reforms and continue to tighten the use of Cal Grants at colleges with a history of low graduation and high default rates.

### Improve Workforce Training

In addition to a stronger and more inclusive system of higher education, we need a worker retraining system that responds quickly to labor market needs and rapidly gets people the skills they need to thrive and advance in the workforce.

It’s not that people don’t have jobs — California’s job growth has been strong in recent years and the official unemployment rate is just 5 percent — but our economy is generating an increasing number of low-wage jobs that come without a possibility of career advancement. Good jobs are key to reversing income inequality and to building and sustaining a robust middle class.
The hollowing out of the middle class in California left a glut of middle-skill workers who are unable to fill high-skill jobs and are overqualified for low-skill work. The result is older, more educated people in low-skill jobs stuck with stagnant wages and no path of upward mobility. This is not only a problem for the workers themselves, but it also puts a strain on the taxpayers, as low-wage workers often rely on public support to make ends meet.

To address this critical need for California’s workforce, we must expand access to career technical education opportunities — invest in non-four-year degree and certificate pathways allowing students to obtain career-building skills; increase the coordination of workforce training programs by strengthening their linkage to labor market needs; and provide more opportunities for training and upskilling for low-wage workers.

Career technical education (CTE) programs provide hands-on learning opportunities for students — which is proven to increase student interest and success. These programs are designed to help students develop the technical skills they need to meet the demands of our modern economy. CTE programs prepare students for a wide range of middle- and high-wage, high-demand careers in areas such as clean energy, food and agricultural sciences, engineering and design, and healthcare.

Launching these programs, however, requires large, upfront, one-time costs for facilities and equipment. It can also take a long period of time, failing to meet worker and employer needs in real time. Increasing state investments to help lower the upfront costs, as well as ensuring the programs offered are aligned to labor market needs, can help spur new programs and ensure students are receiving training that will prepare them for the jobs of the 21st-century economy.
Many middle-wage jobs in California’s modern economy do not require a four-year college degree; rather, some level of technical skill, certificate, or associate degree is what separates workers from family-supporting careers. We need to invest in opening up more pathways for student learning and ensure that all students, no matter their age, race, immigration status, or criminal history, will be able to get the skills they need to participate fully in our economy.

California apprenticeship programs are another opportunity to provide technical skills for a new generation of workers; however, most apprenticeship programs have been focused primarily on construction jobs. Increasing the state investment in apprenticeship programs for other industries in addition to construction can help provide necessary, jobs-linked skills to workers.

Given the state’s diversity, regional economies, and decentralized education and training system, California needs a regional approach to workforce development. We need localized analysis of available jobs, available workforce, and gaps between the two. By promoting regional cooperation and better understanding evolving workforce needs, we can provide a more nimble, efficient way of retraining workers for our changing economy. California can build on recent changes to the adult education delivery system that were designed to increase collaboration among school districts, community colleges, and workforce development programs to better meet the needs of employers and adult students on a regional basis. Increasing coordination between community college districts, as well as among community colleges, schools, and universities, with a focus on more cost-effectively and efficiently meeting regional labor market needs, will provide students a better path to better jobs and to upward mobility.

- **Consider targeted funding increases to better support workforce training:** State investments to fund these costs can help spur new programs and increase alignment between available training and employer needs.
- **Increase state support for apprenticeships:** California apprenticeship programs have been focused primarily on construction jobs. Increasing the state investment in apprenticeship programs for other industries in addition to construction can help provide necessary, jobs-linked skills to workers.
- **Promote regional workforce coordination to address local employment and training needs:** Consider the adult-education block grant model to promote regional cooperation among K-12 schools, community college districts, and local industry to provide a better assessment of regional needs and how they will be met. This system will create efficiency, avoid duplication, and allow for more workers to receive need training.
As California looks to strengthen job growth, it is important to focus on the types of jobs being created. As a state, we need to identify industries where there are opportunities for workers to receive on-the-job training to become more upwardly mobile. In this context, healthcare and green jobs deserve some specific attention. Currently 7.3 percent of Californians work in the healthcare sector, and demand for these workers is growing faster than in most other sectors.

And according to AEE, California’s employment in the advanced energy industry increased 18 percent last year, six times the rate of statewide employment growth. Growing sectors like healthcare and clean energy technology can help facilitate middle-class job growth and meet important societal needs.

While some healthcare jobs pay livable wages, many do not. According to California Community Colleges, many of the health-care-related jobs open to community college graduates pay less than $40,000 a year. As California’s population ages, the need for healthcare workers is going to rise. And as we age, and the Baby Boomers retire and live longer than any generation before them, we have a lower percentage of our overall population participating in the workforce.

In the next few decades, California’s dependency ratio (defined as the ratio between the non-working population and the working population) is poised for rapid growth — especially in San Diego County — and the workforce required to care for these citizens will grow with it.
“By 2030 slightly more than one million seniors will require some assistance with self care, and the demand for nursing home care will begin to increase after decades of decline,” the Public Policy Institute of California found in a recent report.93 These changes will have direct budget implications for the Medi-Cal and In-Home Supportive Services (IHSS) programs, both of which pay for care and services for low-income seniors. The state will need additional resources, including nursing care facilities and health care professionals, especially those who provide home- and community-based services.”94

Many older Californians are dependent on services provided by low-wage workers. Growth in the number of older Californians is increasing demand for healthcare services and healthcare professionals. This increase in demand and decrease in working-age Californians will exacerbate shortages in many healthcare professions and continue to drive up skyrocketing healthcare costs.

According to the state Employment Development Department, demand for personal-care aides will outpace the growth of any other type of job in the state over the next 10 years, creating more than 228,000 jobs between now and 2022.95 The median wage for this work is just $10.68 per hour or about $22,210 per year.96

In Los Angeles alone, there are approximately 144,000 in-home care workers.97 This workforce is mostly composed of 55+-year-old, immigrant women earning low wages, and with little chance at upward mobility. These workers need to be included in the discussion about healthcare costs, as trained home care workers (vs. untrained) provide a variety of societal cost-savings from their work, including reduced ER visits and hospitalizations.

In-home supportive services (IHSS) jobs are growing in number and cannot be outsourced to workers overseas, which means they are an unavoidable piece of California’s 21st-century economy. As a state, we need to explore ways to deliver on-the-job training programs for IHSS workers that can provide them with the ability to acquire new skills needed to move up and find opportunities for upward economic mobility in their profession. This will not only help workers provide for their families, but it will support cost-effective healthcare delivery at a time of provider shortages and rapidly rising healthcare costs.

• **Expand training to meet changing healthcare needs:** Our growing senior population continues to create demand for healthcare services, and offers a growing opportunity to create career pathways, where workers can continue to expand their skills and increase their wages. Many of these jobs are place-based, and cannot be outsourced — and we have worker shortages in many of these areas. Smart public investment can save the state and families money and provide better care and an economic road to the middle class for thousands of workers. On-the-job training for IHSS workers, as offered by the California Long Term Care Education Center, is an area of opportunity.
Clean Energy Jobs

Clean energy jobs are a driving force in California’s economy. The advanced energy sector generated jobs at six times the rate of the overall California economy. Advanced energy jobs now employ over half a million California workers. Employers and investors are expecting employment in the clean energy sector to continue to boom in the coming years due, in part, to California’s progressive policies on energy and climate.

California’s landmark climate legislation, AB 32 (Pavley, 2006) and SB 535 (De León, 2012), established a statewide cap-and-trade program that make companies pay for their emissions and reinvest the funds back into clean energy (with at least 25 percent to benefit disadvantaged communities). Despite fossil-industry-claims that putting a price on carbon would devastate the economy, California proved that economic growth does not depend on increasing pollution. In fact, since the introduction of the cap-and-trade program, California’s economy grew at a faster rate than the U.S. as a whole while our carbon emissions dropped.

SB 350 (De León, 2015), signed into law by Governor Edmund G. Brown in 2015, extends our state’s commitment to clean energy by setting a standard requiring state-regulated utilities to get at least 50 percent of their energy from renewable sources by 2030. SB 350 also doubled the energy efficiency requirements of existing buildings, further growing a market that already employs 321,000 Californians. In 2016, the Legislature took another major step to extend California’s climate leadership by enacting SB 32 (Pavley, 2016), which requires a 40 percent reduction in statewide greenhouse gas emissions by 2030.
Most clean energy jobs are middle-skill jobs that require more education than a high school diploma, but not necessarily a four-year degree. These jobs are within reach of lower-skilled workers. The clean energy industry also provides a great opportunity for low-skilled workers to receive on-the-job training where they are able to upskill while earning a wage, giving these workers a better shot at upward mobility.

“The solar industry provides an opportunity for workers in low wage jobs, who pursue some training in solar-specific technologies, to move into sustainable wage careers in as little as 12 months,” according to the Solar Foundation. The key is for clean energy employers to offer opportunities for workers to learn new skills on the job, and for low-income workers to move up to higher-paying jobs.

- **Promote career pathways through green jobs**: California is a leader in climate policy and at the forefront of innovation that has created thousands of jobs. As the green jobs sector continues to evolve and mature, it will continue to create new opportunities for entry-level workers to receive on-the-job training and acquire skills that will allow them to progress in their careers. Continued investment in these jobs will create new economic opportunities for thousands of California workers.

**Reducing Barriers to Employment**

Criminal records and immigration status create significant barriers to employment for millions of Californians. As PolicyLink noted in its Key Strategies to Advance Equitable Growth in Regions report, these barriers to employment disproportionately harm communities of color, and hold back the state’s potential for economic growth. California must continue to look for ways to close the opportunity gaps in business ownership, access to well-paying jobs, and education and skills.
Millions of Californians, disproportionately Black and Latino, have conviction records that prevent them from finding employment. Many employers regularly pass over job candidates with a criminal record — this is so common that there are several job search sites dedicated to helping people with criminal convictions find employers who will even consider their application. PolicyLink found that nationwide, of the 700,000 people who are released from state prisons annually, as many as 75 percent still don’t have a job a year later. California should improve workforce training and education opportunities within the prison system and also after release to reduce recidivism and help the formerly incarcerated find employment. This is good not only for the person trying to reintegrate into society, but also California’s economy.

In 2013, California passed AB 218, which requires state and local agencies to determine a job applicant’s minimum qualifications before obtaining and considering information regarding the applicant’s criminal history — commonly known as “ban-the-box.” While these policies have received support from progressive communities as a way to avoid discrimination against applicants with criminal histories, some recent studies suggest they may actually have the opposite effect. One such study done by the University of Michigan found that based on their implicit bias, prospective employers that were not able to confirm the criminal history of their applicants assumed black applicants had a criminal record and dramatically reduced their callback rates. While this study alone does not discredit the ban-the-box policy, more research should be done to identify the true effect of the policy, as well as to identify other strategies to address implicit bias. More must be done to expand opportunities for employment, to address discrimination and implicit bias, and to reduce racial inequities.

California should also consider so-called “washout periods” that would only allow employers and licensing entities to consider the recent history for the last seven to ten years, depending on the job. While there is active debate on how long someone needs to rehabilitate, as well as regarding which criminal offenses are related to which jobs, more should be done to ensure access to opportunity in a manner that more effectively protects public safety.

Finally, California should reform our bail system to increase fairness. Many individuals across our state are stuck in county jails before they have even been convicted — simply because they can’t afford bail. This also increases pressure to sign a plea deal even if they are innocent — just to get out and see their families or go to work.
Immigration status is another economic barrier for millions of people in our state. An estimated 2.6 million undocumented immigrants live in California, collectively making up about 10 percent of the total labor force, according to the Public Policy Institute of California. Millions are pushed into low-wage jobs because of their legal status, and face wage theft and other labor violations. Yet despite these challenges, undocumented immigrants have higher than average rates of entrepreneurship and contribute significant tax revenues — about $3.2 billion in local and state taxes, according to the Institute on Taxation and Economic Policy. Supporting this important part of our labor force will continue to reap benefits for the state, and California should stand in direct opposition to anti-immigrant policies pursued by the Trump Administration.

- **Protect public safety and reduce recidivism by reducing barriers to employment for Californians with a criminal history:** Thousands of Californians with criminal backgrounds face obstacles to meaningful employment years after they have served their time. California should explore policies to reduce employment discrimination for people with criminal records.

- **Strengthen and expand workforce training opportunities for people returning from prison:** Programs that help people returning from prison find a job have proven to be effective at helping them reintegrate into their communities and lower the chances they’ll end up back in prison.

- **Ensure immigrants can fully participate in the economy:** Many industries depend heavily on work from undocumented immigrants and residents. California should continue to look for ways to fully integrate these workers into our economy as state leaders resist efforts to regress, and continue to push for national, comprehensive immigration reform.
Chapter Five: Basic Supports for Families, Kids, Seniors, and People With Disabilities

As part of expanding economic opportunity, it is important to build and maintain what economist James Heckman calls “a scaffolding of support” to help address inequality at its earliest stages, and understand what is most necessary to support Californians who are unemployed, underemployed, or otherwise struggling to get by.

1
Expand Access to Early Childhood Programs:
Expand funding and access to preschool and other early learning programs that help prepare students for success and help kids do better in school and in life.

2
Increase CalWORKS/SSI Grants and Ensure They Keep Pace with Inflation
Cash assistance for the poorest Californians has fallen by more than 20 percent over the past 20 years, after adjusting for inflation.107

3
Strengthen Efforts to Address Homelessness Including Expanded Support for Housing First:
The state should do more to ensure housing for those living on the streets — and then focus on providing additional supportive services as needed.
Commission Work

At Commission meetings in Sacramento and Oakland the Commission considered California’s high poverty rate, particularly among children, poverty’s impact on child development and a child’s opportunities, and the erosion of the safety net over the course of the last 25 years. Experts from the Advancement Project, All In Alameda, the California Budget and Policy Center, California State Senate President Pro-Tempore Kevin De Leon’s Office, the County Welfare Directors Association, and the Family Independence Initiative provided valuable insight on these and other topics. They discussed the value of expanded access to quality, early childhood education, as well as early intervention services to improving a child’s access to opportunities and to help reduce intergenerational poverty. They also discussed the importance of increasing resources to low income families as a key way to reduce the risk of neglect and to support improved outcomes of children living in poverty. Further, they addressed the critical role of access to affordable housing for low income families and housing first as a way not only to address homelessness but to reduce healthcare costs and improve recidivism rates.

Background

California’s safety net has frayed. Unfortunately, the safety net has been weakening at a time of growing housing and food insecurity, as well as rising poverty rates, particularly among Latinos and African Americans.

The number of Californians living in poverty, including more than two million children, has spiked to more than 15 percent. After taking into account California’s high cost of living, as well as available supports, California’s poverty rate is even higher—almost 21 percent. Poverty is even more prevalent in communities of color.Nearly 29 percent of Latinos, 20 percent of African Americans and 17 percent of Asian Americans live in poverty.
Low-paying and insecure jobs are a key contributor to high poverty rates. According to the Public Policy Institute of California, in 2014 almost 80 percent of Californians living in poverty were living in families where at least one adult was working, and 55 percent were living in families where at least one adult was working full time.110

The research is clear. Children who live in poverty are less likely to graduate from high school, to attend or complete college and to be regularly employed as early adults. Our economy and labor force is hurt into the future by persistent child poverty rates.

Expanded economic opportunity and better supports for working families are key to reducing the number of California children living in poverty and to improving access to the middle class. Children whose families receive even modest increases in income have better education and health outcomes. Working to reduce poverty, particularly child poverty, is not only just and equitable but strengthens our human capital and our economy.

While efforts to expand opportunity and to reduce poverty, particularly intergenerational poverty, are critical to the future of our state, it is important to recognize a fundamental reality of our economy—that we will always have people who are unemployed or underemployed. Strong incentives for work and access to jobs that pay a living wage are important. However, we must have adequate supports for those that need them.

Further, we must have early interventions to mitigate adverse effects to health and economic opportunity for children born into poverty.

Living in deep poverty — having an income of 50 percent or less of the federal poverty level — has serious long term consequences on health, well-being and opportunity. Services—including early interventions—can be key to addressing child poverty and reducing intergenerational poverty. However, the importance of getting more money to low-income families and its impact on improving the wellbeing of children living in poverty cannot be overstated. As Charles Kenny wrote in the Atlantic, “Give poor people cash without conditions attached, and it turns out they use it to buy goods and services that improve their lives and increase their future earnings potential.”111 Research demonstrates that having more resources makes a difference for kids living in poverty. According to research from the National Bureau of Economic Research, increased cash can be especially helpful when it comes to caring for children facing emotional or behavioral obstacles.112

California has a stronger safety net than many other states. However, elements of the safety net have been cut back, most recently to balance the budget after the Great Recession. The purchasing power of cash assistance provided to low-income families and to low-income seniors and persons with disabilities is well below the 1980s level. It declined by more than 20 percent between 1996 and 2016.113
More than 100,000 Californians are homeless at any given time, many more are homeless at some point of the year. Veterans are disproportionately likely to be homeless. The number of homeless kids and elderly Californians is on the rise. In addition to those who are homeless, tens of thousands more have insecure or unstable housing. Homeless Californians struggle daily to find shelter, food, and safety. Many suffer from mental illness and substance abuse. Our large homeless population is an indictment of our social support system. Effective interventions—like the housing-first model—can help reduce homelessness and contain healthcare costs.

California has made important investments to help those at the bottom of the economic ladder in recent years, including increases to the level of cash assistance provided to low-income families, funding to reduce homelessness among families on CalWORKs and a new state Earned Income Tax Credit aimed at those in deep poverty. Amid our economic recovery from the Great Recession, we have also restored thousands of childcare slots (though the numbers remain significantly lower than pre-recession levels), extended eligibility for CalFresh and cash assistance to low-income parents with a drug felony conviction, and made other important investments. But substantial needs remain.
Addressing the purchasing power of state benefits can immediately work to reduce poverty. Longer-term investments that target deeper-seated causes of inequality can help reduce intergenerational poverty. Investments in early-childhood programs have been demonstrated to improve child outcomes and promote equal opportunity. Research demonstrates that what happens in the first five years of a child’s life matters. Children’s brains develop at a dramatic pace during their earliest years. In fact, 80 percent of brain development happens by the age of three. Research reveals that, by age four, children in high-income families have heard about 30 million more words than children in lower-income families. By age three, children in higher-income families have double the vocabulary of those living in lower-income families. This disadvantage — called the word gap — sets the stage for future disparities in education and even job earnings. Smart investments in early interventions can help reduce inequality.

Given the number of Californians living in poverty, the lifelong consequences of children raised in poverty, as well as the overlap of income with race and ethnicity, strengthening the safety net is critical to reducing inequality and to promoting equal opportunity in our state.

Issues

Early Childhood

Studies have documented that the first years of a child’s life are critical to future development. Cost-effective early intervention programs like home visiting, prenatal care, and early childhood education have been proven to address deep-seated, systemic, intergenerational poverty, in addition to supporting healthy child development and future success.

First 5 programs around the state have a proven record of investment in early childhood development, particularly ages zero to three, where more than 80 percent of cognitive development takes place. Focus on these early years can help improve outcomes for kids, and help break cycles of poverty and inequality.

As noted in the Right Start Commission Report by Common Sense Kids Action, better outcomes do not necessarily require new government programs. We can leverage work in early childhood from non-profits, bring greater efficiency to existing public services, and do more to educate families to provide more comprehensive well-being for all California children.

One area of recent focus has been home-visiting programs, which support “pregnant women and families and helps at-risk parents of children from birth to kindergarten entry tap the resources and hone the skills they need to raise children who are physically, socially and emotionally healthy and ready to learn.” First 5 Los Angeles is currently studying whether newborn home visiting can generate sufficient healthcare savings to make it cost effective to require Medi-Cal and other healthcare payers to cover program costs.
- **Improve and expand access to early childhood programs**: An important part of reducing poverty and expanding access to opportunity for all Californians is access to early childhood services. California should expand access to early childhood (three years old and younger) programs, including preschool, home visiting, and other proven programs that reduce poverty and inequality over the long term. These efforts should be in addition to — and not instead of — increased cash assistance and support to families living in poverty. We should also explore cradle to career programs like educational savings accounts (e.g. Oakland Promise) as a way to help break the cycle of child poverty.

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**Figure 5.1**

*CalWORKs Grant Don’t Keep Pace with Rising Rents*

Maximum Monthly CalWORKs Grant Compared to 25th Percentile Monthly Rent

*Rents are estimated based on the compound growth rate between 2011 and 2014.*

**Note**: CalWORKs grant is for a family of three in “high-cost” counties. The Governor’s proposed budget assumes that there will be no increase to CalWORKs grants in the 2016-17 fiscal year, which begins July 1. Rent excludes utilities and reflects all unit sizes.

**Source**: Department of Social Services and US Census Bureau, American Community Survey
California offers one of the nation’s greatest contrasts between wealth and poverty. While it is a state of tremendous wealth, it has among the highest rates of poverty, and this gap is continuing to grow. According to the California Budget Center, 6 million Californians now live below the poverty line, with 2.5 million Californians in deep poverty. Our lowest-income families heavily depend on public income support, namely Temporary Assistance for Needy Families (TANF) and Supplemental Security Income (SSI). The California Work Opportunity and Responsibility to Kids (CalWORKs) Program provides modest cash assistance to nearly one million low-income children while helping parents overcome barriers to work and find jobs. The Supplemental Security Income and State Supplementary Payment Program (SSI/SSP) provides modest cash assistance to more than 1.3 million seniors and persons with disabilities in California. These important safeguards have failed to keep up with the cost of living and are simply not enough to meet the rising costs of housing and transportation.

After years of deep budget cuts, the state has made important investments in recent years to help those at the bottom of the economic ladder. Among those have been the formation of a new state EITC program, some incremental increases to the level of cash assistance provided to low-income families, to low-income seniors and persons with disabilities. The 2016 Budget Act repealed the Maximum Family Grant, a vestige of federal welfare reform that denied aid to children born to parents already receiving assistance from CalWORKs. Despite these improvements, benefits remain below inflation adjusted, pre-recession levels. According to the Legislative Analyst’s office, the maximum CalWORKs grant for a family of three in 2016 equaled about 42 percent of the federal poverty level and between 31 and 37 percent when compared to the supplemental poverty measure. Similarly, SSI grants remain below the poverty level and seniors living on SSI in California are ineligible for food stamps benefits. We must aim higher and consider the level of commitment that can be made to low-income families, seniors, and persons with disabilities, as well as how those investments can be sustainable in the long term.

While we pursue new ways to get people back to work and expand economic opportunity, we must maintain a strong safety net to help those who have temporarily fallen out of the middle class, and offer assistance to those with deeper, longer-term needs.

- **Restore lost purchasing power of CalWORKs and SSI grants:** Low-income children, seniors, and persons with disabilities have seen their assistance decline substantially over the past two decades. Since the 1980s, the purchasing power of CalWORKs grants and SSI grants has declined by more than 50 percent and nearly one-third, respectively. We can and should do more to provide for those with the least among us.
In the face of the housing crisis, the population of homeless individuals and families has grown in California. A growing share of seniors, persons with disabilities, and children are homeless. Veterans and African Americans are homeless at disproportionately high rates. Further, many homeless adults have a mental illness and/or struggle with substance use. Cities and counties bear much of the costs of supporting these populations, and taxpayers have realized that quality of life and business suffers along with homeless individuals and families.

More than 20 percent of the nation’s homeless population lives in California. According to the Housing and Urban Development Department, L.A.’s chronically homeless population has grown 55 percent since 2013. Homelessness is far more likely to affect people of color. In Los Angeles County, for example, 75 percent of all those living on the streets are people of color, according to the Los Angeles Homeless Services Authority.

For many years, resources have been directed to pay for services such as healthcare, and treatment for mental health and substance use. Not enough was done to address the underlying problem: homelessness and housing insecurity. Housing First focuses on providing stable housing as a way to address homelessness, increase compliance with treatment plans, and reduce healthcare costs. It prioritizes providing permanent housing as quickly as possible to people experiencing homelessness – then offering supportive services as needed. Housing first considers client choice in both housing selection and in service participation. This model can provide a foundation for those with no place to go to address mental health, substance use and serious healthcare needs.

**Figure 5.2**

**Homeless by Race / Ethnicity**

County of Los Angeles

<table>
<thead>
<tr>
<th>2015 Ethnic Percentages</th>
<th>Los Angeles County</th>
</tr>
</thead>
<tbody>
<tr>
<td>African American</td>
<td>15,887 (39%)</td>
</tr>
<tr>
<td>Hispanic/Latino</td>
<td>11,082 (27%)</td>
</tr>
<tr>
<td>White/Caucasian</td>
<td>10,306 (25%)</td>
</tr>
<tr>
<td>American Indian/Alaska Native</td>
<td>1,163 (3%)</td>
</tr>
<tr>
<td>Asian/Pacific Islander</td>
<td>657 (2%)</td>
</tr>
<tr>
<td>Native Hawaiian/Other Pacific Islander</td>
<td>66 (.2%)</td>
</tr>
<tr>
<td>Multi-Racial/Other</td>
<td>2,013 (5%)</td>
</tr>
</tbody>
</table>

**Source:** Los Angeles Homeless Services Authority. May, 2016
Housing First programs have demonstrated greater success. In Utah, for example, the state’s chronic homeless population has been reduced by more than 90 percent by adopting a housing-first approach.\textsuperscript{123} Given their promising results, Housing First programs should be expanded in California.

The Legislature made an important investment in new housing with the No Place Like Home Act, which will securitize up to $2 billion in Proposition 63 funds to build new housing for those suffering from mental illness. Getting these funds out the door to help build housing will be an important step to address California’s homelessness and mental health crisis.

Californians would also benefit from sustained funding at the state and local level for services to reduce homelessness. Many jurisdictions across the state recently passed local affordable housing initiatives (including LA City and LA Country) to provide construction funding and expand service. Such services could include mental health treatment, treatment for substance use disorder, more affordable housing and other housing options to address chronic homelessness, support for cross-agency coordination to reduce homelessness, and increased training for law enforcement. State and local governments should find additional ways to find partnerships and leverage resources.

- Embrace a housing-first approach that gets people off the street and into permanent housing with access to services and treatment they need, and increased state and local support for other cost-effective efforts to reduce homelessness and housing insecurity.
Chapter Six: Strengthening our Democracy

1. **Enhance Democracy:**
   We can make our democracy stronger and more inclusive by removing barriers to voter registration and participation.

2. **Promote Volunteerism:**
   Offer additional opportunities for public service and explore ways to help young people defray education-related costs through public service.

3. **Continue to Welcome and Provide Opportunities to New Immigrants:**
   California is already ahead of most of the nation, offering healthcare, services, and drivers licenses to undocumented Californians. We should continue to evaluate the services and policies available to new arrivals to ensure our state supports integration and opportunity. We must forcefully resist the politics of division and exclusion.
Commission Work

Conversations about the importance of an inclusive democracy, broader civic participation, and the proper role of government in providing economic opportunity were common themes throughout the Fair Shake Commission discussions. Specifically, the Commission discussed how demographic trends have shaped public policy over the past several decades, considered testimony and data about the important contribution of immigrants to our economy, and the need for policies that reflect and acknowledge their continuing contribution. Though these themes were discussed at many commission meetings, they were a particular focus of meetings in Los Angeles, Fresno and Sacramento. The Commission heard a presentation from USC/PERE and other experts about the impact and importance of immigrants in our communities, in addition to updated trends in immigration and demographics.

Background

The 2016 national election revealed two important political lessons: 1) Unaddressed economic uncertainty and diminishing opportunities can be seized by demagogues preaching and exploiting prejudice and hate 2) Democracy and the issues we care about are in jeopardy when voters and citizens don’t show up to make their voices heard.

As discussed in this report, we are living in a time of worsening inequality, diminishing opportunity, and a declining middle class. This erosion of opportunity is coinciding with our state and country becoming increasingly diverse. Declining opportunity is disproportionately affecting people of color and perpetuating racial inequities. It is also affecting many whites, particularly in rural areas. Young people in California, and across the country, face the real possibility of being part of the first generation that earns less than that of its parents. The angst is real and rooted in growing inequality.
Declining opportunity directly conflicts with our American and Californian ideals and puts them at risk. Economic uncertainty can be hijacked. Hate can be used to tip the scales of power, and that shift in power can in turn be used to enact policies that will further erode opportunity, putting the American Dream even more out of reach.

Government gridlock does not serve the people well. As California is demonstrating, a government that is actively working for the people can be a source of good. Government can help ensure there is balance and justice.

Our democracy is strongest when people are engaged and when elected officials work to address the people’s needs. The election of Donald Trump nationally is a wake-up call to not take political stability and democracy for granted.

California is at a different place demographically and politically than the rest of the country. Demographically, California is America in fast forward. Many of the economic, political and social changes in our state over the past several decades foreshadowed what is happening to the nation as a whole. The demographic changes California experienced from 1980 to 2000 mirror those that are expected to occur to the United States population from 2000 to 2050. This forerunner status not only applies to our demographics, but also our politics. Many ideas that later rose to prominence nationally were cultivated in California. Not all have been positive. A nascent national tax-revolt movement rose up to starve government and reduce public investment. We passed laws restricting the rights of immigrants and abolished affirmative action programs. We banned bilingual education. We passed laws in Sacramento and at the ballot box that promoted mass incarceration. We placed constitutional restrictions on the rights of the LGBT community.

Our state has recognized that the politics of division do nothing to solve our problems and it has moved beyond them to fashion solutions in an inclusive way. This change was no accident. It was driven by an increasingly diverse electorate and engaged people of color and allies spurred into action at least in part by the need to fight back against damaging policies. According to the California Civic Engagement Project, “Between the 2000 and 2012 general elections, the white proportion of California’s vote declined 13.5 percentage points from nearly 70.2 percent to 56.7 percent by 2012, while the Latino share of the vote increased 10 percentage points.”

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California has begun to begin reinvest in the future of our state, and our people. We’ve embraced progressive taxation, to ensure those at the top pay their fair share. We’ve restored bilingual education. We adopted a new approach to criminal justice that emphasizes reform over mass incarceration. We’ve reformed our education funding, governance and accountability system. We’ve expanded healthcare coverage to millions, cutting the number of uninsured by half. We’ve adopted policies that recognize the important contributions of immigrant workers and families. In sum, we stand as an example of a more inclusive society that is working to expand hope and opportunity to its 40 million residents. It is a society that believes in smart and strategic public investments to help our economy and our people thrive.

Despite recent progress, much more work remains to be done. Racial inequities persist. Income inequality continues to grow. Our economy simply does not work for too many of us, thus failing all of us.

This report is born of the recognition that we must do more to expand economic opportunity and to reduce racial inequities in our state. It examines income inequality and outlines ideas for change that, if enacted and implemented, would expand opportunity in our state. However, these ideas for change will be just that — ideas to be injected into discussions — unless they are coupled with an engaged citizenry and the focused efforts that have driven change in our state.

California rights and values are facing direct attacks from Washington. Special interests are working to undermine our democracy. We must counteract these attacks with efforts to reach out to our citizens and ensure we are giving voice to California values. The more Californians who participate in our democracy, the better off we are.

This chapter focuses on the inextricable link between expanding opportunity and political action. We must do more to encourage all Californians – including immigrants and young people – to participate in our communities and in our democracy. We all have a stake in our future and our society will benefit from increased civic participation. In addition to working toward increased voter participation, we can encourage public service, better leverage the power and hard work of nonprofits and promote a new culture of service to improve California’s future.

Part of our challenge is to build a foundation of civic connection and encourage engagement of young people. Millennials now make up the largest cohort of our population, and our workforce. The success of this next, multicultural generation of Californians will be crucial to our politics and our society. Expanding opportunities for young people to serve California will reap benefits for our future.
The California Association of Nonprofits released a report called “Causes Count” which is a testament to the programmatic impact and economic significance of the nonprofit sector in California. It also highlights the need to increase the network of nonprofits in certain regions of our state. To bring the ideas in this report to life, we need to explore ways to further incorporate foundations and nonprofits into income inequality policy discussions as well as the public/private partnership program delivery system.

We must also work to improve voter participation and engagement. About 73 percent of eligible adults are registered to vote in California, a number that has not varied much in recent years according to PPIC Statewide Surveys. Younger, low-income, and Latino eligible adults have lower voter registration rates. Low trust in government is the top reason for not registering.

We must be diligent in our resolve to ensure that this mistrust in government, compounded by the anti-immigrant rhetoric and policies coming out of Washington, D.C., do not undermine our ability to conduct an accurate census count. Failing to do so could have devastating effects, including: reducing the number of California Congressional Representatives and decreasing the amount of funding that flows to key state and local health and human services programs.

Our society is more complete and more just when we speak with a larger collective voice. Increased voter participation strengthens democracy and empowers communities in the fight for economic, educational and environmental justice. In a system dominated by corporate interests that put profits before people, grassroots organizing efforts make sure the voice of the people is heard.
Our democracy is threatened by the voices of large corporate interests drowning out the voices of the people.

In California, nearly half a billion dollars was spent on ballot measures alone in 2016, according to the California Secretary of State, with large corporate interests leading the way. Prescription drug companies spent $109 million to defeat Proposition 61. Big Tobacco spent $64 million to try to stop a $2-per-pack tobacco tax. These large corporate interests — along with others including large financial institutions, pharmaceutical companies, and fossil fuel energy companies — have an outsized impact on our electoral politics nationally and in Sacramento.

The way we are going to get better policy decisions — decisions that reflect the issues that matter to working people of the state of California and working families — is broader democracy. This means finding ways to promote political and civic participation among underrepresented groups, including young people.

Issues

Expanding Democracy

Easing the path to voter registration and voting

California has taken important steps toward more inclusive democracy in recent years, making it easier for voters to register, whether it be at the Department of Motor Vehicles or when they apply for healthcare coverage or food assistance. We have also expanded registration deadlines to within 15 days before an election. Governor Jerry Brown signed a measure last year, SB 450 (Allen), that permits counties to automatically mail a ballot to every voter in the county. We should monitor early experiments with this new law closely and explore other innovative ways to make voting more convenient and increase turnout in certain regions and among certain populations in our state. If these efforts are successful and boost voter participation, we should consider expanding such programs statewide.
Reforming Campaign Finance

In November 2016, California voters overwhelmingly passed Proposition 59, an advisory measure urging the U.S. Supreme Court to overturn Citizens United. However, waiting for Washington to act has rarely been a good strategy for California, and is particularly futile given the results of the last national election. California must forge ahead with its own efforts to reduce corporate influence in politics. Many local jurisdictions around the country are beginning to experiment with pilot programs aimed at limiting big money in politics.

California currently prohibits publicly financed elections. The ban does not apply to charter cities, and six cities around the state offer limited public funds to match small campaign donations. Last year, Governor Brown signed SB 1107 (Allen), which allows for public financing pilot programs under specific conditions. This will allow cities around the state to experiment with ways to limit the influence of big money in local politics, and potentially lead to statewide action. The law is currently being challenged in court, and depending on how the courts rule, this issue may ultimately have to be resolved by state voters.

Promoting Volunteerism and Civic Engagement

California can do more to create financial incentives for young people to engage in public service and work in the nonprofit sector. One strategy is finding ways to accelerate student-debt payments for those working for the public good.

The national service program, known as AmeriCorps, was envisioned as a way to enable young people to obtain higher education in exchange for a year or two of service. Building on and responding to state and local efforts, AmeriCorps programs have flourished and helped address a multitude of our nation’s problems, including providing disaster relief, family supportive services through home visitations, building low-income housing cooperatives, developing and implementing city and county plans to address climate change impact, and providing constructive out-of-school activities for disadvantaged youth. Yet, despite the positive impacts on communities across the nation, the promise of a higher education after a commitment to public service has been forgotten. Student debt has only grown over generations and the education award granted after fulfilling the year or two of public service has not kept up with the increasing cost of college.

Recently, we have seen a resurgence of national service among young people. Studies have shown that millennials are highly interested in volunteerism as a way to help solve many of our nation’s problems and AmeriCorps is receiving five times more applications than there are available spots to fill while the Peace Corps has experienced a 32 percent increase in applications compared to the prior year.
In California, the demand for solutions to local problems through volunteerism led to new legislation. In 2016, Governor Brown signed AB 1765 (Irwin) to create a mechanism for California Volunteers to generate more revenue from public and private sources to fund a broader range of programs and engage more Californians in community service.

It is critical to engage young people who want to give back to their communities. We must continue to grow the American spirit of volunteerism. Service can help revitalize and sustain our communities and tackle pressing issues of our time, climate change and income inequality. Those who serve learn valuable life skills, develop their sense of civic duty, and develop relationships with and a deeper understanding of diverse communities.

The passage of AB 1765, and the ability of California Volunteers to raise private funds to pursue its mission of service, presents an opportunity for Californians to act. We must use the provisions of this law, as well as explore other creative ways to knit nonprofit groups, foundations, the public and private sector, and California’s youth into an institutional and programmatic fabric that promotes civic engagement and education, rewards participants for their public service and helps to respond to the problem of income inequality in our state.

**Immigration**

In addition to the economic policies mentioned above pertaining to immigration, many workers and residents now face new threats from the administration in Washington because of their immigration status. In light of this, California can take a lead in offering security to those living in our state. That includes protection from deportation and defending the Deferred Action for Childhood Arrivals Act and protecting private information collected by the Department of Motor Vehicles and other state agencies about unauthorized immigrants.
In light of the new deportation threats, California can bolster legal representation for immigrants in need and support nonprofits and others offering legal services to immigrants. Los Angeles has announced a new effort that seeks to leverage some public money with millions raised from the nonprofit sector to create a legal defense fund for those facing deportation or other threats associated with immigration status. And there are a number of bills working their way through the legislative process that seek to assist immigrants as well as numerous public, private, and non-governmental entities sponsoring programs to defend immigrants. These types of innovative and collaborative efforts can help ensure that essential resources are available to people whose livelihoods may be challenged by the changing power and priorities in Washington. We must do all we can to expand these efforts across our state.
Conclusion

The extreme inequality we see in our economy, and the tenuous situation of the middle class, did not appear overnight. The persistent racial inequities we experience in our state and country, as well as the reality of shrinking opportunity and reduced access to the middle class at the same time our state becomes more diverse, also did not occur overnight or by accident. There is no silver bullet to remedy the intricate and complex shifts in our economy that continue to create so many challenges for so many Californians.

This report is an effort to provide a political and policy guide to navigate our continuing demographic and economic transformation. The report was developed with a keen understanding of our shifting demographics and our changing economy. The central concept is one that California voters have voiced implicitly over the past two decades — that government can and must be part of the solution to ensuring broad economic opportunity and fortifying the middle class. That is not to say we should be an economy that is driven primarily by government — only that government policies help set the rules of the game, and play a fundamental and important role in the lives of Californians.

Government must also adapt — by being more efficient and responsive — and be a better arbiter to ensure a more level economic playing field for workers. Clarity and consistency in rulemaking and enforcement will provide the predictability California businesses need to plan, grow, and succeed.

Now more than ever, the stakes for California’s success are incredibly high. By addressing the needs of our state, we can offer a thoughtful, coherent, and realistic response to the economic uneasiness that has led to fear about our nation’s future. California is in a different economic situation than much of the rest of the country, but we are by no means immune to the forces of deindustrialization and economic change that have caused so much economic angst across the country.

This report outlines an ambitious agenda and reaffirms California’s core values. Many of the policy ideas in this report are long-term goals, but a number of them are actionable short-term measures that can put us on a path toward broader economic prosperity and greater political stability. We must also have an honest discussion about how to fund the government we need in a way that is progressive, fair and sustainable. The report is offered as a framework and an approach to change that is committed to progress.
The first step in achieving that progress is understanding the nature of the problems we face. Many of them are challenges not of our own design, but the results of failing to keep pace with changes in technology, the way we work, and the way we live. Others have been exacerbated by public policies that have, intentionally or otherwise, added to the challenges many Californians now face. By understanding the challenges before us, and establishing ambitious goals for our future, we can develop policies and measure progress to ensure we are moving toward a more fair and equitable society.

As we embrace this challenge, California can look to our state’s progress in combating climate change as a guide. Our state has been a leader in the climate arena by setting ambitious, long-term goals to keep us focused on a larger objective. California’s leaders may want to consider an AB 32-like approach for our economy and economic opportunity. That may include metrics to evaluate our progress and ensure all policy decisions are at least mindful of how they will impact workers, businesses, and economic opportunity.

This type of thinking can also inform an update to state tax policy that takes a clear-eyed look at our modern economy, and at the current set of winners and losers. Californians should have a tax system that funds the things we need, and does so in a manner that is as fair and sustainable as possible. Tax policy should be considered comprehensively to make sure we are taxing the proper things at the right levels and that those at the top of the economic ladder are paying their fair share. We should examine loopholes and end those tax breaks that have outlived their usefulness and those primarily benefiting the wealthiest among us.

We also need to provide clear and simplified rules that will allow business to create jobs — jobs that provide the kind of wages, protections, healthcare, and retirement security to fortify the middle class and expand opportunity to more Californians. We can reestablish a social compact among businesses, workers, and government that ensures our economy can continue to grow and thrive as we expand opportunity and equity.

Our outdated tax system worsens income inequality. As upper-income earners stand to benefit from a new federal tax cut, and Washington threatens to pull billions in funding to California for healthcare and other key priorities, it will be necessary to be vigilant about the state’s needs, and consider whether state policy must change to blunt the blow to our economy and our people from the new administration in Washington. We should work toward a more equitable tax system that funds our state’s priorities and is workable and sustainable.

Climate change and economic insecurity are the two great political challenges of our time. We must harness our creativity, sense of community, and collective spirit to solve these vexing problems simultaneously. California can, and must, be a leader on both of these issues — and can play an important role not only for those who live here, but as a potential model of workable solutions for our country as a whole.

As we take aim at these daunting challenges, we must now begin to forge consensus about the kind of change we need as a state to move forward in a way that provides us all with a fair shake.
Appendix: Ideas for Change

The Fair Shake Commission finds the following policy changes and best practices can help ensure a more equitable future for our state and increase economic opportunity for all Californians.

Making the Economy Work for All Californians

The way we work has fundamentally changed, and yet, we are still governed by laws and regulations that grew out of the 20th-Century industrial economy. Our outdated policies create incentives for behavior that shifts risk and costs from employers to workers and taxpayers. They have made it increasingly difficult for some companies to do business in California and more costly for employers to do the right thing.

We must modernize our rules to better fit the reality of the way today’s California works.

Rules are intrinsic to all markets. Rules have always been necessary and we have always had them. Markets and society work best when we have policies that are clear, simple, and fair. Over time, as our economy has changed, our workplace and business rules have become overly complex and increasingly undermined, which has made it more challenging for both workers and business. Basic worker protections have been eroded and employers are hurt, because under current market rules, it is often cheaper to do the wrong thing. Simpler and fairer rules are better for workers, businesses, and society. We need proper and fair rules to enable a viable private sector, ensure adequate compensation for work, and to promote opportunity.

Level the Playing Field for All Workers

- **Establish basic protections for contract workers:** California should consider requiring employers to pay higher hourly wages to independent contractors than they do to full-time workers to reflect costs traditionally borne by employers.

- **Close the “Part-Time” Loophole and Expand Benefits to Include Part-Time Workers:** Some corporations limit work hours and hire more part-time workers in part to avoid paying for healthcare, retirement benefits, and other costs. Since the law bases employment-driven costs, including the cost for benefit requirements, on the number of hours worked, some big corporations limit the workweek to save money. This loophole leads to workers getting a raw deal.

- **Protect Workers and Ensure Corporations Can No Longer Act With Impunity To Undermine Worker Protections:** California should consider strengthening enforcement to ensure all workers have the same workplace and wage-theft protections, whether they are working full time, part time, as employees, or as independent contractors.
• **Increase Enforcement:** We need to strengthen enforcement to ensure every Californian has the same workplace and wage-theft protections whether they’re a full-time, part-time, a contract employee or employed by a small entity or subcontractor. This includes new investments in the Division of Labor Standards Enforcement, which is currently understaffed.

• **Promote stronger worker protection and representation.** The state should also explore appropriate strategies to support stronger worker protections and participation as it awards contracts, makes public pension-fund investments, awards tax credits, or otherwise spends taxpayer funds.

Control Healthcare Costs and Support Gig Workers

The costs of benefits can be unpredictable, and when they rise rapidly, they cripple businesses and stifle wage growth, hurting employers and workers alike.

• Ease the burden of rising healthcare costs on employers and employees by adopting policies that expand bulk purchasing, encourage prevention, promote value-based contracting, and share risk more broadly to more effectively contain costs. We should also take measures to address preventable costs and make healthcare more affordable for everyone.

A Foundation for Jobs and Economic Growth

*California’s economic health requires government policies and investments that support work. Robust and smart public investment creates the conditions for a thriving private sector. It is a core function of government to provide the physical and social infrastructure and supports necessary for business and workers to thrive. Critical infrastructure — roads, transit systems, a reliable electricity grid and water supply, and information technology, among others — provides the platform on which our economy is built. Our economic health also requires the availability of affordable housing located within a reasonable distance to a person’s place of employment, as well as access to quality, affordable childcare that allows parents to go to work knowing their child will be cared for and safe. Finally, California’s economic health relies on a fair and transparent banking industry that helps working families rather than preying upon them.*

• **Fortify Infrastructure to Grow the Economy:** Make strategic investments in vital public resources — climate smart transportation, clean energy, information technology, and a clean and reliable water supply — to support job creation and prepare our state for long-term economic growth.

• **Support Work Through Childcare:** Expand access to affordable childcare and after-school programs to support work and to make it easier for working families to meet basic needs, save for retirement, and have a greater opportunity to climb the economic ladder. Consider providing year-round, full-day care and activities at all public schools. Supplement the school day with before-school and after-school activities that keep kids active, healthy, and safe while making it possible for parents to work full-time without incurring massive childcare expenses.
- **Increase Affordable Housing:** Create permanent funding for affordable housing and take action to preserve existing affordable housing stock and to protect tenants. Make it easier to increase housing stock and use the tax code and economic incentives to promote wiser land use to make housing more affordable. Make it easier to convert surplus state-owned property into affordable housing.

- **Promote Fair Banking and Lending:** Expand access to credit and to fair and transparent banking solutions for all Californians, and crack down on predatory payday lenders. Promote community-based lending and regulate ability of private lenders to charge unreasonable fees for working Californians, including those who receive state benefits.

**Economic Development and Workforce Training**

A high-quality, trained workforce is critical to our continued growth. Too often, those who can most benefit from training and education are unable to access it, as it is unavailable, impractical, or financially out of reach. This has made it harder for employers to find the trained employees they need and for parents to afford opportunities for a better future for themselves and for their children. While California is a leader in providing for debt-free college with robust financial aid programs, existing programs tend to provide the least amount of aid to the lowest-income students and fail to meet the needs of returning students. We can do more to better meet the needs of students, workers, and employers. Doing so will make for a stronger future, train the workers whom employers need, and support workers’ abilities to advance.

- **Expand Access to Higher Education:** Reform state financial aid policies to eliminate barriers for returning students, reduce the debt burden for our lowest-income students, and protect students from for-profit, predatory diploma mills. Pursue federal changes to ease the burden of repaying existing education debt to promote opportunity and make it possible for Californians to begin their careers without crushing debt.

- **Improve Workforce Training:** Prepare workers for the changing economy with an emphasis on healthcare and clean-energy jobs. Expand opportunities for advancement and better meet the needs of businesses by expanding access to career technical education, increasing coordination of workforce training programs and their alignment with market needs, and expanding upskilling opportunities for entry-level and low-skill workers.

- **Reduce Barriers to Employment:** Ease the transition for the formerly incarcerated to reenter the workforce, encourage businesses to hire veterans and persons with disabilities. Create youth employment programs for youth in foster care, reform criminal background requirements for obtaining licenses, and reform the bail system to increase fairness. And ensure immigrants can fully participate in the economy.
The New Economy demands a renewal of our social contract. As part of expanding economic opportunity, it is important to build and maintain what economist James Heckman calls “a scaffolding of support” to help address inequality at its earliest stages, and understand what is most necessary to support Californians who are unemployed, underemployed, or otherwise struggling to get by.

**Early Childhood:** Expand access to early childhood programs. California has the highest child poverty rate in the nation. Without the basic building blocks of opportunity and prosperity, many of these children will never have a chance to thrive. Research shows that investments in early childhood programs not only promote fairness and expand access to opportunities, but they can save money in the long run across many areas, including in healthcare, criminal justice, and foster care.

- Expand funding and access to preschool and other early learning programs that help prepare students for success and help kids do better in school and in life.

**CalWORKS:** Increase CalWORKS/SSI grants and ensure they keep pace with inflation. The CalWORKs program provides support for low-income working families. It is a lifeline for over 1 million California kids living in extreme poverty. Similarly, the SSI/SSP program provides a lifeline for more than 1 million low-income seniors and persons with disabilities. During the recession, assistance was cut deeply, making it harder for the poorest working families in our state to get by as housing costs and other basic expenses have skyrocketed.

- Increase CalWORKs and SSI/SSP grants that have not kept pace with inflation and have lost purchasing power. Higher grants will not only help more low-income families, seniors, and persons with disabilities pay the bills but will promote economic activity. In one of the wealthiest states in the nation, we have a moral obligation to protect children from poverty and to expand opportunity for families.

**Homelessness:** Strengthen efforts to address homelessness, including expanded support for Housing First. More than 100,000 Californians are homeless. Each day, they struggle to find shelter, food, and safety. Many suffer from mental illness and substance abuse. We have a duty to make sure everyone has a place to call home and everyone is treated with dignity.

- Adopt a housing-first approach that gets people off the street and into permanent housing with access to services they need.
We must do more to encourage all Californians— including immigrants and young people—to participate in our communities and in our democracy. We all have a stake in our future, and our society will benefit from increased citizen participation. In addition to working toward increased voter participation, we can encourage public service, better leverage the power and hard work of nonprofits, and promote a new culture of service to improve California’s future.

Increase Civic Engagement and Expand Equity in Our Political System

- **Enhance Democracy:** We can make our democracy stronger and more inclusive by removing barriers to voter registration and participation.

- **Promote Volunteerism:** Offer additional opportunities for public service and explore ways to help young people defray education-related costs through public service.

- **Continue to Welcome and Provide Opportunities to New Immigrants:**
  California is already ahead of much of the nation, offering healthcare, services, and drivers licenses to undocumented Californians. We should continue to evaluate the services and policies available to new arrivals to ensure our state supports integration and opportunity. We must forcefully resist the politics of division and exclusion.
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