**STATE OF CALIFORNIA**
**EMPLOYMENT TRAINING PANEL MEETING**
New City Hall
915 I Street
Council Chambers, Room 1103 – 1st Floor
Sacramento, CA 95814
September 19, 2014

**PANEL MEMBERS**

Barry Broad
Chair

Janice Roberts
Vice-Chair

Gloria Bell
Member

Sonia Fernandez
Member

Kish Rajan
Member

Edward Rendon
Member

Sam Rodriguez
Member

**<u>Executive Staff</u>**

Jill McAloon
Acting Executive Director

Maureen Reilly
General Counsel

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## I. PUBLIC PANEL MEETING CALL TO ORDER

Chairman Broad called the meeting to order at 9:45 a.m.

## II. ROLL CALL

Present
Barry Broad
Sonia Fernandez
Leslie McBride
Edward Rendon
Janice Roberts
Sam Rodriguez

Absent
Gloria Bell

Executive Staff Present
Jill McAloon, Acting Executive Director
Maureen Reilly, General Counsel

## III. AGENDA

Chairman Broad asked for a motion to approve the Agenda.

ACTION: Ms. Roberts moved and Mr. Rendon seconded the motion that the Panel approve the Agenda.

Motion carried, 6 – 0.

## IV. MINUTES

ACTION: Ms. Roberts moved and Mr. Rodriguez seconded the motion that the Panel approve the Minutes from the August 22, 2014 meeting.

Motion carried, 6 – 0.

Mr. Broad said the purpose of today's meeting, is to discuss plans on how to spend the remaining budget in the current 2014/15 FY, and we are not taking action on any projects today. Whatever we do, we will likely have a similar meeting next spring, to discuss the next FY because given the amount of pre-applications that we received, assuming most of these were serious applications and not just a put yourself in line applications. Not only do we have enough projects at the moment to use up all our funding for this FY but also for the next FY. So we are going to have to grapple with what to do with those pre-applications, how to prioritize them, whether they are going to need to be resubmitted as some of them will be stale at that point. I think it's fair to say that given the demand that exists now, that we are going to have to make adjustments in terms of funding priorities and how to fairly allocate our resources to different categories and projects, we are going to have to revisit that from time to time, in a very comprehensive way like we are doing today because we need to distribute this money steadily over the course of the FY at regular meetings. We can't be handing it all out at the beginning and then go dark for six months; that is not acceptable. We also need to make it work for our staff, since while a kind of first come, first served system of receiving project proposals makes sense, they obviously can't all be reviewed in the same time frame. Some are larger projects than others, and take longer to review, so if we have more projects than we have money to hand out, it's not going to simply be, the projects proposals come in and they are dealt with strictly first come, first serve; that can't work in our system. We have to balance that out, so with that, I will turn to the Acting Executive Director's report.

## V. REPORT OF THE ACTING EXECUTIVE DIRECTOR

Jill McAloon, Acting Executive Director, as Mr. Broad said there are no proposals to consider today but we have a full agenda. Staff will be presenting recommendations for funding priorities, after which we will hear public comment, and then take action. Also, our General Counsel will present a new Delegation Order, revisions to the Job Creation Guidelines and staff's update of the new ETMS system.

Regarding the budget, the Panel has $3M available this FY, in the Alternative and Renewable Fuel and Vehicle Technology Program, through its partnership with the California Energy Commission. To date, the Panel has approved $23.2K, leaving $2.8M for the remainder of the FY. The Panel has also received $2M in general funds, to serve workers and employers impacted by the drought in the RESPOND effort. The Panel has approved approximately $234K, leaving $1.76M for the rest of the FY.

Regarding core funds, the Panel has approximately $64.7M in contracting capacity this FY, but due to the high demand, the Panel has spent $44.8M, leaving approximately $19.8M for the rest of the FY. However, ETP is receiving a $10M appropriation through the Budget Trailer Bill AB 1476 for FY 2014/15. The $10M in funds comes from the ETF reserve, which is the money left in the fund after year-end reconciliation of revenue and expenditures. Based on our incremental encumbrance process, that $10M of funds would equal $26.3M more in contracting capacity. In total, we will have $91M this FY, which is one of the highest appropriations in the last decade.

Regarding legislation as mentioned previously, ETP's appropriation will increase by $10M. This is accomplished via the Trailer Bill AB 1476. The Bill was enrolled and presented to the Governor on September 10, 2014, and awaits the Governor's signature.

AB 2148 (Mullin) Workforce Development: Annual Workforce Metrics Dashboard
We have been watching this bill, and it was approved by the Governor and chaptered by the Secretary of State on September 17, 2014. It requires the California Workforce Investment Board to assist the Governor in the development of an annual workforce metrics dashboard that measures the state's human capital investments in workforce development and provides a status report on credential attainment, training completion, degree attainment, and participant earnings from workforce education and training programs.

## VI. REPORT OF GENERAL COUNSEL

Maureen Reilly, General Counsel, said I'll begin on calling attention to one of the items that was recently published on our Panel packets tab on our website. Panel members have in front of them, the Delegation Order tab in the binder. We are recommending a new Delegation Order that would delegate limited authority to the Executive Director to approve proposals, without consultation with the Panel Chair. It provides limited authority for $100,000 or less in funding amount. This should help with the flow of proposals, given that our next meeting to hear proposals is not for another six weeks, and in general going forward, for approval of small business proposals capped at $50,000 or less. We are recommending that be approved, and it appears in the final slate of recommendations, as part of the Funding Priorities Memo that Jill McAloon will be presenting, so that the Panel can take action on this matter after it has taken Public Comment.

I'd like to point out that even though we are striving for regular Panel meetings for the remainder of this FY, it may be that we do not have enough proposals for December to justify a meeting. We will know with more certainty before the Panel meeting because they are looking at applications two-months out from each Panel meeting. Both the November 14 and December 12 meeting dates are in the middle of the month, to accommodate the holidays. They are also very close together; we are looking at coming back in November, but keep that in mind.

Mr. Broad said are you asking us to take a separate vote on this? Ms. Reilly said the Panel does not have to. If you'd like to entertain a motion now, and we can have a discussion, that is fine, but we included it in the overall recommendations. Ms. Roberts asked if there is anything different on this Delegation Order than it has been in the past. Ms. Reilly said yes, this Delegation Order delegates authority directly to the Acting Executive Director, within the scope of authority of the statute, and limited to funding proposals less than $100,000. It is typically in consultation with the Panel Chair, but given the stops and starts, we felt it was best to proceed on a flow basis, and it requires almost a mini packet within a packet, to schedule meetings in order to even approve small businesses, so this allows a flow basis. Mr. Broad asked what happens if the Acting Executive Director does not approve a proposal under the Delegation Order. He asked if they would then have a right to come before the Panel for funding. Ms. Reilly said yes, in Public Comment you can always go before the Panel, and the Delegation does not preclude the Director from acting in consultation with the Panel Chair, it is just not required. Mr. Broad said I'm thinking about the rights of the person who is denied under Delegation Order, if they say they disagree with the decision, and would like their proposal funded and I want to present it to the Panel at the next meeting. Ms. Reilly said that is a good question, maybe we could address that now, if you would like to. Mr.

Broad said right, but I'm not part of it. Mr. Rodriguez asked, what is the appeal process? Mr. Broad said, I feel if we are going to delegate to the Acting Executive Director this Delegation Order, it should be that if the person doesn't like the result, they should have the right to come directly to the Panel. Ms. Reilly said the public can do an adverse determination. Mr. Broad said I don't want them to have to file an appeal, and have a hearing over the right to appeal, I think it should say if they are turned down or there is some condition that is placed upon them, that they can come to the Panel and assert their right to have the proposal heard by the Panel; I think that is fair. Ms. Fernandez agreed with Mr. Broad. Ms. Reilly said I will redraft it with that knowledge of the Panel so you can move it now or wait until the end. Mr. Broad said I'm agreeable to moving it now with that change. Ms. Reilly said I can make that change, it's made on the record, and I'll just get your signature after the Panel meeting on the revised one.

ACTION: Ms. Roberts moved and Ms. Fernandez seconded approval of the Delegation of Limited Authority to the Acting Executive Director to approve funding less than $100,000 conditioned on reservation of the applicant's right to present their funding proposal to the full Panel. Should a funding proposal be denied under this Delegation Order, the applicant may appear at the next regularly-scheduled Panel meeting, with 10-days advance notice.

Motion carried, 6 – 0.

Mr. Broad said the next time we meet in the spring to discuss how to move forward structurally, we'll revisit the Delegation of Limited Authority, whether it is working and ask the public to comment whether they think it's working, and if anyone has any complaints. Ms. Reilly said I believe the Executive Director did have this authority, years ago.

Ms. Reilly said, there was concern raised at the last Panel meeting about the existing guidelines for the Retrainee Job Creation Pilot Program. Insofar as our main check for "new jobs" is the date-of-hire. The guidelines do require a justification by the employer as to why they are going to be hiring so many people. For example they would need to demonstrate that they are opening a new plant, buying new equipment, changing business operations, expanding in a new market or some fact-based reason for hiring "X" people. There was concern that this wasn't enough to establish "net new jobs." In fact, when this Pilot was originally developed, there was economic downturn and a deliberate decision was made to count refill. This was to encourage employers to fill these vacancies, and bring back people that had been laid-off.

The whole concept of this Pilot is enabling employers that are uncertain about expansion because there is an insufficient pool of skilled labor in their economic region; to tap into ETP funds and get the training they need to skill their new workforce.

The proposed guideline revision includes a requirement for "net new jobs" as part of trainee eligibility. It would be based somewhat on the California Competes Tax Credit regulations by GO-Biz. The idea is that we retain the "Benchmark Date" of hire which is three months out from the date of the Panel approval. But we would also check quarterly payroll reports from the EDD Wage Database, comparing the number of employees on payroll prior to the Benchmark Date to the number at contract end-of-term, to determine if there has been an increase in jobs commensurate with the number of job creation trainees. We will be using the EDD quarterly payroll reports, which are fairly robust; ETP uses a “full-time equivalency” metric: basically, this is 455 hours per quarter of payroll reporting to show a 35-hour week. That is our recommendation as far as showing “net new jobs.” We would also have funding applicants certify, as a representation in the contract, that the job creation trainee population will be hired into “net new jobs.”

I’d like to point out that our Fiscal Unit did a short survey, just to see whether or not employer representations at the proposal stage about date-of-hire is accurate. The outcome showed a very low error rate.

Mr. Broad said for the Panel’s benefit, could you outline what benefits we give to someone who is doing Job Creation. In other words, in terms of wage reduction and so forth. Ms. Reilly said this is an incentive program. It encourages employers to expand and “skill up” their workforce. We treat the trainees like New Hires, so that means there are a higher reimbursement rate and lower wage requirement, consistent with New Hire training. They also get relief from Substantial Contribution (SC) for the Job Creation trainees. This program has been extremely popular, even with Small Business - they might have 20 people and then hire two people, but they want the Job Creation incentive. During development, we work with the employer to be reasonable about their hiring goals.

Mr. Broad said at some point we’ll probably need to revisit this policy. We didn’t have this rule until the recession. This was, I think, our effort in helping to incentivize employers to hire new people. If we get to the place where the economy is growing robustly, we don’t really need to incentivize employers to hire new people nor do we need to afford them the full range of benefits they are getting here, that are different than if they were just coming in and asking for our funding in the normal course of things. In other words, we may need to relook at the issue of wage differential and so forth, because it may not be necessary, or doing what we think is an appropriate policy. I do think we can probably all agree that we shouldn’t be incentivizing an employer who is laying off on one hand and hiring on the other. That is certainly no benefit to the larger economy, that they may be replacing skilled people with less skilled people. It is not something we should be supporting, so I’m certainly in favor of this change to a MEC, that they have to create net new jobs. Ms. Roberts said there are federal programs also, that do support new hires, so they can double-dip on both programs.

Mr. Rodriguez asked Ms. Reilly to define as you see it, the net new job. Ms. Fernandez said, exactly; because I was a little concerned seeing this included recalling laid-off workers. My concern was that they would be recalled to a lower wage or the incentive would be used to reduce the wages to where a worker wouldn’t get any benefits.

Ms. Reilly said the fact is that recalling a laid-off worker, with ETP funding, would still be held to the minimum New Hire wages. Mr. Broad said, we could say that they cannot hire them, they don’t get reimbursed at a higher rate for recalling a laid off worker and paying them less. Ms. Reilly said it’s difficult because we don’t get payroll reports from the employers; we are using the quarterly reporting in the EDD wage database. Mr. Rodriguez said, but can it be verified over time, three or six months into the program? Ms. Reilly said we do have some post-retention wage standards that say you have to be earning more at the end of training than you were at the beginning. Mr. Broad said it is a valid point because imagine a worker gets laid off, hired back at 30% less money, get training to do their old job which they probably know how to do and we are throwing money at the employer for that behavior; it doesn't seem right. Ms. Fernandez agreed. Mr. Broad said I think it's a valid point. Mr. Rodriguez asked about the pre application process regarding this issue. Ms. Reilly said there is the possibility of an employer representation. You can have a representation where we get an employer to say they are not going to under-pay them. Mr. Broad said, we can't verify that? Ms. Reilly said, we are looking at quarterly wage reports. Mr. Rodriguez said, but you can pre-certify, right? Ms. Reilly said, yes; you can ask for certification or representation.

Mr. Broad said, we have at least two Panel members and myself that have some concern about that. Maybe what we should do is amend this to say that with regard to recalling laid-off workers, to qualify the employer needs to certify that they are going to pay at least the same or higher wage than at the time they were laid-off. Ms. Roberts said the guidelines do qualify it. They say economic downturn, so usually when we go through some economic crisis this is where this would come into play. Mr. Broad said when you lay people off in an economic downturn and they are subject to recall, in other words you are not firing, you are basically saying when the economy improves we are going to call you back. They don't come back at a lessor wage, that is very wrong and not normally what employers do. So, I don't think that we need to incentivize that kind of behavior; let's understand that. He asked if any Panel members disagreed.

Mr. Broad now asked for public testimony on this topic.

Mr. Duscha said the document that is before you, was released some time yesterday afternoon and there was limited opportunity for the public to look at it. It may be a good idea, but frankly I don't understand how it works. I don't understand which quarter is measured against which quarter. Contracts don't end at the end of a quarter; they end at the conclusion of 24 months. I think there would be virtue in defining much more clearly, what standard an employer has to meet, in order to qualify for Job Creation. If it's not simple and clear, then nobody is going to take you up on this; there's just no reason to. As Ms. Reilly said, the main reason left for people to do this, is to get the lower wage for new hires and again, that's a policy decision. Do you want to give contractors a way to train people, who are paid these lower wages, and there are good arguments for that and other arguments for it, and it avoids a Substantial Contribution.

The other thing it used to do, and I think even the staff proposal is taking this out, you used to have a higher cap on your contract if you were doing Job Creation, and I think the staff is proposing to eliminate that. The other thing that currently exists is a higher fixed-fee reimbursement rate for Job Creation which is generally $20 instead of $15 or $18 per hour. The stakeholder group has been talking about funding issues and again our recommendations were prepared long before this proposal came out.

Our proposal is to eliminate the financial incentives for Job Creation, maintain the wage and SC incentives for Job Creation and leave the definition alone, at least until we figure out the specific details of it. The argument for that is, and maybe you should change the name of Job creation, because as I said last month I think it really isn't Job Creation in some cases. But you are still giving a small incentive to employers to fill vacancies whether it is because of attrition or because of their new-hires. But my specific thought on the document before you is, I don't understand the details, and I think they need to be spelled out much more clearly on how it would work, or nobody is going to do it.

Mr. Broad said, well I think it a reasonable point if it was posted yesterday, for the public to have more time to review it. I don't know how other Panel members feel, but I'm inclined to hold this over to our next meeting or perhaps it will be addressed in the discussion to follow. Do you have a response about the methodology for the determination? Ms. Reilly said the methodology as far as I understand it, is how it is described - where we would use a metric to calculate full-time equivalency. We don't have a much more sophisticated method because we are using quarterly payroll reporting. Mr. Broad asked, what would be the timing? Two quarters before the contract ends? Ms. Reilly said we would have access to quarterly payroll reports going farther back than the Benchmark Date, which is three months out from Panel approval. It's true, a quarter of the FY would never line up exactly with that date; nor would it line up exactly on the other end, within the three-month retention period. Mr. Broad asked if it would be easier, that on the day they make their application they ask what is your number of employees and then the day that it closes out, and that number better be larger than the amount of people you trained or you are not going to get reimbursed by that amount. Ms. Roberts said it's very similar to what now exists in CA with the elimination of Enterprise Zones. We have the Job Creation tax credit, and it's all based on a Benchmark; we already have that going so it shouldn't be that difficult.

Mr. Duscha said, I'm simply asking, define the Benchmark. If it's a quarter, what quarter are you measuring it against? If you are taking a certification from the employer, what date are you taking that certification? I can see how you can measure the entry Benchmark, that's easy but you have this problem of the wage data being delayed and you have this other problem of payments being earned at the end of the contract. At what point is the money earned, when is the risk removed from the contractor and what is the date? Is it the end of the contract? Is it two months into the contract? You need to define it and define it with precision so everybody knows going in; that's my point. Ms. Reilly said the proposed definition is contract end-of-term or fiscal closeout, whichever comes first. It doesn't actually say individual training retention period. You can also just go with the representation with the contractor, saying there are more jobs than we started out with at the beginning of the training. Which would also be a question for the Panel: what level of detail do you want to put into this?

Mr. Duscha said, but again, define which quarter you are going to measure and look at the EDD data on it. Mr. Broad said it would strike me as being the last quarter that was completed, prior to the time that the contract closes out and you're trying to get paid; that is what makes sense to me, instead of waiting. If they haven't created the net new jobs within that could be two-year period? I mean maybe they started laying people off again, who knows? But the point is if you make it too close to the time of the application, then you could have a company that's getting ETP funds for increasing the number of jobs, but they also just laid off 30% of its workforce.

<u>Phil Herrera, Consultant</u>
I'd like to share one observation about the California Competes Application that this is modeled after. If you look at the California Competes Application, the calculation for what is essentially our base period employment head count is very complicated, and there is a lot

that goes into it involving HR to come up with that number. What is different that I see right away from CA Competes and ETP doing this, is that CA Competes has a full worked out system for how they are going to audit that yearly, and if there is not a compliance with the numbers that they said they were going to do, they take back that credit. So it's very clearly laid out in the legislation and the opportunity of CA Competes and what will happen to you if you don't meet these numbers.

Mr. Herrera said, the other thing I'm concerned about is that the monitoring staff would have to go onsite for a single employer and look at this data to see if it meets what the Panel is saying that they require; and I'm telling you that calculation is quite complex. You'd have to involve HR to produce that net new hire calculation at the beginning compared to the end and there are a lot of things going on between those two dates that are essentially anomalies that might not be easy to calculate.

My last point is, I always believe that if an employer hires a Job Creation person and gives them training, and unfortunately that person goes back into the marketplace looking for a job, he or she at least has the skills to maybe find another one. So I'd like to stick with the old Job Creation rules which are to award companies for bringing on new hires and not do this net job calculation, because I think might be a little bit out of our purview.

Mr. Broad said, it's my sense about what people have said to me off the record that under the current rule, there is a lot of manipulating going on; is that true? Mr. Herrera said, not with the new hires. I think with the new hires, and think that's your experience too, is that they don't fiddle around with that. I don't see companies typically laying off employees and then bringing them back at a lower wage, there is too much litigation that would be involved in doing something like that. My experience is that I do trust especially single employers in manufacturing, to do the right thing. Again, for me, when I look at CA Competes and how we are going to meet with the GO-Biz folks, and they do a yearly review and sometimes the Franchise Tax Board will come in and do it, you know do we have an A game to comply with the reporting. After we went through and described to a couple of companies the requirements, they said this takes a lot to meet this calculation and this is not even including the investment portion of it. I'd like to caution the Panel adopting something like this without really flushing out what the details are.

Mr. Broad said, but they are reporting, I mean every employer in the state reports how many employees they have every quarter and their payroll. So they are doing this all the time; every single employer from the very smallest to the very largest so I don't understand how burdensome it is. Maybe if you are asking for dates that are unrelated to those quarterly reports, but they are signing those reports under penalty of perjury, and that's how the state calculates their employment taxes. Mr. Broad said, I'm having trouble seeing why it would be a big burden, can you further explain? Mr. Rodriguez asked, what is the inconsistency from an employer under California law that has to submit online, on tape or on paper, to a tax branch of EDD? Their quarterly payroll report; and then that same copy is sent over to FTB and that happens every three months; so where is the inconsistency?

Mr. Herrera said, well I would just say that the quarterly payroll reporting is full of anomalies. You could have a bonus period and wages could be at the aggregate and not really reflective of the head count, so that is one part of it, and we can argue whether that is burdensome on the employer or not. The bigger point is I'm worried about ETP monitoring of that. We have a staff manager here, and we are having a tough time reviewing training records and making sure that productive lab is toned down and now you are going to drop this on them. I'm thinking that it might just be a little too much right now. I'd rather see it more completely developed and have the Panel come back and do what California Competes does and say this is exactly what we are going to review yearly. Mr. Rodriguez said right, but part of the proposal was not to redirect ETP staff to become monitors; that's not in the proposal but that is your interpretation; but it's not part of our proposal because it would be self-reporting. Mr. Herrera said, I go back to what Ms. Reilly was saying, that if the extent of it is the certification and relying on EDD records, that's one thing. But if we are going to go down to more minutia and ask staff to review if this is really happening, I would request that the Panel take more time to flush out what the requirements are. Mr. Rodriguez said, right; but operationally you can't have it where you pre-certify, an employer pre-certifies, and like anything else you could do spot checks on a random basis. Mr. Herrera said, right, and CA Competes doesn't do it that way, again; they will just take back a portion of the credit that you didn't meet.

Mr. Broad said, I'm willing to put this over so you can all comment, but the whole system is based on these quarterly reports and that's how we determine how many people are employed and unemployed, that's how we determine all of these statistics. There may be a timing issue here or there, but obviously the date that you start and put your application in, you look at the last quarter completed, that's what this is basically saying, and you enter a number. We have 100 employees, and then you finish the training and then you look back at the last quarter of the report you filed, and it says you have 150 employees, and we trained 20 employees, so you are good. It says 110 employees, then you are not going to get paid for 10 employees, and if that is too burdensome that is because you may be cutting it too close. Ms. Roberts said, I don't think it is much of a change over what we've done having the Job Creation component anyway. Most of the time when I read the proposals saying that we are going to hire 20 new people because we are adding this type of new equipment, or adding new positions, or we are doing this or that, to me it sounds like they are not filling existing jobs but rather creating new positions. I don't see that it is going to be that much different than what we have now, it's just that now we have criteria where we are not just filling gaps through attrition or layoffs.

Ms. McBride said, I think it is really important that we define that Job Creation is "net new jobs." I think there should be a reward for those folks actually hiring and expanding, I think that is an important concept how that formula works out. To Mr. Herrera's point, the initial CA Competes application was much more cumbersome because you had to create your own worksheets to establish your employer compensation package. The new application that is coming out soon, towards the end of this month, will have those formulas already built into the application which will make it much simpler. So for those consultants out there that are going to be assisting your companies, that should be less cumbersome, and that issue shouldn't be existing anymore.

<u>Rob Sanger, CMTA</u>
I think it is agreeable that most companies that are a new company that come to ETP have net new hires, but occasionally there is a case where you have a company where many are retiring, they have to skill these positions up, and it's a new-hire opportunity for someone that doesn't have a job to take this job, they are getting good training, and I think that's a win as

well.  I would say keep it simple, however you do it.  Mr. Broad said, maybe if you have retiring people and you want to hire new people and the retiring people are paid more, then certainly you can hire people at a lesser wage and that is pretty common.  But I don't know that we have to necessarily create special incentives to reward that conduct and that is sort of a normal course of business.  This goes to Ms. McBride's point that we are talking about people that are expanding the economy.  Replacing a retiree with a young person entering the workforce is not expanding the economy at all.  It is the status quo; it is not shrinking the economy, either.  If a business is in a HUA, they could request a waiver of the wage, ETP minimum wage; we see that commonly and routinely approve it.  So I don't know that we don't have mechanisms; however, given this discussion and difference of opinion, I'm happy to hold this over until our next meeting and then we'll bring it back.  But right now, it seems to me, unless I'm misunderstanding staff's proposal, it's a pretty simple, easy to verify methodology that shouldn't be complex, but I'm happy for anyone to come back and propose an alternative and you can reiterate the idea we shouldn't do this.  But if I read the will of the Panel, it sounds like we are unanimously of the opinion that Job Creation is what your average member of the public would understand it to be, which is people that are creating net new jobs, growing the economy, expanding their businesses beyond what they were before, so we want to capture that and verify that; I think that is reasonable.  We will hold over a vote on Job Creation, we don't have to do this today; we can revisit it at the November Panel meeting.

Mr. Sanger said I'd like to comment on the Delegation Order earlier.  When I read it, it said the Acting Executive Director can approve proposals under $100,000; and it didn't mention consulting anyone from the Panel.  I know Ms. McAloon had mentioned she would run proposals by you from time to time, but I think that should be spelled out.  I think that is necessary for the Panel and that is why the Panel is here, to approve these projects.  If there are three or four months where we are not meeting, $100,000 proposals are pretty big in my mind, and you could put some serious funding through without the Panel having any approval of that process, and I think that is important.  Mr. Broad said, I think that point is well taken; I think we need to look at this very carefully, and revisit it in six months and see how it is going.  It's a valid point and it concerns me.

Dave Teasdale, Kern Community College District

I'm going to go out on a limb and say incentivizing training to support business expansion is something that we all could agree on, it's not very controversial; maybe how we define it is controversial.

I'd like to propose that employers who choose to access Panel funds through MECs also deserve those same incentives.  Right now, employers that don't want to have their own contract, don't have the same rights to Job Creation benefits.  If we are going to hold this over, maybe we could consider that as well.

Mr. Broad said, when he was briefed yesterday; they had a discussion about that.  Do you typically have a mix?  Are you saying it would come with a proposal that was a Job Creation proposal, or that each, individual employer could do that?  Mr. Teasdale said, I would see that as a separate job number within our MEC.  Mr. Broad said, because remember, when you come to us, you don't actually really have employers.  Mr. Teasdale said I actually really have employers.  Mr. Broad said, well you may, but not every multi-employer does; it's a wish list, not a guarantee. Mr. Teasdale said it is, but I'll give you an example. We are in early discussions with a large distribution center relocating to Kern County and they are far too busy at this point to be pursuing their own Job Creation packet because they are trying to open a facility and get it staffed. But they are very interested in working with us and the local workforce investment board on a staffing strategy. So there is some incumbent worker training opportunities, there are some new-hire opportunities through some of our training programs for folks that aren't even employed yet, and then there are some Job Creation opportunities. I'd like to see them be able to access it the same way as if they came and proposed their own contract, that's what I'm suggesting.

Mr. Rodriguez asked, so you are involved as an advisory to this company? Mr. Teasdale said yes, I know it comes as a surprise to some on the Panel, but the workforce community and a lot of these locations work very closely together such as the community colleges, the adult school, the workforce investment board, the economic development corporation, and we consult with the employer on the best approach to be able to come, and it's not always easy to get folks interested in coming to California and expanding in California, so we believe we need to help them be enthusiastic about coming here. We have a bias; we want them to come to our service area in Kern County, Tulare County, and Inyo/Mono County. Mr. Broad said, my gut response to this is that it is probably unworkable because I don't know how our staff can look at hundreds and hundreds of additional companies that are perhaps speculative in nature; I don't know that we have the resources to do that, to verify that is what they are doing. I think maybe that if a company wants to access this kind of thing and they are opening a large warehouse in Kern County and they want to access these funds, they probably need to come to the Panel directly and present directly, doing what single employers do directly. I'm not sure MECs are really set up to service that kind of a massive expansion. Mr. Teasdale said and I would suggest that we could. What if it is a small manufacturer of medical devices and they are expanding by 15 people, isn't that something we'd want to do? Everyone of their certification statements our employers fill out are reviewed by staff as if they had their own contract. They are just not writing a whole contract, it's just the certification statement itself. So they would only be eligible if they meet the criteria that is already set for single employers. That's my suggestion, and I'd like that considered as well; if we are holding it over, I think that might be worth some investigation.

Mr. Rodriguez asked, from an operational standpoint if, if he was advocating to be eligible to submit a pre-application for consideration? Mr. Teasdale said, I'm asking that that be available to MECs and if the situation is that they have non-speculative employers that they are working with, that can be an aspect of their contract, and still be eligible but only if they meet the existing criteria. Mr. Rodriguez asked, when they interact with such an employer, are you interacting in a promotional capacity to relocate in a specific area because we can bring you these resources? Mr. Teasdale said, yes, actually we look at an integrative packet. For example, we would propose to train new staff; we might look at something that integrates with the OJT WIA funds that the WIB has. We are looking for a whole packet, because clearly a good business person will look at the cost of relocating to get a return on their investment for doing that. So yes, that is part of what we are doing. And employers like to know that they have partners in helping staff. Our area is a HUA and a low-skill area. Mr. Rodriguez said but that company is not going to have a contractual relationship with you. Mr. Teasdale said, yes they do, well they don't while we are consulting, but ultimately if we are going to be providing training, they would have a contract with us that attaches to the ETP contract.

Mr. Broad said the Panel will defer action on revising the Retrainee Job Creation Guidelines until the regularly-scheduled meeting on November 14, 2014.

## VII. REVIEW AND ACTION ON FUNDING PRIORITIES PLAN FY 2014/15

Ms. McAloon said my presentation today is going to be lengthy, and some of the issues are very complex. Today's Memo has staff recommendations for prioritizing core program funding for the remainder of Fiscal Year 2014/15 (FY). Our recommendation is based on the best use of available funds and staff resources. Staff also considered stakeholder feedback where it's reasonable and administratively feasible. To be clear, the recommendations are a starting point for Panel discussion. Recommendations do not address funding for the next FY. Staff recommends a separate planning session early in 2015, for that purpose. Today, it is critical that the Panel adopt funding priorities so staff can develop projects accordingly for the November Panel.

After the August 22 Panel meeting, ETP had $19.9M in remaining contracting capacity. ETP is receiving an additional $10M appropriation under a "trailer bill" to the Budget Act (AB 1476) effective August 31. Staff presented two funding priority plans for Panel consideration at the August meeting. Both plans allocated funds by contract type, in additional to the funding caps imposed by the Panel at the June meeting. Both plans were responsive to the fact that remaining funds were insufficient to meet demand. In fact, even though with the additional $10M, we still have two times more demand than we can possibly reach. Currently, we have approximately $90M in demand, and that figures varies slightly from what we discussed at the August meeting, we said it was $87M but due to changes during the application process, that number is slightly higher. Staff's original plan limited single-employer contracts to job creation only, but the stakeholders asked the Panel to avoid excluding any type of contract in funding. Some stakeholders presented a "share the pain" plan to spread remaining funds to the greatest number of participants. They have since developed a revised "share the gain" plan with the same intent. Given the uncertainty of the $10M appropriation, staff developed a new plan that doesn't exclude any type of contract.

Thus, staff is proposing the ten recommendations to be implemented singly, or in combination with each other.

1) Review Pre-Applications/Applications in Date Order Received by ETP
2) Fund Priority Industries Only

Ms. McAloon noted that agriculture, biotechnology and life science, were inadvertently excluded from the Memo and that was an oversight.

3) Establish Funding Allocations by Contract Type

Mr. Broad said, my assumption here is that we had so many applications in process, that we would fill all these different categories, and fully fund these categories. We wouldn't be at a place six months from now where we would say: it turned out that while we proposed to fund

$22.4M in single employer standard contracts, we actually only funded 12 and we have $10M left over. Is that possible? Ms. McAloon said, we know that we have allocated enough money to fund those and staff is going to work as hard as they can to get those developed. But part of the staff recommendations is to reassess, bring recommendations back to you, and reallocate in the spring because the dollar amounts and numbers you see before you, will change for proposals when they are in development. Mr. Broad said, right; that is my concern, so at least our Benchmarks are not strict budgets, if you will. In other words six months from now, we could come back and see that it didn't quite work out, we need to reallocate this to shift money, because we have more demand for apprenticeship or for critical proposals, and we could fund those right now, and money is sitting in the single employer pot. Ms. McAloon said that is correct.

Ms. Roberts asked if there are 400 pre-applications now, and if 128 of those pre-applications do not fall into the priority industry as indicated. Ms. McAloon said that is correct. Ms. Roberts asked if the MECs are also limited to the priority industries to be funded under the MEC. Ms. McAloon said yes, that is the recommendation.

Mr. Rodriguez said from 2009 to 2014, is that 67% of the total funding or total contracts? Ms. McAloon said, of the total contract funding allocations? Mr. Rodriguez said, 67% has gone to single employers. He asked, do you have the data available in terms of the total number of single employer applications versus MEC applications? He asked for the historical figure from 2009 to 2014. Ms. Reilly said the historical average for contracts in the last five years shows multiple employers at 240 and single employers at about 1,090.

Mr. Rodriguez said there are about two plus million businesses in CA, where 1,090 is a very small percentage of that. Ms. Reilly said our marketing department is actively seeking new companies. Mr. Broad said yes, that's an issue.

4) Manage Repeat Contracts
5) Reduce Funding Caps
6) Accept Pre-Applications for FY 2015/16 in April 2015
7) Apply Highest Substantial Contribution
8) Reduce the Threshold for High Earner Reduction
9) Adopt New Delegation Order
10) Revise Retrainee-Job Creation Guidelines

Ms. McAloon said staff recommends the Panel approve the following Funding Priorities for FY 2014/15 as outlined.

- Fund Priority Industries Only
- Review Pre-Applications/Applications in Date Order Received by ETP
- Establish Funding Allocations by Contract Type
- Manage Repeat Contracts
- Reduce Funding Caps
- Accept Pre-Applications for FY 2015/16 Funding in April 2015
- Apply Highest Substantial Contribution
- Reduce the Threshold for High Earner Reduction
- Adopt a New Delegation Order
- Revise the Job Creation Guidelines

Staff recommends that this plan be prospective in effect, for new contracts and amendments presented to the Panel on and after its meeting on November 14, 2014, as submission deadlines are two months prior to the meeting dates, and proposals for November are already in the final stages of development. It is also recommended that the Panel reassess funding allocations and other aspects of this plan in the spring. At that time, the Panel could reallocate funds from one contract type to another or make other modifications.

## VIII. PUBLIC COMMENTS

Mr. Broad said we will take public testimony. He asked for a show of hands regarding how many people had intended to speak. There were under ten. He said if there was going to be lots of testimony; he was going to set a time limit. I'd like to encourage people who have never testified before, to testify. We hear from some of the same people all the time, but we are also interested in hearing people that maybe had to intention of talking, but really have something to say.

<u>Steve Duscha, Consultant</u>
Mr. Duscha said I'm here today representing 31 ETP stakeholders with our "share the gain" pain with specific recommendations. The share the gain plan is a bit of euphemism because there is still a lot of pain to go around, even with the extra $10M. I want to put our recommendations into context and talk about the staff recommendations, before I go to our specific comments.

I'm sorry that staff only gave us two days to review their recommendations. As a group, we had no time to go through them. So what you hear from me about the staff recommendations, are from me only, and not the group. But the 31 stakeholders all endorse the recommendations in the sheet I distributed, share the gain. Ms. Roberts asked if the stakeholders are all contractors. Mr. Duscha said the list includes employers, colleges, schools, multiple-employer contractors, employer associations, a WIB director, a WIB association; I think it's a pretty broad group, plus a great number of apprenticeship programs as well.

Mr. Broad said I'd like to make one comment that might help you with your comments. Personally, on the staff recommendations, I'm probably not in favor of limiting it to priority industries. I feel that if there are proposals that come through that are really good ones, that are not from priority industries, I do not want them shut out as a matter of principle. I have strong feelings about that, so I disagree with that proposal. So you may not need to spend as much time on that aspect of it. Mr. Duscha said, then I will be extremely brief on that subject, because obviously, I agree with you.

Mr. Duscha said what we tried to do was listen to what the Panel's been saying for the last three months, what the Panel's goals are for funding for the rest of the year, and try to create a program that follows that. The first principle we heard from the Panel was don't exclude anybody, so we say throw out the priority industry limit, which excludes half the workers in CA.

The second principle we understood you to say is “share the pain,” nobody wants to be cut but we all have to be cut. Everybody takes a cut under our plan, and that is not true of the staff recommendations; they pick winners and losers. I modeled the staff recommendations on last year’s contracts, to see what would have been funded and what would have not been funded last year, if the staff recommendations were in effect and it includes the non-priority industries and it includes the repeat contractors, both MECs and single employers, coming in prior to three months before the end of the contract, and this shows you the effect of the staff cuts.

Our recommendations don’t play favorites. We recommend contract caps, based on the caps you approved in June, and they are pretty close to the caps that the staff is recommending.

We recommend a temporary universal 20% SC. That’s a long way of saying we recommend a 20% cut in the fixed-fees that you’ve paid to every contractor, until we get back to normal. Nobody escapes and everybody is hurt. It was very hard for our group to support this, I think you will hear people object to this, but we found 31 people who would support it. It’s sharing the pain, and really the only way you can share the pain across everybody. Make the cut temporary, look at it again as soon as things return to normal and get out from under it. But we think it needs to be made.

The third principle I heard loud and clear, is you want to start funding contracts in November and fund contracts at as many regular meetings after that, as possible. Get off the summer rollercoaster, and get back to normal agendas. Our plan does that; this is the hardest part of the plan. It’s easy to put out the money but it’s not easy to get back to normal. That, I think, is the biggest failing in the staff plan. It still assumes that with the new Delegation Order that you’re not going to have regular meetings, and it assumes that you are not going to accept new pre-applications until next spring, and then they will all come in, in a big bunch, just like you had this year. So we have detailed suggestions that we think avoid that.

The four principles are directly related to the third, which is end the run on the bank. It’s a mentality and how do you return to an even flow of application submittals and funding decisions. There are two parts to this, I think. The first is to be sure there is enough money for new contracts so we can return to normal, so everybody believes we are returning to normal. Right now, we are all afraid that you are going to run out of money, and there is not going to be any money left for me. So we have to push as hard as we can, to get contracts approved, to throw pre-apps at you every time you open the window whether they are good or not. I don’t know whether the $90M in pre-applications is a good estimate or not; we haven’t seen the data. I know that those were not all good last summer in July when they had to be filed. Let us see the data and let us understand where we stand.

Mr. Broad said I share this concern in getting us out of this run on the bank mentality, but it does seem in some fashion that the only way to really do that is to accept applications up to a certain amount, say four times a year; how do you fairly meter them out? Mr. Duscha said if you want to go to that kind of system, and many states and many programs work that way, it’s a different program than what you are running and you should do it consciously, and decide that is what you want to do. It means that an employer that has a specific training need or a specific business problem that needs to be solved, really can’t come to you when that problem comes up or on its schedule; it has to come on your schedule. You’ll be funding more routine training that is going on in a business that can be projected nine to twelve months in advance. That's not necessarily a bad thing, but it's really different from what ETP is set up to do or is doing. If that is what ETP should be, let's debate that and think about the consequences and understand; let's not stumble into that.

Mr. Broad said, let me understand your proposal on this: meter applications to the Panel for eight months starting in November, with the goal of hearing a mix of contracts each month, similar to the monthly mix. Set a ceiling on the dollar amount of contracts going to each Panel, at approximately 12.5% of the remaining fund. I agree with that; it makes sense to do that. But the question is, how do we make that cut individually within the group? Does it create a certain unfairness that somebody's proposal gets heard more quickly and somebody else's just is delayed, and there is no rational basis for why one person gets to be heard immediately and the other person gets delayed? How do we respond to that?

Mr. Duscha said again, I'm speaking for myself because the staff proposals came out late, but the staff proposal on metering is very close to the ideas that we have had on that subject. The only thing that we would add, and we would be very strong in advocating this, is to be transparent. Post a list of who is in line and where we stand in the line, so we know what our chances are and what the other pre-applications are. Currently, the pre-application system now is a black box; the public does not know what's in there, what's coming in, and what's going out. Aside from that, we are in general agreement with staff on process and I believe staff is in agreement with us, that contracts should be metered out by type so that you get both MECs and single employers coming out at the same time.

Mr. Broad said in some ways, the way normal happens, is that if we are having hearings nearly every month, then proposals that come in before that are proposals that are ready for that month. Mr. Duscha said yes. Mr. Broad said, and that's a healthy way of doing it. Mr. Duscha agreed. Mr. Broad said, and that's traditionally how we have operated. Now we have a built-up backlog of proposals, but maybe if we are doing things every month, hopefully it will return to that kind of a process.

Mr. Duscha said, again, part of that is cutting the contracts enough so that we all believe there is enough money left to fund everything, and then part of it is setting up the process so that we are all confident that we can wait until February to come to the Panel, because that is when we are really going to be ready, instead of exaggerating where we are in September so we can be sure we get to the Panel in November, before you fun out of funds. It's about calming the situation and putting the money out. Now, the suggestions we made for cutting, the only way I know to test them is to model them on last year's contracts. The 20% SC and the caps, if they had been in effect last year, they would have reduced funding by 30%. So if historically you are funding contracts at about the rate of $7M a month, which is what you've been doing, now it takes 30% less to fund those same contracts. You can continue at that rate for the rest of this year and be funding contracts at the same rate that you funded them last year; you have money to do that. In fact, the proposals that we are making overshoot that a little bit. I'm sure people behind me will object to that, and they cut a little more than they need to, to exactly balance this year's funding against next year's funding. I think that is necessary to bust the balloon and get us back to normal. The other part to getting back to normal is allowing us to submit applications again. Maybe you won't get to them fast, but give people the word that ETP is open for business, back to normal and taking applications.

If we have to wait six months to submit an application, we will all submit hundreds of applications and we will be right back where we are now.  For thirty years we have operated in a much more flexible way.  You've been able to adapt to public or employer needs that don't fit on an orderly calendar of applications and so forth.

Mr. Broad said I think we all share the same goal; so I think it's really a question of how to get to what would work.  I don't think there's real fundamental disagreement with the goal at all.  Isn't the danger there, if we keep accepting applications, the applications are going to pile up because the staff can only go through so many applications at a time.  In a sense, what happens is, instead of waiting for everybody to apply, closing them down as the staff is proposing and then opening it up six months from now, what you are proposing is we open them up but nobody will be acting on them; that, I believe, is a very real danger.  Then people may get upset because they may say I filed my application and nothing is happening.  Mr. Duscha said, but if you posted the list on the website of what the whole backlog looks like, then people can make the decision whether to file or not, and they know where they stand because it's transparent.

Mr. Rodriguez said, yes; but in government when you do that, you raise false expectations.  Mr. Duscha said yes, but if it is transparent then people know, I think is the difference.  It's an issue, sure; but let everybody know the facts and people can make their own judgments.  You might also find that there are people who would delay pushing an application because they don't want to fall under the 20% SC, the 20% cut in the fixed-fee.  They may make the decision that it's better to apply next spring for the application, after the 20% is lifted.  You may get some different bets being made, but again you have to make everybody believes that you are back to normal.  Part of back to normal is submitting; submitting more pre-applications seems like a small risk to you, as long as we all know where we stand.

Mr. Broad asked, did you consider whether we should limit how often people can come back?  Mr. Duscha said yes, but frankly I thought the Panel resolved this issue last month.  You can come back when you have uploaded hours to ETP sufficient to earn 70% of the money, and I think we are in agreement with the staff on that.  Then we said you can come back no more than once every 12 months for a new contract.  That, we thought was consistent with the action that the Panel took last month, and in fact in the last two months the Panel has devoted hours and hours to this issue.  We thought this issue was resolved, and I was very surprised to see the three months from the end issue coming up again.

Mr. Broad said well we had resolved it with that group of MECs that was before us.  What if we were to say that the first priority to go directly to the front of the line is for people that have never applied or received funds from ETP before?  An issue that Mr. Rodriguez raised was how many employers are we reaching?  Well maybe we should reach new employers first with our funds, and people that have had funding before, well they have figured it out and have gotten their piece of it, and the allocation really should be going to people that never have received any funding before.  Mr. Duscha said the MECs that have dealt with ETP for years are bringing in new employers every year too.  Mr. Broad said, no; I assume with MECs we are saying if we applied it, we would be saying that their MEC employers need to be new employers, and fine; but then they could come back; the group they are training would have to be new, and the single employers would have to be new, and our first funding priority.  What would be wrong with that?  We wouldn't have to worry about SC as much, because the first dollars would be going to employers that were never here, because there are some employers that we see year after year, some very big companies that can afford to do this on their own now and don't need as much help from ETP. Mr. Duscha said, I would like to understand how that applies to MECs as well as single employers. How would it apply to apprenticeship, where you are almost by definition, dealing with the same employers. Mr. Broad said, I think apprenticeship would have to be excluded, because it is a different system. You have a group of signatory employers in an industry and different employees coming through all the time, it is a unique situation. I'm just talking generally about within MECs; if they are bringing a group of new employers then those would be funding priorities. If you are bringing a proposal that includes employers that have already received money through that MEC, then they would be a lower priority. Mr. Duscha said, although what if a MEC is training 1 or 10 people at a company of 1,000; is it fair then to exclude that company from funding just because they dipped their toe into a previous MEC contract?

Mr. Rodriguez said let's be fair here; the point is, what we have is an inside game of repetitive contracting to the same vendor over-and-over again, helping the same employer. So the whole idea of our program, as you know, is to expand the universe of both single employers and MEC customers. And the Chairman asked a broad question, but it's almost a moral question in terms of the program, in terms of criteria we can apply. You could say that those in the last five years who have received a contract three out of the five years to the same employers, will not be given a priority, but we will give priority to those that have not applied or received ETP funding in the last ten years; those are things we can play with. Mr. Duscha said, I can't disagree with that, the details of how it would work are my job to question. But the basic idea, yes; I agree with that. Mr. Broad said leaving aside the MECs and the apprenticeship programs themselves, we have $40M now in repeat contractors. Mr. Duscha asked, for single employers? Mr. Broad said single employers, small business, training agencies, etc., so it's a substantial amount of money. No one is saying everybody else doesn't get funding, but maybe the fairest, first cut is to put the new people at the top of the list and they go first. It does seem that there is a fair argument to be made, if I was a taxpaying employer and looked around at the total number of those that pay the tax and the total number of employees that received the training, we would obviously have some employers that probably received far in excess of the tax they've paid; and many employers that never receive any money for the tax that they paid. So that if we are in a time where we have more demand than money, even though it is a big funding year for us in terms of historical funding levels, and we may be seeing even greater funding levels in future FYs, we may be permanently in this position where demand exceeds supply, until the economy reverses; that might be a good thing. Do you think it would be a bad idea? Mr. Duscha said in terms of deciding the order of contracts and pre-applications taken up, I could see that used for single employers, I still would want to think about how that would apply to MECs. Mr. Broad said that is fair enough. That is not in the staff's recommendation, but it has occurred to me today, as I've listened to comments, so I'd like people to comment on that. I'd like you to think about it, and maybe we will discuss it later when we talk about which action to take.

Mr. Duscha said again, the issue of repeat contracts and when you can come back, the three month rule is one that was debated at great length, and I hope we don't have to debate that again today. If we do, we will and I know there are people behind me that will go at that for a very long time. It's simply not how the MECs have been run over the years; it is a very big change, and it affects a lot of people, and affects hundreds and hundreds of employers. Mr. Broad said because they go back to the same employer over and over again, and they train two people, and four people there, and six people here. Mr. Duscha said no, they don't; there is some going back but most of it is new employers. Mr. Broad asked, then why would it be a big problem? Mr. Duscha because you shut the MECs down for a year under this. The caps limit how much a MEC can do, a MEC will finish training, a large apprenticeship MEC, a large college MEC, a large school MEC, a large employer association MEC, is going to finish training under the cap in a year. Then you're going to say you have to stop; they have systems set up to recruit new employers, to put on training sessions, they have a marketing machine, they have a training machine that is set at a certain level. That level is to use up \$600K to \$1M a year; they tune it to the caps that you set. If you say that suddenly they can only come back every two years, there is going to be a void and it is not going to be filled by new MECs because it takes an awful lot of time and learning for a MEC to figure out how to do this to build the marketing and training machine. The people who excel in this business have been doing it for ten or twenty years, they are not brand new. Mr. Broad said, so the reality is that we are the bottom baseline funding for MECs, their annual budget; we are a substantial portion of their annual budget. Mr. Duscha said some; and remember that many of these MEC programs are in a sense, stand-alone units within a college setting. Mr. Broad said, I understand. The statute, however; does not say you shall fund community college MECs every year. If they want that kind of funding they have to get that in the General Fund in an appropriation from the Legislature; we do have discretion, we don't have to fund them every year. Mr. Duscha said, of course not, but if you are going to stop doing that you should understand what the consequences will be. There are going to be fewer employers because the vast majority of your employers participate in ETP through MECs. Mr. Broad asked, but why are the apprenticeship programs able to handle it? Mr. Duscha said, they are not, that's not true; I have experience with the apprenticeship programs. He said the large apprenticeship programs will finish within twelve months and want to come back. You are not giving them enough money to last through 24 months; the smaller ones yes, but not the large ones. You look at the list we handed out of who would have not been funded under the staff proposals, all of the apprenticeship programs on that list are out, all of the MECs on this list are out because they are coming back before three months of the end of the contract. There are a whole bunch on here and they're not all mine such as electricians, UA, the plumbers, the roofers, the carpenters, there are a bunch that would be affected by this, just like other MECs; it depends on whether you are small and underneath the cap or large and hit the cap, and the large ones can all hit the cap very quickly, and that's the same as a community college MEC, somebody running a big program will finish it. Mr. Broad said, well all I know is that we asked the apprenticeship programs to ease off from coming back so frequently, and they seem to be able to comply with that voluntary and meeting this standard, as I understand it. Mr. Duscha said nobody talked to me about that. Mr. Broad said, well we talked to the official representative of the California Labor Federation in charge of that. Of course that gentleman is here today, and if he wishes to comment, he can come forward and comment about this.

Mr. Broad said let me ask you one other question about your proposal. As I understand the staff's proposal on SC, they are basically saying just apply it as it is in our current regulations all the time. Mr. Duscha agreed. Mr. Broad said, am I wrong in saying that the difference would be, that we don't apply SC to a first-time applicant and under your proposal we would. Is that the main difference? Mr. Duscha said yes, it's really completely different in concept.

Our proposal is that you apply a cut in the fixed-fee rate, which we are calling a temporary universal SC, because we don't want you to cut the fixed-fee rates forever; we want it to be viewed as a temporary emergency. Mr. Broad said, but it accomplishes the same thing in a different way? Mr. Duscha said yes, except it accomplishes it for everybody equally; every single contract is affected by it. Mr. Broad asked, do you think that is likely to dis-incentivize an employer who has never applied before, from coming to us? Mr. Duscha said probably not; instead of $18 you are getting 80% of $18 per hour for most contracts. Mr. Broad said, well then people are overpaying; that would be the conclusion that I would draw that if this doesn't bother anyone. Mr. Duscha said, well I wouldn't say that. Mr. Broad said, my concern with your proposal, compared with the staff proposal, is that it might be too hard on first-time applicants. Mr. Duscha said no, it's too harsh on Steve Duscha's clients.
This is the only way to hit everybody and it's intended to be a short-time thing. It's intended to shock the system so that we can get back to normal. Mr. Broad said, is it not your sense then, that everyone in this room will agree with this? Mr. Duscha said, no; but the 31 people who signed and are on the list agree with me.

Ms. Roberts said, on the 70% of your total funds, you can apply twelve months after that, is that what you are saying? Would that be across-the-board for single employers and for everyone or just for MECs? Mr. Duscha said yes. Ms. Roberts said so the single employers that reach that threshold of 70% can reapply again, but then at that point they'd get a 30% SC? Mr. Duscha said yes, if they've earned the $250,000, yes; that's the proposal. Mr. Broad asked, in terms of yours versus the staff's proposal, is it actually a substantial difference in money or more of an equity question. Mr. Duscha said I have no idea what the staff proposals say, I haven't seen any modeling on it; I can't tell. I think the main difference is that the staff proposal does not try to get us back to normal, to regular funding every month, to tell us there is enough money now and there is going to be enough money next year to get us back to normal. I think that is the assurance that we need.

Mr. Broad asked staff if we have a sense as to how much money that a 20% across the board SC would be? Ms. Reilly said yes, the demand is $90M, so it is 20% of that. Mr. Broad asked if it is likely to slow the number of applications in your opinion. Mr. Duscha said it may slightly, but I don't believe it's a huge amount. As I said, I think it's more likely to slow some of the MEC applications, if it has any effect in that regard, from people who think maybe I'll take a smaller contract now with the idea that I'll get 100% on my money next spring, for a larger contract. I've thought about that; that might be a good bet. Mr. Broad said in the way you have formulated your proposal as a 20% SC versus an equivalent cut in the fixed fee, did you do that because that is a scary formulation versus a less scary formulation? Mr. Duscha agreed. Mr. Broad said, because essentially you are worried that we say that is working out great, and let's not raise it, and we are less likely to do that if we are talking about SC. Well, that is very candid of you, thank you.

Mr. Duscha said the group that signed on to his proposal, some of them had pretty badly twisted arms, but they are here. It's a large, broad group comprised of colleges, apprenticeship programs, single employers, employer associations, apprenticeship programs, it's a broad group, and I'm proud that so many people joined this because this is hard. These are real cuts that will affect everyone on this list, and I was impressed that so many people signed on.

Eldon Davidson, El Camino College

This is probably the first time I think I've spoken to the Panel on a different subject besides a proposal. I'm not rich in history with ETP as Mr. Duscha and some of the others are. I've been around for four years and have made many observations. The first question that came to mind is, do we really have an emergency? Yes, I know there is a funding issue but do we really have an emergency or a crisis? We have 400 plus applications, but have we read those 400 applications? Because I know out of those 400 applications, that not all of those are real. But yet we are here today to discuss funding cuts and everything else when we may not know that we really have a crisis. I can tell you right now, from El Camino's standpoint, that the only reason I submitted a pre-application is the fact on the website it says that if you are going to submit for any funding request for this FY, then you need to meet this deadline, so that is what we did. We are probably out of the $1.3M we received in December, there is so much demand, we probably have 95% of it allocated. We don't have 70% of it spent, but we probably will next spring, that's why I went ahead and submitted a pre-application. I suspect there are probably others that way. This brings me back to the question of, do we really have a crisis or are we over-reacting to this? Should we go through and look at these 400 applications first, and then you have your back-up plans, Mr. Duscha's and the staff's, that you can consider.

Mr. Davidson said, what I propose is to take the next couple of months to go through that to really answer those questions. I'll be the first to come to the Panel and say we can wait until the next FY. I volunteer to do that and I suspect there are probably others knowing the crisis that we have.

Mr. Davidson said he supports almost everything on Mr. Duscha's plan, but I don't support the 20% reduction in the funding rate because I think it would affect us. One thing you may not know about El Camino College, is that we partner with a lot of colleges. Not just with our regular core, but we also partner with AB 118, the colleges from the City of San Francisco to Cerritos College. You may ask why we do that. We do that with our regular core too, because not everyone can afford to serve their community by asking for an ETP contract. They can't take on the liability, nor can they afford the administration that it takes, to be in compliance so they ask and they partner with us. There are many benefits to the partnership, because we are able to actually assist these communities in different areas, we can share instructors and expertise, and there may be a community that may not have a priority industry or they have a couple of priority industries, or they do not have enough infrastructure in place to serve that industry. With our partnership, we do have that expertise; if I need plastics my partner college has it. We can easily serve that community and do. Speaking of partnerships, there is one thing that the Panel may not know about MECs. Just recently, there was a study, and I have it with me, of 14 states that were looked at on their workforce development plans. In accountability measures, of those 14 states, California was one of those. They were looking at how each state administered programs for workforce development, on how to keep companies within their area. I'm very proud to say that in California, ETP, you are in this document and are shown as a best practice. You have your accountability issues, but the things that you didn't hear are the things that a MEC does are far beyond what you ask for. We actually ask the employers, did we do what we said we were going to do? Were you able to increase sales, jobs, productivity? We've looked at what ETP stated, the reasons that we give this money are that we want to keep employers strong and keep in them in California. We look at that, and we take that very seriously. That's one best practice, we do that. Through those findings as a MEC, we found employers added employees. I had one that not only added 150 employees, but they are continuing to add employees. We measure that data and we have that data, and that is how effective a MEC can be. We just don't do it not only for El Camino College; we go a step further in that every contractor that works for us, we measure them as well. We have the data to prove that we are not only coming to ETP requesting funds, we are very serious about helping the businesses in our area. In the last few months, I've watched two employers move their operations to Mexico. I've watched one aerospace company move their operations to Texas. Texas is not dealing on fairness issues; they actually are putting a plan together of what makes sense, to bring more companies to their state. They are not thinking about what is fair, they are looking at that. I want to say something about what Mr. Rodriguez commented on earlier, how many employers are we actually serving? I hope the Panel will look at this as not a fairness issue, but what makes sense where we can deliver the most instruction to help most of the companies, to do it rapidly and in mass. Are there accountability issues in place, to prove that they can do what they do? We have it; I have it right here and at some later point I'd like to share that data with you. That actual plan won best practice in which ETP is mentioned, so I don't think we should give funding to anybody and everybody. Do we really have a plan for California? Because quite frankly, I don't want to see another employer leave our community.

Mr. Broad asked, so what is your answer for how often a MEC should be able to come back to ETP for funds? We approve a certain amount of money that you have to use within two years, and what you are saying is you are using it up in less than a year. Mr. Davidson said, yes, that is correct because we have partners we are actually serving, not only our community. We are one of the few that actually has statewide coverage. Mr. Broad said, so when in your opinion, should you be able to come back and request more funding? Mr. Davidson said, I actually favor Mr. Duscha's suggestion; I think once a year. Even with $1.2M, I won't be able to come back at an average of once a year. I'm not coming back just because I'm asking for money; I'm coming back because we are serving that many employers. You asked a question earlier that I'd like to answer about Substantial Contribution, for an existing company that has used the funds. I can see your side of it, but on the other side, I have a company and a letter that was presented to the Panel that they increased during the worst of the recession, and they increased their employees by 150. Why? Based on the training they received, they were able to carve out a new niche. We are still doing training for that company, they are still growing. For me, I don't see that as an issue because I look back at what the ETP, not just ETP, I don't have an issue because we are still growing in jobs and bringing jobs to communities. I also run into other new employers, I have a marketing staff knocking on doors now; we actually have a hard time bringing new employers in because they don't want to be part of the ETP process for whatever reason. If that's the case, if I have an employer I've been working with that is adding jobs, I say why not? Because it is actually keeping jobs in California and keeping it strong, and there are several that don't want to come for whatever reason.

Mr. Rodriguez said, we appreciate what you just said. There is a consensus that performance with a single employer or a MEC with a third-party doing a review or an audit, that the performances, given our statutory requirements, have been extraordinary. What we have here is what we call in government, the equity of the program; we are responsible to ensure that we are the stewards of how the money is managed, and so that is really the core question.  Not the performance of the contract, but the management of the funds, and so we are asking from stakeholders, where is the wiggle room so that we have integrity of the program going forward, as we manage the funds.  That is the question, at least in my mind. Mr. Davidson said I think you have the integrity, I've always thought you had the integrity.  I hope by now, if you read this data, we too as a MEC have integrity that we bring to ETP, because we are all here for the same reason, to keep CA strong and keep the employers here.  To answer Mr. Broad's question of how often should we be able to come back, I think once a year is fair because I know we don't have unlimited funds.  This is more futuristic, I just hope we can look at those things that can move this faster, to serve more companies and prove that they do it more effectively.

Mr. Broad had another question for him, regarding the staff's proposal.  It certainly wouldn't be right if you could come back once a year if you haven't earned the money.  So that in the first year you never did the training, and then you come back the second year and you get another two years, and so you have two years of money operating in one year.  There is no performance relationship to it.  In other words, if you get everything done that year, in order to come back, you've got to be finished.  I don't see how we fund you while you are pending training.  The whole idea is that you are so efficient, and there is so much demand, that you get this money and instead of needing two years to do it you're done in six months and you're doing us a favor, you're saying fine we can wait six months, we don't have to be funded every three seconds but we can wait a year; but don't you think you have to be done?  Mr. Davidson said I don't, let me re-clarify that, I'd say that in one year, I'm a strong believer in 70%, I think that is fair.  But I need some time to get ready for the second contract, I can't just shut the faucet off immediately, I need some amount of time, so I think 70% is fair.  Mr. Rodriguez said, but that is the question that we have been asking.  Mr. Broad said maybe what we should do with the MECs, is to make the contracts a year in duration.  You must use the money up in a year, instead of two years like we have for everybody else; maybe for the MECs we should shorten it by a considerable amount and then we won't have this problem because they will come back and they will be done; and if they haven't used the money they don't get to collect it.  Would that work better?  Ms. Roberts said, no because then they are going to come back every six months saying they still need money, so instead of coming back, they'll say we need to keep this stream of funding so six months later they are going to come back, to fund again to fill the pool.  So, whether you do it one year, or eighteen months, they are going to always come back early because they are going to continue to fund their pool; they don't want to have any gaps in their funding.  Mr. Rodriguez said, but you can say this is a one-year contract and I'm not suggesting you go down this route, but you can also require 70% completion.  You can tie those two together; they don't have to be separate.  Ms. Roberts said no, but let's say they got 70% in six months, and then they could just come back then?  Mr. Rodriguez said no, you tie them together.  Mr. Broad said you would tie it together with a year, and then they could come back the following FY.  I'm worried about the two-year contracts, and they are still performing on the two year contract and then they are back asking for money because there are concurrent contracts running.  The idea is that we don't really have concurrent contracts running often; we do for some of the single employers and a requirement that they have this 70% completion rate and it's within three months; that applies to them and that's what we have.  I'm wondering whether the two-year contract is even necessary.  Do any of you run these as two years' worth of training?  He asked for a show of hands, who has a MEC that runs contracts that train longer than a year?  So, based on hands raised, that's pretty common, so we do need a two year contract cycle.

Kim Holland from Glendale College in the audience said I think it depends on the amount Mr. Broad. Mr. Broad said you mean if the amounts are lower, you have to be back more often? Ms. Holland said we have full stream marketing. Mr. Rodriguez said, somebody mentioned here, it depends on the client? Mr. Broad said, we are getting out of control and must have people come up to the podium to testify.

Mr. Davidson said I don't know what a fair amount is, all I know is this. What we are trying to do is to keep these companies within our area, so yes, I'm sure if there is $50M, of course I'm going to go after it to serve those companies. I just don't want the Panel thinking we just come here to ask for funding, hurry up and spend it, and come back for more. Mr. Broad said, there is a tension there, it is partially about demand. Mr. Davidson said no, we are just serving a lot of companies and we have a lot available. So I think the two years seems to work, there are some things that take us two years. We are talking about regular, core funding. I can spend a long time talking about alternative fuel training and why we need two years, that's a whole subject in itself why it takes longer for that. We have everything fine-tuned now, that we can move through it more quickly, and serve more companies. Mr. Broad said, so you would support though, once a FY for a MEC, and they can't come back until they have completed 70%? Mr. Davidson said I do support Mr. Duscha's recommendation in that aspect; the only thing I didn't support about his plan was the 20% cut in the reimbursement rates. I do support his plan other than the 20%. The other thing that I didn't support was the first come, first served. I would hope that we look at, even with these 400 applications, I'd rather the staff look at which one will have the most impact, is most important, we need to look at those to fund first; not who is first in line. Maybe as a government entity, you have to do that; I agree with Mr. Duscha in that you got your application in first, that doesn't mean that application is the best because it came in first, I hope we go beyond that.

Again, do we really have a crisis? Do we really know? Because I don't know that we know, because I don't know what's in those 400 applications, my guess is there may not be a crisis if you go through them. I want you to know that as a MEC we do have a lot of data, we even know the demographics, which is how we go in; we know our customers. We do care and have a lot of data to back up what we say.

<u>Sandra Sisco, Technical Assistant Provider for the California Community Colleges</u>
It's my fourth day on the job; however, previous to this position about seven months ago, I resigned from Chaffee College, where I was the manager of contract education for about four years. First of all, I echo my colleague's sentiments on this issue and I am an endorser of the "share the gain" plan. One thing that I'd like to clarify, which I believe I'm hearing in some questions from the Panel, in regards to what I will call a gap or downtime for a MEC, specifically for community colleges and more specifically to Chaffee College, because that is my personal experience. As a partner to the Panel, we have always envisioned ourselves as a strategic arm and outreach of the Panel to serve the businesses in our community. Having said that, we are not only monitoring and administering the ETP contract, but we sit down and have dialog with the companies, we understand their business and training and development needs; it's a tremendous process and it takes years to build up these relationships with these businesses. In addition to that, once they are convinced that they need to apply for funding, many of these companies have had their own ETP contract in the past, and for whatever reasons they were not happy with the outcomes mainly because of their struggle with the

administration process. So when they find out that there is a MEC, specifically a community college, that not only has high caliber, high quality, subject matter experts, and training programs, and then we take these training programs and customize them specifically to the employers' needs, and in about 50% of the cases, these training programs are delivered onsite at the employer. Then they find out that we have become experts on ETP administration. Their comfort level in engaging us as partners and engaging ETP as a partner goes way up. I'm sorry I don't have the article due to the short notice, but we were actually featured; ETP and Chaffee College and a manufacturer in Ontario, touted all of that in Industry Week Magazine. They were so incredibly impressed that this relationship had developed and they got to participate in that. So having said that, we continue to grow as you saw Chaffee College came up for several contracts, when our marketing efforts were going out and reaching out to these employers and the word spread. We present to HR network groups and manufacturers councils, and the word would spread. So every time it went out, the program continues to grow quickly because the word on the street is ETP has great funding, Chaffee College can administer it, and they have phenomenal training programs. Now, if you are asking us to go back, after it's built up this momentum and a business if you will, and talking about entrepreneurship, it is run very much like a small business within the California Community Colleges' umbrella, to go back now and say we are going to have this gap possibly, when people have planned for training their workforce. For example, many manufacturers have peak times where they cannot send anyone to training and then maybe in the summer or winter is their slow time. So the training calendars, the training plans, everything is developed around each individual customer needs. That is important to understand, to take into consideration when you are looking at a gap or saying for three months you may not have this funding available. For us to go back to our employers and say that, doesn't make good business sense I don't think. I don't see it as win for ETP, for the MEC, and especially the employers.

Ms. Roberts said I'd like to make one point on your comments. I understand MECs and I know their value. Coming from a single employer background, we run into this every year. We've run into a wall in mid-August, and all of the training that we had planned at the back end of the year, we have to cut it. We can't afford it, and we just can't do it. So, it doesn't just happen from a MEC standpoint working with the employers; as a single employer we run into this all the time. We have gaps, large gaps, six month gaps before we can start training again when our new FY hits, which is the beginning of the year. So those are things that happen in single employers all the time, so they should be used to that and accustomed to that. Ms. Sisco said, they used to be used to that, except for the last four or five years, with ETP consistently funding it and not having to have those stop gaps. Maybe they have become accustomed to Chaffee College and ETP being there, when we need them. That's the type of program and the level of service we have been able to develop because of ETP. So it would be difficult to go back and tell them that, you're absolutely right. Ms. Roberts said, we are a business and we have to prioritize our funding and if we can't do the training, it's the first thing that gets cut.

Ms. Sisco said there is one particular program I want to highlight that every summer; they run an intensive training program with Chaffee. They can only run it in the summer, because the instructor, who is a college instructor, he will be over his load if he teaches during the regular school year. This is a group of new hires that this employer hires specifically to put into this training program because of the reputation and the integrity of this training program and then they hire them, they are hired to go through the training. So every single summer, there are 10 to 15 trainees that go through this program, and it cannot be offered at any other time. Will the employers have to be flexible? Yes; they will but there will be a loss and a cost to that, and it's something to take into consideration.

Mr. Broad asked who you work for now. Ms. Sisco said the California Community College Chancellor's Office. Mr. Broad said so you are taking an official position on behalf of all of the community colleges basically, right? Ms. Sisco said yes, but based on my experience so far on my fourth day in this post and my four years previously with Chaffee and what my colleagues have brought to the table. Mr. Broad said, so I don't want to hold you to this, because I'm not sure the Chancellor's office can, it's a little unusual because it's almost like the state lobbying the state. Do you support this 20% universal SC cut idea of Mr. Duscha, or does the Chancellor support that? Ms. Sisco said I would have to get that verified; yes, I would have to confirm that. What I support more would be if there was a way to avoid gaps. Mr. Broad said, so if I were to say you can come back once annually and require that you cannot come back before you have completed 70% of your first contract, you would favor that? Ms. Sisco said yes, absolutely. Mr. Broad said so if there were gaps, it wouldn't be a big enough gap to bother you. He said so what it really comes down to, is that the community colleges budget on an annual basis, you want to train on an annual basis, you want to be done within the course of a year essentially, or nearly a year. Ms. Sisco said for planning purposes, and for employer planning purposes, absolutely.

Mr. Broad asked if she supports prioritizing MEC projects that have new employers that have never received training. Ms. Sisco said, so if a MEC project comes forward and there are 20 employers who are repeats in that projects and there are 20 employers who are brand new, would that be prioritized? Mr. Broad said, I was thinking that if you bring them with all new employers you move to the beginning of the line, and if you have a mix of employers, then you are in the normal queue. I'm trying to determine a new and fair allocation based on a policy consideration that has many benefits. That is to say, that if all of you are hustling to get new employers, then that is good for our program, really good for the state, and really good for the taxpayers. So that enlists you all in helping the state achieve its goals of training more workers who haven't received our funds before. That was not a staff recommendation, but a recommendation I have come up with that I'm very seriously considering, proposing. I want to see if it's workable for MECs. It doesn't mean that a MEC program that has repeat employers isn't going to get funded. It just means that if there is a shortage of funding then the one that has the new employers gets funded first. Ms. Sisco said I would tend to agree with you and maybe set a percentage amount for any MEC contract coming forward, that 25% of the employers under that project need to be new employers. I think that is very reasonable to ask. I will give you a scenario where we were at Chaffee developing a new application, and just because I already had the certification statements prepared for my existing employers ready to go, I submitted them because they were quick and easy and they were done and we could submit them in along with the project. For the new employers that I was currently working on, they had to get approval at corporate, so it was slowing the system down a bit. Knowing ahead of time that you need to submit X amount of your new employer applications to get that MEC approved with enough notice, absolutely; I agree with that.

Mr. Rodriguez said this is a completely new idea; what is your opinion if award recipients are eligible to apply for a new contract, after a one-year waiting period. Mr. Broad said he was in support of that.  Ms. Sisco said after one year, right?  Every year basically; once every twelve months.  Mr. Rodriguez said no, they have to wait.  Mr. Broad said once a FY; you mean a gap of 12 months?  Mr. Rodriguez said no, they have to wait; I'm wording it a little differently.  So you receive the funds but in order to reapply, you have to wait 12 months.  Ms. Sisco said I would say that would be very disruptive to the contract education departments, and to employers.  For example in our region, we have several colleges near to us.  Mr. Rodriguez said I will read it to you:  "award recipients will now be eligible to apply for a new contract, after a one-year waiting period has lapsed."  Ms. Sisco said, here's what might happen.  At Chaffee, I saw one employer using a lot of funding and I recommended that they go after their own contract, Northrop Grumman Technical Services, so I worked with them as a Chaffee College employee to help them develop their contract and come forward.  So the MECs might open up a new service and a new business in terms of the community colleges.  I saw that as a viable service and a viable solution for employers.  Some employers that did a lot of training with us, I recommended that they go forward and get their own contract and we would assist them, and they were completely against it.  They did not want anything to do with administering their own contracts.  So, to answer your question, I do not think it would be of value to ETP and in ETP's best interest to do that, nor the employers, and it may, in some instances, for some contract education departments, it would slow down the delivery of training.  Mr. Rodriguez said so for your purposes, Massachusetts has a similar program and they actually have done this, because they had the same vendor returning over and over to the program, so they instituted by policy, a waiting period of one year.  Ms. Roberts added so does Florida and Virginia.  Ms. Sisco asked, and how did that turn out?  What was the outcome of that?  Mr. Rodriguez said they are still high performing programs.  Ms. Sisco asked if any of the employers come forward on their own and get more contracts.  Mr. Rodriguez said there were no complaints.

Mr. Rodriguez departed the meeting at 12:40 p.m. and was not present for the remainder of votes.

Phillip Herrera, Consultant
Mr. Herrera said he has high regard for Mr. Duscha and he hired him into state service and I pretty much defer to everything he says and does.  But I don't agree with the share the pain plan at this time.  What I'd like to do, is encourage the Panel members to adopt staff recommendations today and to move forward with a workable plan.  I say that, because anything that may create more complexity of work for staff is not a good thing.  I don't believe we have the forces to create more applications and expect those to come to the Panel in good form.  The stories from the MECs and the testimony from people is compelling, but I see this next six to eight months as an opportunity for the Panel to focus on implementing the ETMS system, which is looming large over our heads, and to gather the stakeholders in the early spring to discuss how we can run the program going forward.

Again, I'm here to encourage the Panel to adopt staff recommendations as they were presented by Jill today.  Lastly, I'd like to point out that staff has done a good job in managing the funds through a very complex period in the department's history, so I want to commend them for that.

Rocio Leon, CMTC Consultant and Bill Browne, Manex Consultant
Our two organizations are part of the manufacturing extension partnership system, the MEP system, whose mission in a nutshell is to strengthen and sustain manufacturing in the United

States and for us, specifically in California. CMTC and Manex MEP system for California serves between 500 and 600 manufacturers a year. That's companies ranging in size from the very small handful of employee mom and pops, on up to the companies with several hundred employees. Our sweet spot, our average employer, is probably in the 40 to 50 employee headcount range. What we are doing when we go out to the manufacturers when we outreach to the manufacturing community is that we are doing an assessment of the organization, trying to determine what we can do for them to either strengthen or sustain their business, and we are offering them a solution that they can implement either on their own, or with our assistance. Which means sometimes the solution is a training solution and sometimes it is not. But when training is part of the solution, ETP is a very valuable tool for those companies. The small companies that we are working with, again especially if you are talking about those very small companies, they have limited staff and resources and don't have the bandwidth to apply for their own contract, they also don't have the staff to manage it, and they have limited financial resources, so ETP is a very critical component for them and for our ability to provide the best possible service for those folks. I would say the average client we are serving receives approximately $6K to $10K in funding, and I don't think staff would be excited about having to develop scores of small contracts, so having the MEC opportunity to serve those companies is very important. Everything we do is customized onsite, so we are going to the individual employer, again we are assessing, and designing a program for them, delivering it onsite for their employees and assessing what the outcomes of those programs are going to be and we do tailor those results. Every client that we serve is measured; they do get a survey of 6 to 12 months after the project to measure their outcomes. It includes many of the things talked about earlier such as sales impact, jobs, were jobs saved or created, were there cost savings; how did your organization benefit from the services that you received. I should have brought our report card, I'd be happy to share it with the executive staff and Panel members, so that you can see the impacts we are having.

Ms. Leon said we support the majority of Steve's plan, with the exception of the 20% reduction in the funding rate. Mr. Broad asked, what do you think of the staff proposal then, as an alternative? Ms. Leon said we can live with that. It basically has the same impact, but I think it's less devastating, especially for those smaller companies because it's doing a lot of extra work and again, those organizations are usually stretched anyways. We wanted to also talk about limiting contracts to twelve months in duration. That's a problem because we are serving again, scores of companies with very dynamic training needs. Also, waiting until three months before the contract is over because we are serving many companies with very dynamic training needs. We will go to one organization where we can be in and out in a week or two because they need something very finite and specific, and other organizations have a more robust training plan, and it's going to be a three or four month effort, and then we have other organizations where it may take nine months, twelve months, or beyond that. On the 70% rule, that is fine because the Panel may not be aware of this but staff has actually been living by that rule, hence we have been living by that rule for quite a while now. So by adopting that as a formal policy, all you are really doing is that you are now vocalizing something that has been truth for a long time. A full disclosure; when CMTC applied for its latest MEC, we were only at 60% performance at the beginning of spring. Guess what the staff did? They said we are going to sit on this until you get to 70% and they indeed did that. Once we got to 70%, they moved our application forward, by the time we stood in front of the Panel to secure the funding; we were at over 90%. I stand before you now, we are at 96.7% completion on that contract, and that two-year contract permits training through the end of

January.  I have two employers that are going to need all the way to the end of this funding term to get their last hours in.  We are doing something very dynamic for them; we have one employer where the initial training plan for them was nine months, then it stretched to twelve and now we are at fifteen.  We know we can get it done in fifteen but that's a fifteen month training plan so restricting a contract term to twelve months would have been detrimental to this employer, and saying we needed to wait until we had everything done when I had 100% of my funding committed in March, would have been devastating to everyone else we are serving right now.

<u>Bill Browne, Manex Consulting</u>
The MEP system is here to work with our 37,000 manufacturers.  We are still the biggest state in the union when it comes to manufacturing and the trick is keeping it here and not letting them go to Texas or Nevada, so for the MECs, the small contracts are important for our small companies.  There are 15,000 manufacturers in Northern CA and 92% have less than 50 employees.  Those are the ones that we have to help.  The large ones such as SSL Northrop Grumman, they can get their own contract.  To limit us to funding once a year is not necessarily going to work for us, because sometimes they need more help.  So we'd like to be able to make it such that we could be flexible with them if we have to go back and do another project; let us do that; that is what we are here to do.  Staff has been great as always, Robert and Creighton are wonderful to work with and we want to thank you for allowing us to come up here and chat today.

<u>Eric Herzog, Founder/President</u>
I'm the founder and owner of Quest, a training and consulting company, so we offer a different perspective.  One of the interesting perspectives I have with ETP is a historical one.  The first time we got involved with ETP was in 1988 when one of our clients said we'd like to have ETP pay for our training services, and they said I don't know much about ETP, but quite frankly I don't care who pays the bill.  That's when we started and we have helped a few companies early on, use ETP funding from an administration point of view, but really since about 1995, we have worked almost solely with MECs.  The reason being, we helped one of our clients get about a $150,000 contract.  We observed how much of their time, and it was their first one, went into understanding, learning and administering that contract and it was a considerable burden on the company.  So we said there has to be a better way, and at that point we did find out about MECs, and there are several people in this room we have worked with over the years.

I bring to you a historical perspective and a management change perspective because it happens to be my specialty; it's helping organizations deal with change and there is no doubt you are dealing with that as Panel members right now.  I respect the effort that staff has put in and you're putting in, and even having a day like today to figure out what to do.  This is the first time in 30 years I've seen ETP grapple with this issue.  It's interesting because it comes at a time when ETP's budget is as big as it has ever been.  So we have to ask ourselves, why are we in this predicament and what do you do when you are in the middle of a predicament like that?  So the usual best practice for managing change when you are in the middle of a very challenging time, is to not make any more changes, particularly policy changes that are necessary to deal with the challenge.  Some people say you kind of muddle your way through until you reach better times, which hopefully will be in the new FY.  So, with that as backdrop, and I might share with you because we are a training company and essentially a subcontractor, we are part of the engine which makes this happen.  We deal with probably 15 or 20 companies a year that use ETP funding.  It represents maybe one-third of our business.  We are a national company and we deal with national companies such as Costco Wholesale, Honeywell and Bechtold.  Some are headquartered here and some are not, but what we have learned that often times from a company's point of view, it is better for them to take training and development and ETP funding in small bites.  Twenty people at a time, even if it's a larger company, forty people at a time.  We counsel them to get that training done for those forty people and go on to your next group of 10 to 40 people.

So, with that in mind, any of the policy changes about limiting the length of a contract, giving it to new companies versus those that access the funding, really would lead a company to say well if they are going to give me funding once, I'm going to ask for as much as I can possibly ask for, and then unfortunately the completion rates go down.  We have over 90% retention, meaning 90% of the people that start the training, complete it.  That's because we work with the company to make sure they are committed.  We also know that the statistics on completion within MECs contracts are also very high because of that kind of thinking.  You can work with a company over time; you don't have to say go get a lot of money and then try to see if you can get it all done.  The reason the completion rates are at 60% is because a lot of companies are not earning a lot of money that you are allocating to them.  Whereas when it's better managed, and I think it is better managed through the MECs, they are only taking a little bit at a time, and that is what we counsel companies to do.  Even if it's a large company, just take what you can manage.  I've seen too many people get gray hair through the fact that they can't get the commitment, can't follow through, they have sleepless nights, and we meet people all the time that say "I will never do that again".  So in your thinking about what will work with companies, maybe we can think of it from that point of view.

Therefore, as a bottom line, I like of the recommendations and support that staff put together.  I think the idea of caps is good.  It doesn't represent too many policy changes.  I think some of the ideas you got from share the pain are also good.  But the ones that would really represent many policy changes, could have unintended consequences.  Then if you put a policy in place, you'll have to come back in a year and say how do we undo that?  So some of the things that I think would make a big difference and get you to where you possibly want to be, is reducing the caps; that was part of the staff recommendation, and that will spread the money out over a longer period of time.  You could extend caps into next year if you needed to, you could change them and come back in the spring and take another look at that, but I think that is one viable way of spreading the money out over a longer period of time.

The notion of a repeat contract, if you can't get another contract maybe in the next twelve months, why we are in a crunch, that is reasonable too; just one contract during this FY.  Maybe you want to create a policy of that effect, but maybe not.  In the meantime, you certainly could deal with this FY, we are going to give you one contract, and that's it.  I understand the way you treated some of the MECs last time, which was to say we are going to award you $750,000 but we are going to give you half of that now, and when you use that, come back; that is another way that you came up with in controlling the money.  I think all of these are good ways to do it without changing policy.  I think when you change policy; there are again, unintended consequences.  ETP has a 30 year history of being very successful.  Even during the years when the legislature that diverted some ETP funds for other purposes, ETP managed to get through those times, it was even rougher from a financial period than I think you are facing now, without making major policy changes. I think that from a historical point of view, that's a good thing to keep in mind.

The other thing is that you already have a SC in place for repeat contractors. You could live with the limits that are there now or you could change those limits. Again, it's a policy and practice that you have been using very successfully for many years and also a way of limiting the funds.

<u>John Milburn, Director of the Employee Training Institute at College of the Canyons in Santa Clarita</u>
We are a one college, one district college that is not in our eleventh multi-employer contract with ETP over the last two decades. Being a community college, I wanted to point out that we are very transparent, fiscally responsible, and much of what we do can be seen publicly and it goes through our Board of Trustees on almost everything I do, and most that the others do at our college. The primary mission of the California Community Colleges, as you probably already know, is to advance economic development. That is part of our legislative mission and so that's why this is very important to us in terms of meeting our mission as a college.

I just wanted to let you know that over the last couple of decades, we served more than 600 companies with ETP funding, and more than 4,000 employees over that time. In our current contract, we are servicing about 91 companies right now and about 600 plus employees when you look at them coming back from various courses to stay competitive.

One of the things I wanted to point out is that if the MECs are impacted, it might drive us to start recommending many more single employer contracts that can do that, which in turn might burden the staff with more contracts to go through. So as a MEC, I'm sure you've heard this many times today, we represent hundreds to thousands of companies and we manage all of that as a partner with ETP. From my standpoint, I see us as a partner with ETP and an intermediary with CA businesses to help them remain competitive.

For example, some of the training that we do, we do much technical skills training for manufacturers in aerospace and biomedical devices such as blue print reading, lean manufacturing and six-sigma. These companies really cannot stay competitive and stay in business without this kind of training and this day and age, where technology is changing everything, as we all know. So many of these companies have come to rely on the ability to access these funds through our contract and disrupting that would hurt them.

While we think about cycles or timing, maybe you are not considering the cycles that businesses are on. As I've been seeing is that as the recession recovers, businesses are starting to invest more in training and development that goes with the cycle and now is the time to support them with this because we are seeing the growth happen. To go back to my 91 companies and have to tell them that these funds are not available through our MEC, is something that I would certainly do if I have to, but it's not going to bode well for any of us because they need it when they need it, not necessarily when it is available; although I realize those are both real situations.

These industries are critical for California recovery, in aerospace in the Santa Clarita Valley alone, we have actuators that raise the flaps and lower the landing gear that are made in the Santa Clarita Valley, that are on nearly every 737 and 747 that flies in the free world. We have companies that produce component parts, everything from the interiors of these aircraft to controls in the cockpit that are produced in our valley alone, not to mention in Los Angeles County. We have 3-D printing companies that are again cutting edge, that service aerospace and biomedical and the advances there are in the news all the time. To keep up with that kind of technology, employees need all different kinds of training. California employers invest a lot already, in the sense that they pay for a lot of training outside of ETP, we run programs that are not ETP obviously, and they also pay their employee salaries when they are in training, and they pay the payroll tax to fund ETP in the first place. So the employers are putting much “skin in the game” already, at least from their perspective, which I hear very often. So this again is supplemental for them but critical and important and helps offset some of their costs and it makes it possible for them to enroll a few more people each time and to keep up with demands that are placed upon them, in this fast-changing environment that we are in.

Ms. Roberts asked if he had any recommendations. Mr. Milburn said, well I think that the staff recommendations and the share the gain plan are not that far off. We support the share the gain plan; I should have said that in the beginning. I don’t know how much the SC is going to affect our companies personally and individually, but I think limiting it to what we suggested, which is 20%, might be smarter especially due to the fact that ETP might not be as short on funds, as originally expected. We were willing to agree to that, even though we really didn’t want to, but we did agree to it as part of the share the gain plan through Steve, and as a way to come together, and try to collaborate and compromise with what is needed both from the Panel standpoint and our employer standpoint. Ms. Roberts asked, so do you see that as a better option than just reducing the funding amounts? Mr. Milburn said you mean in terms of reducing the caps or the SC? Ms. Roberts said yes, right now we have reduced MECs from $750,000 to $600,000; so do you see that as a better option than just taking a 20% reduction reimbursement rate across the board? Mr. Milburn said I do, I see the cap reduction as better option, yes; at least from my perspective.

Anne Ervin, Tax Credit Co.

I want to thank you all for giving us the ability to express our opinions on this. I believe that this is a time of fundamental change for ETP. I think that what is going on right now with the funding demand is going to continue. I know that with the clients of our company, all of a sudden ETP is becoming the hot thing. People are hearing about it, they are interested, and want to participate. The number of applications that will be coming from my firm will be increasing tremendously over the next year. I know Steve talked about getting back to normal, but I’m not sure that we are going to get back to normal; I think there is going to be a new normal and a huge number of applications continuing on.

That being said, I think there are a few things that probably could be put in place. I agree with much of the recommendations in both proposals. I don’t believe that it should just be priority industries, all the industries are paying into the tax, and all industries should be represented. With the NAICS codes, I understand the regulations say what are the priority industries, but I think in today’s world, a NAICS code does not define a company. There are very many different NAICS codes that could apply that could be used on the reporting, but that doesn't mean that is the only thing that they do.

Another thing that I'd like to request or point out is a little more transparency as to what goes on. I know for example, with the preliminary applications, I've had clients that submitted a preliminary application and after they had registered and attended orientation, they are solicited by another contractor or another consultant, asking if they could help them with their applications. Where are they getting that information? Where is that coming from? I've never seen it posted on the website, so I'm wondering how we can be more transparent with what is going on.

In the preliminary applications, I would recommend that we make them more detailed. I understand the new system being implemented is going to allow that, but there is no reason why there cannot be a word document or something that is attached, to send in along with the preliminary application, with information in more detail, in that preliminary application. This would give staff the opportunity to say these people are blowing smoke or they really have a plan. So I would encourage that.

The other question that I'd like some more clarification on is the Delegation Order you are proposing. What is that actually going to mean? Does the contractor still need to go through all the steps and not appear before the Panel? So a client then could say I want to do this faster or I want to wait, but if the only difference is I need to appear before the Panel, then that is a determination that they would make, based on the determination.

Mr. Broad said we really have had a streamlined application process for small business proposals and proposals under $100K for quite a while. All this is doing, is instead of the Delegation Order being done where they bring the Delegation Order over to my office and I sign off on them, the Acting Executive Director would be able to sign off on her own authority. The reason that I am comfortable with doing it is because during the time this has been in place, I've never come to a circumstance where we disagreed about anything, so it seemed like an unnecessary step. So it is not changing the process at all, to the extent that process is more streamlined and will stay more streamlined, and you don't have to come to the Panel. Ms. Ervin said so that is a big difference. Wasn't it a few years ago, that you didn't go through the analyst process? Ms. McAloon said years ago we had it set up where the Executive Director approved anything that was $100K or less. So to clarify, the biggest change is that we could do this on a flow basis, so there is no reason to meet the deadline, or application due dates, and we would be developing and approving these on a flow basis.

Ms. Ervin said another recommendation is that you limit the totals on funding because I do believe that you are going to have more and more demand, and how we are going to allocate, I don't think it will be solved with a new FY.

<u>John Twomey, Integrated Solutions</u>
I want to thank the Panel for this day and the staff for all that they did to come up with their recommendations as well as Steve, as I know he put a lot of work into the recommendations. I agree with about 90% of what Steve put together and probably about 80% of what staff put together. I would like to emphasize in the vetting of the applications that you still have in house, I think if you took a look at those, and as Barry suggested, considering new

contractors who have not received money in the past, I think that would be a great direction to go in, in my opinion. It would be important to be very transparent about why you are doing it, and how you are going to do it.

I want to emphasize that I wouldn't leave any groups out, whether they meet your priorities or not. I think there are going to be some job creation proposals that could possibly be in those, that you would miss, and I think job creation proposals are a key place to go. Thank you very much for your time and I appreciate all your work.

<u>Julianna Kirby, Training Funding Partners</u>
I signed on to Steve's share the gain plan too. I too, was one of those that really had to be talked into the 20% SC concept. I definitely would lose some of the pre-applications that we've put in for some of the smaller projects if that were put in place, but in an effort to try to be fair to everyone, we all got into this together, so maybe we should all come out of it together.

I've heard many different ideas today. Some are large conceptual ideas and some would mean big sweeping changes to the program. I agree with some of the others, in do we want to try to focus our decision making on what we need to do to get through this FY and then revisit next FY, and maybe on future plans for the program, to meet in the spring as staff suggested.

I'm hearing some common things come together in what we seem to be honing in on, and answer on, when a repeat contractor can come back, so I think hopefully today we can make some decisions on those things.

I think if on the repeat contractor issue, in the staff's recommendation, if you changed the word "and to or", so you come within the last three months of your contract <u>or</u> you've uploaded 70% of the hours, you can only return once a year, that seems to be the consensus that is building. Mr. Broad asked her to repeat her comments. Ms. Kirby said sure, on the staff's recommendation about repeat contractors on the 70%, right now it's reading that you come within the last three months of your contract term <u>and</u> you've uploaded 70% of your hours; you switch the "and" to an "or" and you limit them to one contract per year, I think that meets the needs of what everyone has been expressing today on that point.

Staff has made a lot of recommendations that only touch a portion of the population that you serve. Such as reducing the caps, it's not equitable the way it is laid out, it doesn't touch anybody that is already under a certain amount; you have a lot of projects that are $180,000 or $200,000, which would not be affected at all. Single employer contracts that have multiple locations are cut by 30% in their proposal, MECs by 20%, and everybody else not cut at all. I don't see that is sharing our solution with everybody. In going with the maximum SC on those who require it, that's only touching a subset of the population, reducing the high earner threshold only touches a subset of the population, and none of those suggestions are quantified, so I can't say that I agree or don't agree with them, because I can't measure the impact of what any one or a combination of those suggestions would be, because they are not quantified. They are also based on only serving priority industry. So if we decide today that we are going to serve everybody on a pro-rata basis as equally as we can, based on historical norms, then maybe the cuts do need to go deeper, maybe you do need something like a cut on every project to some degree, because they conceptualize their plan based on serving priority industry only.  I don't wholly disagree with prioritizing first-timers; I would want to see clarity from staff on how that would be implemented, how does it affect the pre-application process, how does it affect who goes to Panel when?

I know in our business, when we are talking with a first time contractor, we really work with them to make sure that they are conservative.  It's your first time out, this is not a small task, make sure you can execute, make sure you earn good, show good faith to the Panel that you will use your funds wisely.  Then on your next one, come back and if you have a larger need, then you are free to ask for what you really need.  So you already have some mechanisms in place to deal with repeat contractors, and I'm just hoping that today we can agree on two or three things that are simple and get us back to business.  Taking pre-applications first in/first out is what we talked about on the stakeholder call, and I think what we really meant by that is what staff is suggesting:  first in/first reviewed.  Some are simple and go right through, some are complex and they have to be set aside and worked on.  That's normal, stick with normal.  When you get assigned to the field, you tell the analyst we're targeting December Panel, sometimes you make December and sometimes you slip to January; that's normal.

Mr. Broad said, so what about this notion of what Steve has suggested, and this is in disagreement with the staff, that we continue to accept pre-applications for the current FY.  Do you think we should do that?  Ms. Kirby said again, I think that's putting us back to normalcy.  I understand what staff is saying is that is just going to increase the gap between what we have and what we have to spend, similarly if you just keep them all, they are going to pile up.  Mr. Broad said this is the problem I'm having with Steve's proposal on that ground.  Which is part of the problem, I think we had at the beginning of this FY, which is two months old.  We spent a lot of money in the first couple of meetings is because we had pre-applications remaining from the year before.  So let's say at the most, for the sake of argument, that we can fund 200 plus proposals within a FY.  That's the staff's capacity to review them, matched with our money, somewhere it's a rough match.  And we continue to accept pre-applications and they are piling up, then we are creating a false expectation that those are actually going to be looked at, or we create a permanent problem for ourselves which is on the last day of the FY, there is $100M worth of things that are ready to go, and then we are back to the problem where we can't really meter them out because what we would be saying to someone is, well your project is close to completion, but we actually won't send it to the Panel for nine months from now.  So I think it may be creating a sort of false impressions for people, because if you are at the bottom of the list it's better for the Panel to say here's the list, there is a list and it has 500 proposals on the list, that the approximate target that we are going to reach this year is X number of proposals, that is the general ballpark figure.  So it's kind of like having a high draft number and a low draft number.  If you have draft number 365 you are probably not going to go and if you have draft number 1 you almost certainly are.  Somewhere it gets to be less and less, and then people sort of understand what their chances are so they are not disappointed.  But then I think we just kind of have to start again, if we are going to have this issue for the next FY.  Now that creates another problem, which is then at the beginning of every FY if it's first come/first served, then everybody wants to submit a pre-application.  I really don't have an answer for this; I don't know how to manage this.  It either gets managed on the front end or it gets managed on the back end.  One way or another, if you've got way more applications than staff resources or money to fill, at some point you have to tell a contractor your proposal is not happening; come back next year.

I'd like to get your opinion as to how you think we should manage that. Ms. Kirby said right now if you get your preliminary application approved and assigned to the field, correct me if I'm wrong, but I believe that is good for one year. After a year, they decommission it or deactivate it anyway. So maybe there is something to do there, where maybe the pre-applications are only good, once assigned to the field, because the time from when you submit it to the time it gets assigned to the field varies, based on the complexity of the project. So maybe once you get assigned to the field, there is a different expiration date on that preliminary application. Maybe it is something that you want to try to obviously prevent them piling up year-after-year, so maybe we revisit it in January. Let staff work through what they have, let a couple of Panel meetings flow by and see how much, by January I would hope, they would be assigned to the field and we would know how many are real. Then staff at the field would be able to quantify what seems to be a real demand because I don't know what the percentages are, maybe staff knows. But when you submit a preliminary application, all you really turn in is an expected trainee count. That could be 500, when you write the application that could turn out to be 275.

Mr. Broad said let's say we get to the end of the FY in June, in your mind under the process that we now have, and you understand the process. There is a pre-application that is sitting in the field office and hasn't been worked on. Should we carry it over to the next FY, or should we say I'm sorry, yours didn't make it. Ms. Kirby said well, I guess it depends on how long ago it got to the field. If my pre-application gets assigned to the field on June 1 and you're going to throw me out on June 30, that seems unfair; but if I've been assigned to the field since January 1 and it's June 1, and I haven't had my site visit and haven't turned anything in yet, then I think it's fair for staff to call that, which would happen anyway, the analyst would be all over you in asking when are you going to go, why haven't we seen anything and should we deactivate. So I think maybe there is a way to put an expiration date on those once they get to field and if there hasn't been activity, or seen an application within 90 days, something like that.

Mr. Broad asked for Ms. McAloon's response. How do you view managing this project? What you are suggesting is that we have a moratorium on pre-applications. What would be the process and include what happens at the end of the FY, for projects that are not acted on. Ms. McAloon said backing up a little bit, with all the pre-applications we have now, it is going to take three months of hard work to even get them assigned to the field. That is the first piece of it. The second piece is we were recommending that we have our allocations on caps, so if we were to adopt, putting X amount of dollars towards MECs and single employers, they have their pool of things that are being assigned, but we wouldn't be assigning things once we reach our cap on that allocation. That's the only way that we can control that.

Mr. Broad asked what happens then, at the end of the FY. Ms. McAloon said they would have to resubmit and they would be stale after 12 months anyway, most of those. We know they change anyway from the pre-application to when they actually get out into the field, because it's just a placeholder, a general idea of what they want to do. We don't really know what the criterion is, they could have an HUA, some of the different initiatives we have, but we have no way of knowing that until they get worked. So they get assigned to the field, and that process takes a while too. So there's no way to physically push it faster, we'll do our best. Ms. Kirby said but if they can demonstrate that they are working in good faith with the analyst on the application and things are progressing, the analyst can report to you on the progress of those. Normally you would give yourself probably time if it was going to take a long time, if I want to go to Panel in April, I better have my pre-application by January and hopefully I'm already working on that application. If I work with a client that goes dark on me for six months, you don't reply, don't turn in the application, I consider that a withdrawal and I reallocate my resources somewhere else. Ms. McAloon said we do that now; we are doing it right now. Ms. Kirby said I think you could consider in a normal year, you could put some sort of an expiration date on that and maybe not by the FY end, because if someone just got their pre-application assigned to the field in April, that's not necessarily enough time to get to June Panel. But I think that is a mechanism that might be helpful, that's one thing that you could do.

Ms. Roberts asked, with your clients do you think that not hearing from the Panel or the staff as to your pre-application loses credibility with ETP? Only because I work from state to state and we put in applications all the time, and we may not hear from the state for six months, we lose credibility with that program and I just don't want that to happen to ETP. So when we start submitting all these pre-applications and they can't get to them, I want to ensure that we don't lose that integrity and credibility that we have already generated with the state, and so that could be a problem. Ms. Kirby said right, I work in other states too, and I had one take nine months and my client was like are you kidding me, we are not even there anymore. But this kind of mind thinking puts the pressure on the contractor; if ETP hasn't heard from you in six months they are going to deactivate it. But that only works if people can count on Panel meetings being there, and they know that if I want to go to a Panel roughly in the spring, then I need to have my pre-application no later than a certain date because it might expire during the time I want to get there. Of course, you need to allow enough lead time for staff to do their thing on the more complex ones, but I think it's a two-way street. You definitely want to be providing proactive customer service to these contractors, but the contractors also need to come when they are ready. You can convince them to come just when they are ready, but that means the Panel meetings have to be there. Mr. Broad said I think we agree with that, definitely.

Ms. Roberts said I have one other question for you. Earlier on, when you came to the Panel, you thought there was inequity in the funding caps. So I just want to go over that with you to get your point of view. So the single employer stands the same at $425,000 and you thought maybe that shouldn't be. But also the SC is applied to high earners as well as repeat contractors, and that doesn't apply to some others, so right away you might be looking at a 30% reduction right off with that one. So even though it stayed the same, there are still some other concessions that you need to take into consideration. Ms. Roberts said and going back to the single employer, multiple facilities, that is still $425,000; so that's been cut from $625,000 to $425,000, so that's been a reduction. The MEC has been cut from $750,000 to $600,000, so that's been a reduction. So the only ones that have really stayed the same are small businesses, because there is only $50,000 to begin with; the apprenticeship program is $225,000, which is a low number for the amount of people that they train in a technical position, and critical proposals at $750,000, which is a small amount of our proposals. So what are your issues with the funding caps and the inequity with funding caps? Ms. Kirby said well, they are not equal and not touching everybody. Ms. Roberts asked, not touching whom? You think we should slash small business? Ms. Kirby said well that's what the suggested 20% SC would do, is touch everybody. That's the way to treat everybody the same. The single employer, one location cap of $425,000, there are a lot of single employers that are already naturally under $425,000 and so they are not touched. Many of those are my clients, so I mean originally the staff's plan on the caps was very similar to what I proposed to the group, and then we started discussing how we could be fair to everyone. So to cut single employers who happen to have multiple locations by 30% and MECs by 20%, which by the way we are in the same very exact place with. If you cut $750,000 by 20%, it's $600,000; you are reducing the cap to $600,000 so we are in the same place there. So my overriding comment is that it is not treating everybody the same.

Mr. Broad said well the difference between Steve's group proposal and funding caps, is that the single employer multiple facility cap is $650,000 and the staff proposal is $625,000; the MEC is $750,000 and the staff's proposal is $600,000; so that's the biggest difference. But then it lowers the critical proposals to $425,000 from $750,000. Ms. Kirby said yes, it does suggest that everybody be touched, so from a cap perspective we are not that far off. But once you apply the additional 20% SC, it does affect a lot of smaller projects and it would affect a lot of people that wouldn't be cut, just by cutting the caps.

Ms. Roberts said but if you take the 20% across-the-board, then do single employers still have to pay the SC of the 30% and the high earners of 50%? Ms. Kirby said what we discussed was apply the regular SC rules, if somebody was supposed to get 15% SC then they need to get 20%; if they are already going to get 50%, then they should get 50%. What we are saying is that maybe nobody should get less than 20%. As Steve said, 20% might be deeper than we need to go in order to meet the need, but maybe not if we are going to serve all businesses. I modeled it on 10%, 15%, 20%, and I don't have details on the need and what's in the pre-applications, but I looked at past contracting history, and my allocations by contractor were pretty much right on with staff's, and then if you look at how many projects were done across those category types historically and how many we've already done this year, and then how many could you do in each category for the remainder of the year, assuming everybody was at the cap minus the 20%? You'd be doing 120% of what you did last year, as far as number of projects that assumes they are at the cap. Ms. Roberts asked, but what about the number of projects? You bring up the point of the number of projects, but staff can't review the number of projects. The more we inundate staff, they are not going to get to them, so if you start cutting with the SC, you are just putting more contracts in the pool that we can't even look at. Ms. Kirby said well, I'm assuming that all of that works under the pre-applications that they already have, but I don't have detail as to the pre-applications they have and really how many, and how large they are projecting each one to be, I really don't have access to that. So, it's just a matter of does Panel want to try to treat everyone the same as far as a cut, or do you feel that cutting the caps is, and maybe making something else a priority over a different type of contractor, how you want to proceed? I think we all would like to keep it simple, apply it to this year and then revisit in the spring and see how it is going for next year. Pick one, two, or three things that are simplified and clarify how we would implement, so we can move forward.

Rob Sanger, CMTA
I agree with a lot of what Julianna Kirby just said, we signed on to Steve Duscha's plan but we are flexible. I think the key thing to get moving quickly is the pre-applications. We've been talking about these 400 pre-applications for three or four months now. I have a pre-application in that group, I don't know where it is, it hasn't been assigned to a field office yet. I'm not too worried about it; I know eventually it will get moving. I think we need much more transparency around that if we are going to have a lot more demand. I heard many people testify today, that they don't think there is a lot of demand within those 400 pre-applications. I don't know; it's anybody's guess. We as consultants are not privy to that information so we don't know, but more transparency there would be helpful.

As far as weeding out the pre-applications, this year I would try to keep it simple. But there may be things that the Panel wants to consider like if you have a higher turnover rate, over 20%, but you want to ask for an exclusion; maybe say come back next year and we will deal with you next year. Maybe there are some things that you want to consider, I'm not going to tell you what they are, but that may be one way to weed through some of the 400 pre-applications based on what you've seen and what you believe is the proper use of the funding.

John Brauer, California Labor Federation
I'm also speaking on behalf of the State Building Trades. Relative to the staff proposal, I think there were just a couple areas, as we said last time, when Debra Chaplan and I came, we had issue and we are hoping that you would consider re-raising the cap on the apprenticeship programs. They actually were cut previously from $450,000 down to $225,000, so in fact there is one less category that there was also a cut in.

I think the other issue, speaking on behalf of the California Labor Federation, is taking issue with the priority industry piece. We've had some proposals, frankly, that falls outside of that that I think are really worthwhile and hope that they would not be hurt by their ability to come back, relative to what you are facing and dealing with.

Having said that, what your staff person handed out from the California Labor Federation and the State Building Trades, is a proposal for you all to take away today as some food for thought, on addressing your whole apprenticeship program for future funding and consideration, and application and renewal process. We've put a lot of time into this over the last five to six months with all of our JATCs. I kind of asked for, at the last meeting, the opportunity to engage you all in looking at this going forward in the long term. We would like to put on the table for your consideration, for part of the next FY, looking at things like having a percentage set aside for apprenticeship, an ability to have a one a year application process, and a streamlined renewal process that we think would work for the staff and Panel, as well as our JATCs, that works with our training cycles that we see going forward.

We put forward in this, some suggestions for funding scenarios that take into consideration, based on what we know about the investment that our apprenticeship employers and other partners put into those training programs. We think ETP in particular, both coming out of the recession but also just in the general funding scheme of things right now, has been really critical for small JATCs, along with figuring out how to have that balance and range.

The proposal itself also has a lot of background just on how our different construction joint apprenticeship training programs work and I think that would be very beneficial to all of you in that regard.

We are also offering some real suggestions that we ask you to take into consideration around the Panel getting a deeper understanding of apprenticeship, including the possibility of setting up a subcommittee Panel, like you did for the drought folks that might focus in on apprenticeship.

So, asking you to just take this as some food for thought and we would like to, meeting with our apprenticeship coordinators, have a discussion over the next long while to get to the next FY and have ETP be a really important player, along with the other state agencies that support apprenticeship.  We think the lessons we've learned and can share with you, and that you have all learned from the funding process, the apprenticeship may be very worthwhile as you look to potentially expand funding non-construction apprenticeship.

Mr. Broad said as there was no further public testimony; we are now back to the Panel to consider what action to take.  I'm going to make a proposal based on what I've heard today.  We can talk about it, change it, but what I'd like to do is go through the staff recommendations one-by-one.

Mr. Broad presented each staff recommendation along with his comments:

1) <u>Review Pre-Applications/Applications in Date Order Received by ETP</u>
   Mr. Broad agreed.

2) <u>Fund Priority Industries Only</u>
   Mr. Broad said no, we will not be funding priority industries only.

3) <u>Establish Funding Allocations by Contract Type</u>
   Mr. Broad said yes, with the understanding that this is a Benchmark and is not an absolute; maybe to be adjusted to at least make into rough budget categories.

4) <u>Manage Repeat Contracts</u>
   Mr. Broad said with the repeat contracts, I would propose that with the MECs, they can come back once a FY with a 70% completion as we discussed.  With everyone else, I don't see a problem with three months and a 70% performance and I don't think that's controversial.  Ms. Roberts asked if the Manage Repeat Contracts was for everyone, or only for the MECs.  Mr. Broad said I think it was for everyone, including the MECs.  He said I'm suggesting a slightly different proposal for the MECs, which would also, by the way, be applicable to the apprenticeship programs.  I don't see any reason to treat them differently in this regard.  Ms. Roberts asked if this would only be for the balance of the year, or if this is going forward.  Mr. Broad said it is for the balance of the year and we will revisit whether to retain any of these or do different things, at a meeting next year to discuss the next FY.

5) Reduce Funding Caps
Mr. Broad said in terms of the recommended funding caps, I would recommend that we go with the staff's proposal, with one change. Instead of the MECs going from $750,000 to $600,000, I would say a reduction from $750,000 to $650,000 is a more reasonable cut.

6) Accept Pre-Applications for FY 2015/16 in April 2015
Mr. Broad was agreeable to accepting pre-applications for 2015/16 in April 2015 or thereabouts.

Ms. Roberts asked, about considering raising the apprenticeship cap, based on John's recommendation as they have already been cut quite a bit already. Mr. Broad said I would be fine with raising them to say $300,000 from $225,000, so let's make that part of it; they go to $300,000.

7) Apply Highest Substantial Contribution
Mr. Broad said I've thought about whether to go with the 20% across-the-board or the highest SC rate. After listening to testimony, I understand that across-the-board is very appealing at some level, but I think I'm going to suggest that we go with the staff's proposal. I feel like there is some wisdom in the way that we have it set up now and this will spread out the money a bit, but it will allocate it slightly more towards repeat contractors.

8) Reduce the Threshold for High Earner Reduction (HER)
Mr. Broad was agreeable to reducing the threshold for the HER.

9) Adopt New Delegation Order
Mr. Broad said we've already adopted a new Delegation Order.

Ms. Roberts asked if he already talked about the pre-application. Mr. Broad said yes, now what I'm going to suggest is that we go with the staff's recommendation of doing a moratorium on the pre-applications, but that we revisit this question of the pre-applications in late December 2014 or in early January 2015 as a status report. Because if these are assigned out to the field, and in a cursory view it turns out that 90% of them are really so low quality and it is so clear that there is nothing serious there or it takes only a phone call as to are you ready to proceed, then I think we might want to open it up. I'm sensitive to the point made by Mr. Duscha that we do want to regularize our process. On the other hand, I don't want to have people do work when we can predict in advance that whatever they are doing, even though it's a pre-application, is likely never to be dealt with. I just don't think that's right either, so let's just sort of wait and see on that. Ms. Roberts said could we maybe have some evaluation over the next two months and revisit maybe in November? Mr. Broad said yes, when we have our next meeting, staff should report how we are doing with pre-applications, contract development, and where we are and we should be prepared to deal with this soon.

Mr. Broad said I would like to propose that we prioritize within the categories that we created, first-time employers/applicants. However, I'm convinced it is probably unworkable to make this applicable to the MECs. I think it's a nice idea but the fact of the matter is the MECs produce for us, lists of employers when they apply, of varying attachments to reality.

Therefore, some of them are giving us lists of employers that they are practically pulling out of the phone book and some have been very sophisticated, particularly the community colleges, complex things and it is probably pretty real and most the employers they do have a relationship with. But I don't think we would start to create a highly bureaucratic process to try to make it work, so I'm not going to suggest that. Ms. Roberts asked if his suggestion is single employer, small business and critical proposals. Mr. Broad said the Critical Proposals, no; because they come out of the Governor's office and if it's not a first-time employer but they are going to build a multi-billion dollar facility in the middle of the desert that is going to boost the CA economy by 20% in a single year, the fact that they got some money from us should not put them at the bottom of the list. Ms. Roberts said only because now we are penalizing small business and single employer. Mr. Broad said we are not really penalizing them. Ms. Roberts said they are already getting a reduction across-the-board. Mr. Broad said yes, but we have a very large group of applicants, so it is just for this year and we will see how it goes. So you are moving those people on the single employer list up to the priority proposals to be considered first. So in other words, it is a little bit like a SC but it is sort of a first cut, where they are going to be able to move those to the top and deal with those first. Therefore, if we run out of money, we will be running out of money on someone who very likely has received ETP money before. I think it is probably the right policy in a situation where you have more applicants than you have money, to prioritize employers who have been paying the tax all of these years and have never received the benefit.

Ms. Roberts said I have noticed that over the course of the last several months, that I seen many more new employers coming to ETP in the last year. Mr. Broad said yes, in fact we have a list. He said Ms. Reilly can possibly elaborate on what we are talking about, from the list of pre-applications. Ms. Reilly said these are all projects that are not yet going to the next Panel. We show we have 109 single employer projects that are first-time and the estimated contract value is $30.6M and we have 100 under repeat small business projects, first time, with a contract value of $3.0M; so there is plenty to work with on a workload preference basis. These figures account for the current caps; they weren't based on the new caps, but based on the current caps. It's something to show that we certainly have a sufficient demand by single employer, first time, to move forward with.

Mr. Broad said now I want to make sure the staff understands something. We need to be nimble about all of this because one of our biggest problems in the last year and half is that we've responded to things fairly dramatically. The gentleman who made this point about trying to be steady in the face of change, there is some significant wisdom there, that I think we've learned a lesson. Which is to say we responded quite dramatically to what we thought was a downturn in demand. It seemed persistent, but turned out not to be. So, if this uptick in demand turns out to be an anomaly, we need to be able to turn the tap back on quickly. So in November, if it looks like we may have overreacted again, then staff needs to raise that matter to the Panel, so that we don't have a budget surplus at the end of the year.

We should try to do what Mr. Duscha recommended, which is to have regularly scheduled Panel meetings monthly or as close to monthly as we can. I think he suggested this feast or famine scenario that has developed, where it appears we are on and then we are off, and then we are on again, and then we are dark, and then we are light. It's not good for people, they should be able to plan that there is largely going to be a meeting every month and we should try to meter out these proposals, to consider these proposals, roughly equally between the meetings. That is also a rough Benchmark because some large proposals may develop in one month and there might be a series of small proposals ready the next month, so we have a larger month and a smaller month; it's not an exact science but a goal. We should try to do that, we don't want to deliberately say to someone whose proposal is ready that we are not going to consider it for eight months because we want to meter things out; that doesn't make sense either. So that, and these general categorical budget categories, are strong suggestions but they are not like something so held to so completely that it becomes unworkable. In other words, if it turns out where we suddenly have a year where we have a lot of single employer contracts that exceed what our budget for that group is and the number of Critical Proposals goes way down, it doesn't mean we hold back money for Critical Proposals that aren't being proposed. That goes without saying, but I want to clarify that.

Ms. Reilly asked, as far as single employer projects including small business that have already been referred to the field offices, some of those are already well under development for December. So if we could have a bit of a transition month as far as workload priorities, it wouldn't make sense to drop a project on the brink of being finalized. Mr. Broad said I agree and I think that is a valid point. We won't apply that to projects that intend to come to the Panel in this calendar year, that are already in the works that are ready. If there are others that could be put on there that haven't been worked on yet and we can apply what we've applied here, we should apply those to them.

Mr. Broad said that is a very long motion and a very complicated area. He asked the Panel if there were any questions. There were no further questions.

10) <u>Revise the Job Creation Guidelines</u>
Ms. Roberts asked if we are holding back action on the revisions to the Job Creation Guidelines until revisited. Mr. Broad said yes, we will look at that separately.

Ms. Roberts said, and with the new Delegation Order, we did see the revisions. Mr. Broad said yes, we did see the revisions, and includes the sense of the motion.

Let's say the motion is to approve the staff's proposal as modified and set forth in the description. Ms. McBride asked if this will also include the first-time applicant priority. Mr. Broad said yes, it includes the first-time applicant funding priority.

ACTION: Ms. Roberts moved and Ms. McBride seconded approval of staff's Funding Priority Recommendations as modified below:

- We will <u>not</u> Fund Priority Industries Only
- Prioritize First-Time Single Employer (including Small Business) to have a Preference over Repeat Contractors at the Pre-Application Stage
- Raise the Cap for MECS to $650,000
- Increase the Apprenticeship Cap to $300,000 per Program Sponsor
- Repeat MECs (including Apprenticeship) can only be Funded Once per FY with a 70% Performance for any Active Contract

Motion carried, 5 – 0.

## IX. MEETING ADJOURNMENT

ACTION: Ms. Roberts moved and Ms. Fernandez seconded meeting adjournment at 2:54 p.m.

Motion carried, 5 – 0.