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2023 California Policy Recommendations

Employment Social Enterprise: An Evidence-Based Solution

Employment Social Enterprises (ESEs) are businesses achieving transformative social impact – providing jobs, training, and support to people breaking through barriers to employment. ESEs operate in 48 states and the District of Columbia, and there are over 800 ESEs nationwide.

ESE employees are those who the traditional public workforce system often does not serve or serve effectively, including individuals who have experienced incarceration, homelessness, mental health and/or substance use challenges. Because these experiences are often caused and compounded by structural racism, the majority of people ESEs serve are people of color. ESEs help their employees stabilize their lives, build marketable skills, and develop a work history. In addition to paid employment, ESEs provide a wide variety of crucial wrap-around supports such as financial coaching, housing, child care, transportation, counseling, or help with business attire or work uniforms.

ESEs create jobs, improve lives, and decrease taxpayer costs by reducing rates of incarceration, recidivism, and homelessness and increasing economic self-sufficiency. The ESE model leads to greater economic security and mobility for its employees and yields a social return on investment of [\\$2.23 in benefits for every \\$1.00](#) invested. ESEs have a proven track record and are uniquely positioned to address societal inequities deepened by the pandemic. These businesses stimulate the national economy, combat multi-generational poverty, and address economic and racial disparities.

As California makes investments aligned with the Governor’s [California Comeback Plan](#), and the federal government makes historic investments in infrastructure and economic recovery, we are seeing policy movement towards building an inclusive workforce. In partnership with the State of California, we have a unique opportunity to drive resources to ESEs and their employees, catalyzing social change and building an economy where *all* Californians can access quality employment. REDF recommends the following plan to create an economy that works for all Californians because true recovery requires everyone’s contributions.

Recommendation #1 – Build an Inclusive Economy

Implement CA:RISE: The persistent, disproportionately high unemployment rates for the tens of thousands of Californians who are released from prison and jail each year, age out of the foster care system, and experience homelessness lead to unsustainable human and taxpayer costs that can be substantially reduced by investment in employers whose mission is to provide jobs and supports that break the cycle for these specific individuals. With \$25 million allocated in the Fiscal Year 2022-23 budget, GO-Biz will oversee the California Regional Initiative for Social Enterprise (CA:RISE) Program to provide financial and technical assistance to ESEs. CA:RISE will provide equitable access to capital and technical assistance to ESEs and accelerate the economic mobility of CA:RISE participants, preparing them for jobs in growth industries.



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Implement the Reentry Employment Grant Program: The 2022-23 State of California Budget also included a program to help justice-involved individuals find gainful employment and have the necessary means to thrive. This Statewide Reentry Employment Grant Program will provide dedicated, multi-year state funding to community-based organizations to expand reentry services capacity. This investment will transform the employment landscape for justice system-involved individuals by providing transitional employment, vocational programming, paid training, [direct cash assistance](#), and social support during the immediate time frame post release.

Fund Employee Ownership: Employee-owned businesses, commonly formed as Employee Stock Ownership Plans (ESOPs) or Worker Cooperatives (co-ops), provide proven benefits to businesses, workers, and society. These include stronger business performance, quality jobs and wealth building opportunities for employees, and stronger local economies. Now that Senate Bill 1407 has passed, funding needs to be attached to the program to invest in worker-owned businesses by providing financial and technical assistance and helping small businesses transition to worker-owned businesses.

Invest Equitably through the Community Economic Resilience Fund: The California Labor & Workforce Development Agency, Governor’s Office of Planning and Research (OPR), and Governor’s Office of Business and Economic Development (GO-Biz) announced the first round of awards in October 2022 for the [Community Economic Resilience Fund \(CERF\)](#), a new state initiative supporting innovative plans and strategies to diversify local economies and develop sustainable industries that create good-paying, broadly-accessible jobs for all Californians. As part of CERF’s initial planning phase, 13 economic development entities known as High Road Transition Collaboratives received \$5 million each to develop roadmaps, including a strategy and recommended series of investments, for their region. Following this planning phase, the program’s implementation phase will begin in 2023 and provide \$500 million to fund projects identified by the High Road Transition Collaboratives. These Collaboratives must include participation of talented individuals breaking through barriers to employment, such as ESE employees, so they too have access to good-paying jobs.

Recommendation #2 – Reform Private Attorney Generals Act (PAGA)

Under the Labor Code, PAGA authorizes aggrieved employees to file lawsuits to recover civil penalties on behalf of themselves, other employees, and the State of California for Labor Code violations. PAGA (enacted in 2004) moved labor and wage violation compliance from the California Attorney General to private attorneys, ultimately to the detriment of those workers intended to be protected by labor law. There is no cure process; if an employer violates, private attorneys can immediately go into litigation. The incentives established can have a particularly harsh impact on ESEs that face the high costs of litigation whether or not there has been a violation of any kind, threatening their social mission of providing quality employment to people who are overcoming significant barriers to work. An established cure process would minimize the litigation costs while enabling the remedy of violations. PAGA should be reformed specifically for nonprofit ESEs to create a cure process for an ESE to remedy its violations.

Recommendation #3 – Implement Senate Bill 779 (2021)

With unanimous and bipartisan support from the State Legislature in 2021, Governor Newsom signed [Senate Bill 779](#) into law, defining ESEs among the recognized “earn and learn” programs under the

California Workforce Innovation Opportunity Act. The ESE definition could be used in new and existing State funding opportunities across agencies:

- The Governor and the California Labor & Workforce Development Agency should use their Workforce Innovation Opportunity Act (WIOA) discretionary funds to target individuals who are overcoming significant barriers to employment and integrate ESEs into the initiative.
- The California Workforce Development Board should execute their [Employment Models for Transitional Jobs Information Notice](#) and provide technical assistance to local workforce development boards to create pilot programming focused on ESE investment.
- The Employment Training Panel should create an ESE pilot grant program based on the [SEED Grant](#) initiative. The program would promote economic, social, and racial equity, targeting populations including formerly incarcerated and housing insecure individuals, as well as opportunity youth and Californians recovering from addiction.
- The State Small Business Credit Initiative (SSBCI) aims to drive small business financing and build state capacity, but ESEs have not been identified as a clearly defined capital gap by the government. The California Infrastructure and Economic Development Bank (IBank) and the State Treasurer's Office should strengthen their SSBCI program by financing ESEs that are active in underserved communities. To accelerate public-private investment in businesses while employing individuals who are overcoming high barriers to work, the Venture Capital program at IBank should invest in ESEs.
- The California Department of Social Services [should continue](#) to contract with and encourage counties to contract with ESEs that provide services on a regional or statewide basis and that have expertise in, and secure funds for, the provision of allowable CalFrest Employment & Training services.
- State budget and bills focused on housing and employment of individuals returning home from incarceration should incorporate ESEs as one of the priority strategies for implementation.

Recommendation #4 – Implementation of Infrastructure Investment Jobs Act (IIJA)

When State and local agencies are applying for IIJA funds, they should use a [Checklist for a Strong Workforce and Labor Plan](#). The checklist notes that a strong plan consists of the three components below and provides more detail on each component.

1. Creating good-paying jobs with free and fair choice to join a union.
2. Expanding high-quality training and education programs to help train and place people in good-paying jobs, with a focus on women, people of color, and other populations facing systemic barriers to employment such as people with disabilities and people with convictions.
3. Implementing policies both during procurement and during project implementation that will promote the hiring and retention of underrepresented workers, including contract provisions that prohibit discrimination against justice system-involved individuals and that comply with [equal employment opportunity requirements](#).

Additionally, the U.S. Department of Labor posted this [advisory notice](#) providing information on how the public workforce system can engage in implementing infrastructure projects with strong workforce programs. Both the U.S. Department of Transportation and the Department of Labor worked together to



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produce [FAQs](#) on how state transportation agencies can support, expand, and diversify apprenticeship for infrastructure projects.

All of these tools need to be used to provide meaningful jobs to *all* Californians, and Clean California is an excellent example of preparing an inclusive infrastructure workforce. Within the much-acclaimed \$1.5 billion [Clean California Initiative to transform public spaces](#), there is a \$170 million investment that will primarily flow into ESEs. The Clean California Initiative will fuel the [creation of an estimated 15,000 jobs](#), including for ESE employees – individuals who aspire for a quality job while they are overcoming steep barriers to work including incarceration and homelessness. In Clean California’s implementation, Caltrans is contracting or subcontracting with ESEs to expand or create new business lines that support the transformation of public spaces and highways and create an onramp to quality jobs for individuals overcoming barriers to employment.

Recommendation #5 – Expand Benefits & Opportunities to ESE Employees

The State must create a public benefits system that promotes economic mobility and financial independence as well as access to benefits. This includes eliminating obstacles and disincentives, such as asset caps and occupational licensing barriers, for talented individuals overcoming steep barriers to employment and working to improve their futures. California must reimagine the existing benefits and tax system to provide direct and easy-to-access support that provides stability as individuals navigate life's challenges with the goal of ending and preventing generational poverty.

- The California Earned Income Tax Credit (CalEITC) is a refundable state credit for low-earning workers. Bolstering CalEITC to childless adults, who make up a significant share of ESE employees, will increase earning power. In 2017, REDF was a part of the CalEITC Coalition that doubled income limits for childless workers and expanded the credit to over one million additional low-income working families. The Legislature should establish a minimum CalEITC of at least \$300. A minimum CalEITC of \$300 would cost roughly \$440M and benefit around 500,000 workers with dependents and around 2.5 million workers without dependents.
- California Advancing and Innovating Medi-Cal (CalAIM) is a long-term commitment to transform and strengthen Medi-Cal, offering Californians a more equitable, coordinated, and person-centered approach to maximizing their health and life trajectory. Under a [Centers for Medicare & Medicaid Services waiver](#), Medi-Cal can reimburse wages for community health workers and peer counselors who have experienced homelessness, mental health challenges, and substance abuse, yet justice system-involved individuals could face barriers in pursuing this career pathway. To meet its objective of reducing health disparities, CalAIM must remove barriers to employment for individuals with histories of incarceration.
- On July 1, 2020, [Assembly Bill 2138](#) went into effect. This law profoundly improved the process and legal protections for licensure applicants, especially those who have previous convictions, for the vast majority of the Boards and Bureaus within the Department of Consumer Affairs (DCA). While this law significantly shifted the substance and procedures of these Boards and Bureaus, there is still necessary work to implement the law and ensure potential and future applicants understand their rights and the licensure process. The DCA, in its responsibility to



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provide education and licensing across professions, is best positioned to lead the Boards and Bureaus through the process of reviewing and addressing misinformation regarding AB 2138 and broader application information disseminated by the Boards. Failing to address the false and misleading information disseminated by DCA Boards damages the ability of entire classes of people to become professionals in fields in which they are qualified and legally entitled to pursue.

About REDF

REDF (the Roberts Enterprise Development Fund) invests in employment social enterprises (ESEs) — businesses that provide jobs, training, and support to people breaking through barriers to employment. REDF partners with these businesses and the entrepreneurs who lead them — providing capital, capacity, and community — to amplify their transformative impact. Since 1997, REDF has invested in more than 250 ESEs in 33 states and DC. Collectively these partnerships have helped 86,000 people enter the workforce and generate more than \$1.6 billion in revenue that is reinvested in employee success—creating a ripple effect that strengthens families and communities and helps build an economy that works. For everyone. For more information, visit www.redf.org.