2021 MILKEN INSTITUTE CALIFORNIA POLICY FORUM:

Takeaways and Recommendations

The COVID-19 pandemic not only exposed social and economic weaknesses throughout California but also highlighted significant deficits in infrastructure, housing, and workforce development that have exacerbated inequities over time. A full recovery will require leaders across the state to invest and collaborate to mitigate these inequities and recalibrate the state's economic development framework from the bottom up to promote equity and competitiveness.

Over the past two years, the consequences of the state's high cost of living standards have become more pronounced, especially on the most vulnerable communities and on residents looking to achieve upward mobility.[1] Both factors will adversely affect the state's prospects for growth. Despite these realities and the languishing impacts of the pandemic on the state's economy, California remains a global laboratory for incubating bold ideas and a proving ground for fostering emerging technologies and social trends that inspire global movements.

Promoting a post-COVID economic recovery will require improving workforce and housing development, revitalizing the business climate, and enhancing infrastructure resilience. Now is the time to build smart while harnessing innovation in policy and technology to boost California's economic landscape. A state economic development strategy formed around enhancing regional competitiveness must be responsive to the needs of rural, suburban, and metropolitan economies. In devising a roadmap toward shaping a more equitable future in California, leaders will need to structure remedies that promote inclusive growth.

During the three sessions convened at the 2021 California Policy Forum, leaders from various backgrounds were asked to address key challenges related to the main session themes: augmenting workforce development and the future of work, accelerating housing development, and enhancing California's business climate. Below is a summary of these challenges, roundtable conversations, and recommended actions from each session.

AUGMENTING WORKFORCE DEVELOPMENT AND PREPARING FOR THE FUTURE OF WORK

Challenge: Acquiring the skills and education needed to perform the jobs of today and achieve economic mobility is not equally accessible to everyone, and underserved populations get left behind. In California, a worker employed in a science, technology, engineering, and mathematics (STEM) occupation earns nearly $60,000 more per year than being employed in a non-STEM field on average, as shown in Table 1. Yet STEM occupations make up 8 percent of California's workforce, and this share varies substantially by region.

How can the state and its higher education leaders work with employers to enhance access to the critical skills that students and workers, particularly in underserved communities, need to compete for quality jobs?

Table 1: California Average Annual Earnings, STEM and non-STEM Occupations (2020)

Metropolitan Area	Share STEM Occupations	Annual Average Wage		STEM Annual Avg. Wage Increase
		Non-STEM	*STEM*	
San Francisco–Oakland–Hayward	12.6%	$74,440	$131,900	+$57,460
San Diego–Carlsbad	9.4%	$59,790	$106,800	+$47,010
Sacramento–Roseville–Arden-Arcade	7.2%	$59,610	$103,450	+$43,840
Santa Maria–Santa Barbara	6.5%	$56,420	$102,640	+$46,220
Los Angeles–Long Beach–Anaheim	6.4%	$60,540	$108,260	+$47,720
San Luis Obispo–Paso Robles–Arroyo Grande	5.2%	$53,850	$101,070	+$47,220
Riverside–San Bernardino–Ontario	3.2%	$52,340	$92,390	+$40,050
Fresno	2.8%	$51,130	$87,050	+$35,920
Merced	2.0%	$49,130	$86,860	+$37,730
Total California	**8.0%**	**$61,050**	**$118,970**	**+$57,920**

Source: US Bureau of Labor Statistics Occupational Employment Statistics (2020)

Session Summary: The COVID-19 pandemic upended traditional work and education systems while accelerating the rapid adoption of digital systems and automation use across sectors, therefore threatening to eliminate a low-wage workforce. The pandemic has also exacerbated existing gaps and underlying inequities in California's economic landscape, exposing the magnitude of differences afforded among demographic groups and their economic safety nets, affecting their abilities to acquire skills, access opportunities, and achieve upward economic mobility. These consequences, which have had the greatest impact on our most historically disadvantaged and vulnerable communities, emphasize the urgency of shifting to a proactive, skills-based, and regional approach to workforce development throughout the state. As the dynamics shaping the future of work continue to hasten, the key to realizing a more inclusive economy lies in directing strategic upstream investments in California's 21st-century workforce.

Recommendations and Next Steps

Invest in regional talent pipelines: The ability to adapt to shifting skills demands while facilitating employer engagement and career pathway programs not only supports a short-term economic recovery but also sustains long-term resiliency in an evolving job market. Fundamentally, this begins by enhancing access to education and employment opportunities through targeted education and work-based training programs. Building a robust, place-based regional talent development system will require leveraging partnerships, dedicated investment, and applying outcome-driven curriculum to broaden opportunities and improve the workforce's long-term resilience.

Accelerate adjustments to workforce development programs to keep pace with an evolving skills demand: A disconnect in timing between when jobs are needed and when the workforce is available is a continuing challenge. For instance, while the state has supported enhancing industry-university partnerships through the Strong Workforce Program—a recurring investment of $248 million to spur technical education through California's community colleges in collaboration with industry partners[2]—the time it takes for programs to get new curricula approved at the state level does not keep pace with a dynamic business environment and evolving set of needed skills. This presents challenges in providing a ready workforce for the jobs required today and in the future. Policymaking at the state and district levels needs to change so there is more ability to be nimble in response to changing workforce demands.

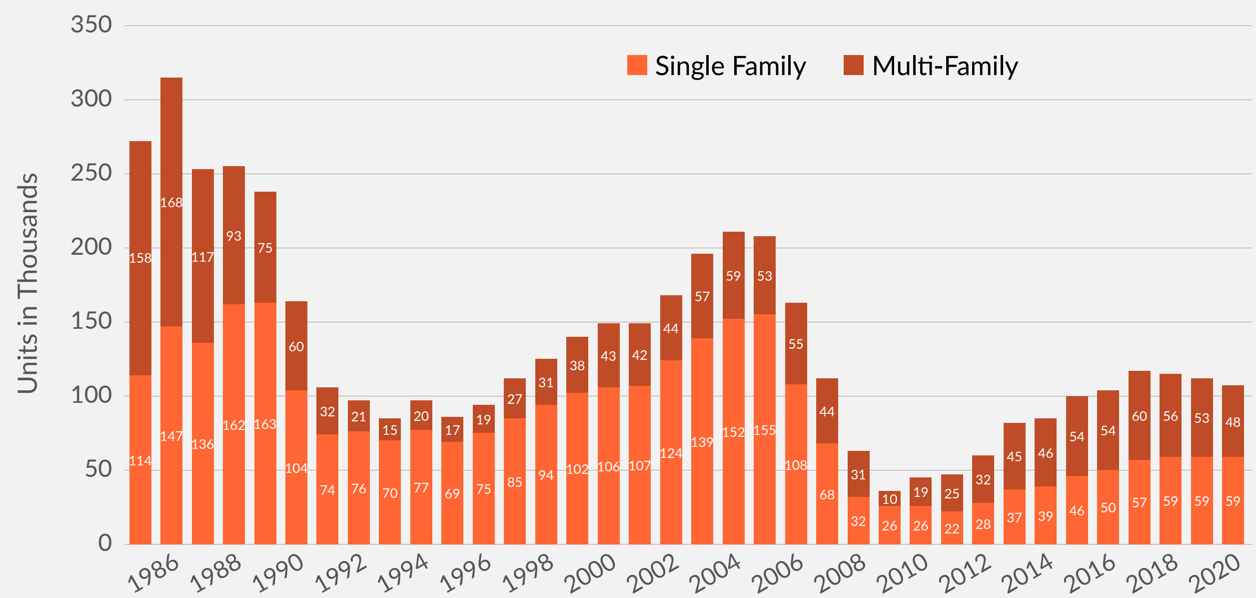
Increase workforce participation by investing in groups currently facing barriers to entry or upskilling: Many people do not have access to resources that enable them to develop the skills required to enter the workforce or find a suitable job that provides a living wage. Two groups to focus support on are low-income individuals, who cannot afford workforce development programs, and the previously incarcerated. For the former, enhancing financial models that expand access to quality career training (such as increasing access to loans to people with bad credit or offering financial incentives for program completion) can help people with low incomes participate in these programs and develop their skillset. For the latter, reforming the justice system to provide vocation and education opportunities during incarceration is an efficient way to utilize their time in prison while also preparing them for the workforce upon re-entry.

ACCELERATING HOUSING DEVELOPMENT

Challenge: For decades, California's housing supply has failed to keep up with demand, and prices have continued to soar. In May 2021, the median price for a single-family home in California hit a record-high $818,260.[3] The impact of insufficient housing development severely strains the vitality of California's economy and quality of life and exacerbates inequality and segregation.

How can state and local leaders work together to address underlying barriers and increase development and access to housing?

Figure 1: California New Housing Permits Issued by Year



Source: US Census Bureau—Building Permit Survey (2020)

Session Summary: Although local governments do not build housing, they play a role in incentivizing, creating, and removing barriers to housing development. State leaders acknowledge that consigning housing development as a city-by-city issue has not been effective in producing increases in supply. Lack of development and housing shortages harm the state. There needs to be a mix of accountability and incentives to increase supplies at multiple levels of need, like with health care and education. Yet if financial incentives aren't big enough, wealthy cities likely will not accommodate additional supply, resulting in lower-income cities taking on most of the development, thereby exacerbating slow development and continuing the existence of an equity gap. To address this dynamic, the state needs to set minimum standards on supply and streamline the regulatory and permitting process while providing incentives that support housing development at various levels of need.

Recommendations and Next Steps

Increase production accountability and upzoning incentives: Much of residential land in California is limited to single-family homes. Hyper-restrictive zoning has a discriminatory history and limits supply, exacerbating segregation and inequality. The state could offer planning and entitlement concessions to developers prioritizing inclusionary development. Provisions to streamline the California Environmental Quality Act (CEQA) are already in use for qualifying projects and could be expanded to fast-track development that emphasizes workforce and affordable housing supply needs. CEQA streamlining for priority projects accompanied with reforms in the Regional Housing Needs Assessment process that are structured around production accountability would further reduce timelines and increase housing supply for all income levels.

Expand credit enhancement tools to promote pre-production and equity in housing supply: Augment the down payment loan guarantee programs administered by the California Housing Finance Agency and in partnership with the Infrastructure and Economic Development Bank to support a Housing Investment and Financing Innovation Assistance (HIFIA) Pre-Production program. Currently, the state's Predevelopment Loan Program continues to cap loan amounts at the rate set in 2014 ($100,000).[4] To keep pace with rising development costs, increasing the maximum loan guarantee to qualifying projects (e.g., workforce and affordable projects—below 120 percent of area median income[5]) would allow state leaders to accelerate housing development and affordable supplies in regions across the state. Furthermore, by supporting vital pre-production steps, state leaders can leverage this program to increase supply in priority areas, such as near regional job centers, education institutions, transportation hubs, and transit corridors as well as in underutilized commercial, brownfield, and/or other locally designated economic development zones. Projects that qualify for HIFIA will need to conform to an expedited development timeline to reduce costs and ensure affordability.

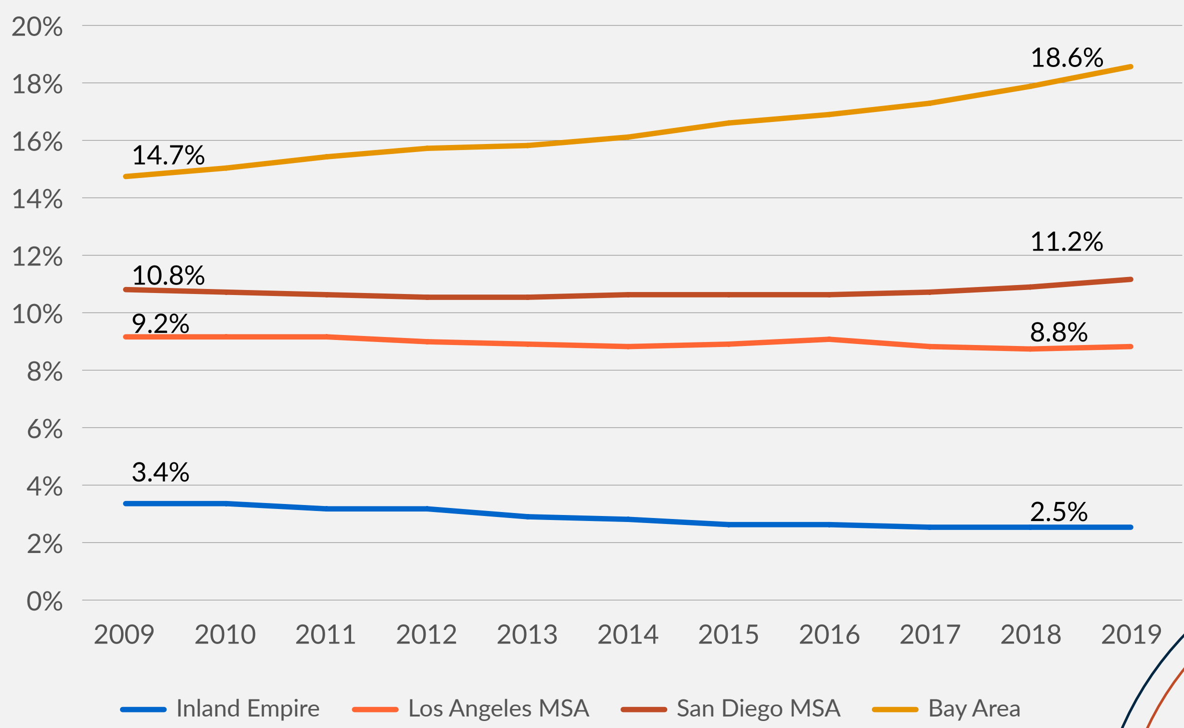
Explore the establishment of a loan loss reserve credit facility to mitigate risk and incentivize the formation of regional project pipelines: In 2019, there were over 550,000 housing units approved for development by the state but not built.[6] Until they were dissolved in 2011, local redevelopment agencies were the single largest locally generated source of funds available to communities, via tax increment financing, to support affordable and workforce housing programs. The loss of these programs has seen housing lose $1 billion in funding to local housing projects.[7] A loan loss reserve assistance fund will enable state and local leaders to support, expand, and coordinate a housing development pipeline on a regional scale and in coordination with existing state statutes and priorities while accelerating state and regional competitiveness.

ENHANCING THE STATE'S BUSINESS CLIMATE

Challenge: California's business climate varies substantially by region. Places with higher wages have harnessed technological ecosystems through capturing R&D and commercialization. For example, the Inland Empire—comprising Riverside and San Bernardino counties located in the inland heart of Southern California—has a vastly different business climate than other major metropolitan areas in California, and its high-tech employment lags other regions and continues to decline. By missing out on innovative growth, regions lose competitiveness and struggle to attract business investment and provide opportunities for quality jobs.

How can leaders work together to build an economy that supports robust opportunities for businesses, entrepreneurs, and residents and rebuild the pathways toward the California dream?

Figure 2: High-Tech Employment as a Percentage of Total Employment



Source: Milken Institute Analysis of Moody's Analytics (2020)

At the same time, adequate infrastructure is needed to support a thriving business environment. California is the world's fifth-largest economy, and while its population declined in 2020 for the first time in history,[8] the state expects its population to grow by another 11 percent over the next 30 years.[9] The nation's most populous state will need resilient infrastructure to sustain its economic prosperity and provide a safe, high quality of life for its 40 million (and counting) residents.[10] California does not currently meet this requirement; the American Society of Civil Engineers graded California's infrastructure a C minus in its 2019 Infrastructure Report Card.[11]

How can public- and private-sector leaders collaborate to finance and build more resilient infrastructure and prosperous communities?

Figure 3: California's Unmet Infrastructure Needs

$51 billion in drinking water infrastructure needs over 20 years

1,590 of California's **25,657 bridges** were structurally deficient in 2017

805 of California's **1,580 dams** are high-hazard potential, and only **74 percent** of these have an Emergency Action Plan

9,560 miles of levees in California in the National Levee Database

45 percent of California's public roads in poor condition. Each motorist pays **$862 per year** in costs from driving on roads in need of repair

$26.2 billion in wastewater infrastructure needs over 20 years

$4.85 billion of unmet needs for California's park systems

$3.2 billion gap in estimated school capital expenditures

Source: American Society of Civil Engineers—California Infrastructure Report Card (2019)

Session Summary: As firms and businesses reorient to remote and work-from-home realities, California cannot rest if it wants to maintain its past innovation advantages while minimizing the number of employers choosing or looking to locate or expand research operations elsewhere. State leaders should take bold steps to incentivize the conducting of research and the formation of vital innovation industries and emerging tech sectors to capture needed economic outputs and spillover effects while expanding opportunities for Californians to access high-paying jobs. At the same time, there must be a realization that underlying infrastructure challenges differ across communities, and regional competitiveness rests on scaling up community innovation and investment to move the state's infrastructure system from 19th-century creakiness to 21st-century performance. To resolve this dynamic, session participant recommendations focused on developing capacity and funding support to assist state and local governments in developing the planning capabilities and deploying financing tools necessary for high-impact and community resilient infrastructure projects that support an inclusive long-term recovery.

Recommendations and Next Steps

Establish regional deployment centers: The economic imperative for California in a post-COVID-19 pandemic recovery dynamic rests in ensuring that the benefits resulting from innovation are better distributed throughout the state. In doing so, Sacramento can enhance state and local governments' ability to incubate sector growth by directing investments to regions that lack the necessary capacity and resources to scale up new opportunities for equity, economic resilience, entrepreneurship, and community infrastructure, and capture the spillover effects resulting from R&D and commercialization. Coupled with tax incentives to facilitate place-based investment that results in high-paying job creation, state leaders can send a clear signal that it values a more equitable approach to economic development while capturing growth in high-technology clusters and enhancing the country's competitiveness in emerging technology sectors.

Provide refundable R&D tax credits for small businesses, startups, and priority industries and sectors to encourage business formation: Some small businesses cannot utilize existing R&D tax credits because they face little to no tax burden (particularly startups at the pre-revenue stage). Targeted policies to refund a percentage of unused research credits and/or encourage business formation among priority industries and sectors (e.g., aerospace, advanced manufacturing and agriculture, biotechnology, and life sciences) could facilitate greater investment by these firms and generate additional local revenues while incentivizing growth of higher-paying jobs.

Create a predevelopment capital fund and align federal incentives: We recommend creating a $5 billion infrastructure predevelopment fund to accelerate critical infrastructure development. Access to predevelopment capital funds, however, would require a commitment to resiliency, international performance standards, and a plan to address lifecycle costs, and improving access for underserved communities. State requirements should also include sufficient data tracking and accountability frameworks. This fund will help spur the infrastructure developments and enhancements needed to vitalize or revitalize communities and support business growth, particularly in underserved areas.

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