

## 2022 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 700 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 illness, or addiction. 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, childcare, 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 special 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**

**Create CA:RISE (AB 2670):** 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.

- AB 2670 will create the California Regional Initiative for Social Enterprise (CA:RISE) Program to provide financial and technical assistance to ESEs. The bill will accelerate economic recovery, inclusion, and mobility by investing in the growth and creation of ESEs and partnering them with aligned public programs by:
  - Investing in ESEs to increase the number of jobs created, enhance the quality of supports provided, and seed creation of new ESEs across the State.

- Connecting California populations that have experienced homelessness and/or incarceration with sustained, quality employment through private and public job opportunities, including high road jobs.
- Funding technical assistance providers to supply a range of services and support, including attracting capital, entering new markets, strengthening operations, and coordinating with State and local public agencies.
- CA:RISE is designed to build on the success of [LA:RISE](#), a partnership with the City and County of Los Angeles and private philanthropy that has helped over 5,000 individuals access jobs and supports. 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.

**Expand Employee Ownership (SB 1407):** 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. SB 1407 will invest in worker-owned businesses by providing financial and technical assistance and helping small businesses transition to worker-owned businesses. SB 1407 will establish a dedicated hub within the Governor's Office of Business and Economic Development that will help educate stakeholders about employee ownership, assist business owners and workers in navigating available resources, provide funding for technical assistance, and streamline and reduce barriers to the existing business transition process.

**Establish California Foster Youth Hiring Tax Credit (AB 1861):** Building off the existing Homeless Hiring Credit for individuals experiencing homelessness (that REDF supported), AB 1861 would enable qualifying employers to receive a scaling tax credit of up to \$10,000 for each eligible transition-age foster youth at extreme risk of homelessness that they employ in a taxable year. The credit would be available for taxable years beginning January 1, 2023 through December 31, 2027 for prioritizing the employment of eligible current and former foster youth between the ages of 16 to 26. AB 1861 will connect these youth to employment and career opportunities to help them achieve self-sufficiency, prevent homelessness, and re-grow California's critical workforce, while simultaneously reducing taxes for California's struggling businesses. This bill establishes a powerful financial mechanism for improving foster youth employment prospects, connecting these young people to career pathways, advancing economic equity, and meeting the employment needs of California businesses.

## **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 SB 779**

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 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 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.
- State budget and bills focused on housing and employment of individuals returning home from incarceration, such as AB 328, should incorporate ESEs as one of the priority strategies for implementation.

### **Recommendation #4 – Implementation of Clean CA**

Within the much-acclaimed [Clean California Initiative](#), there is a \$150 million investment that will primarily flow into ESEs. The Governor called for a \$1.5 billion investment to transform public spaces and clean public spaces near highways. This initiative includes 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 should contract or subcontract 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 1) permanently increase the CalEITC minimum for all tax filers (AB 2589), and 2) fund CalEITC outreach, education, and free tax prep assistance grants and extend grant contracts to year-round (AB 1515).
- 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 [new 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 impacted 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.

## About REDF

REDF (the Roberts Enterprise Development Fund) is a pioneering venture philanthropy accelerating a national movement of employment social enterprises—businesses achieving transformative social impact by investing the money they make into helping people striving to overcome employment barriers get jobs, keep jobs, and build a better life. Independent research shows this approach works. It leads to greater economic security and mobility and a significant rate of return to society—\$2.23 in benefits for every \$1 invested.

For more information, visit [www.redf.org](http://www.redf.org).