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Maximizing Industry and Workforce Opportunities Resulting from Federal and State Climate Investments

Senate Labor, Public Employment and Retirement Committee & Senate Budget Subcommittee #5 on Corrections, Public Safety, Judiciary, Labor and Transportation
Joint Hearing

March 22, 2023, at 9:30 am
O Street Building, Room 2200

BACKGROUND PAPER

"This is a case where conscience and convenience cross paths, where dealing with this existential threat to the planet and increasing our economic growth and prosperity are one and the same. When I think of climate change … I think of jobs."

President Joe Biden before Signing Executive Actions on Tackling Climate Change, Creating Jobs, and Restoring Scientific Integrity (Jan. 27, 2021)

Introduction

California is facing several simultaneous climate crises - drought, wildfire, flooding, rising sea levels, and strains on the energy grid. The threat of climate change is no longer a theoretical issue and the State has made multi-billion dollar climate-energy investments to help with our drought and wildfire response, address sea level rise, and expand our renewable infrastructure.

Last year, California enacted some of the nation's most aggressive climate measures in history aimed at cutting pollution and accelerating the state's transition to clean energy. Highlights of the climate package include legislation that directs the state to achieve carbon neutrality no later than 2045 and 90% clean energy by 2035, establishing new setback measures protecting communities from oil drilling, capturing carbon pollution, and advancing nature-based solutions, among others. Not only is the state setting ambitious goals, it is also empowering regulators and industries with the authority to meet them.

At the federal level, the United States (U.S.) is aiming to reduce U.S. greenhouse gas emissions 50-52% below 2005 levels in 2030, reaching 100% carbon pollution-free electricity by 2035, achieving a net-zero emissions economy by 2050, and delivering 40% of the benefits from federal investments in climate and clean energy to disadvantaged communities. Two landmark bills, passed in 2021 and 2022, the Infrastructure Investment and Jobs Act (IIJA, also referred to as the Bipartisan Infrastructure Law (BIL)) and the Inflation Reduction Act (IRA), will invest nearly $700 billion in infrastructure, research activities, and related programs. The IIJA alone is making historic investments in our nation's public transportation infrastructure that will shape our future for decades to come.

With these changes on the horizon, what does the future for our workers look like? How do we integrate labor provisions that promote quality jobs in the California climate package that just passed? What can we do to maximize the opportunities these policy changes present and ensure high-quality jobs for workers? How do we ensure equity in the access and implementation of these resources to see all communities benefit?

This hearing will attempt to answer some of these questions by helping us identify and evaluate federal and state dollars, review state procurement processes, evaluate what labor standards are attached to these funds (if any), and make sure these standards are adhered to as investments make their way into our communities. Our goal is to identify any gaps that may exist so that we can address them and ensure California is positioned to compete and effectively disperse these funds.

<u>Federal Investments</u>

Inflation Reduction Act

The federal Inflation Reduction Act (IRA) was signed into law on August 22, 2022, with the intent of revitalizing manufacturing in the United States, expanding clean energy, and creating and supporting high-quality jobs. The IRAs $370 billion investment is aimed at lowering energy costs, accelerating private investments in clean energy in every sector of the economy, strengthening supply chains, and creating high-quality jobs and new economic opportunities for workers. The IRA also advances President Biden's commitment to delivering 40 percent of the overall benefits of climate, clean energy, and related federal investments to communities that are marginalized, overburdened by pollution, and underserved by infrastructure and other basic services.

Last fall, the Treasury and Internal Revenue Service released guidance on the IRAs prevailing wage and apprenticeship requirements. In exchange **for offering enhanced tax benefits** for clean energy projects, Davis-Bacon Act prevailing wage is required to be paid to workers and registered apprentices must be utilized. For purposes of complying with these requirements, the prevailing wage refers to the minimum wage rates that taxpayers must pay to laborers and mechanics performing construction of a facility, project, property, or equipment and, in some cases, alteration or repair.

Davis-Bacon "prevailing wages" are a combination of the basic hourly rate and any fringe benefits paid to workers in a specific classification of laborer or mechanic in the area where construction, alteration, or repair is performed, as determined by the Secretary of Labor. Prevailing wages ensure that all bidders on those projects are competing on a level playing field while providing higher wages and better workplace conditions for workers. Requiring apprentices to be hired ensures that the next generation of workers gets the hand on experience they need to enter these career fields.

These prevailing wage and apprenticeship provisions apply to the: Alternative Fuel Refueling Property Credit; Production Tax Credit; Credit for Carbon Oxide Sequestration; Credit for Production of Clean Hydrogen; Clean Fuel Production Credit; Investment Tax Credit; Advanced Energy Project Credit, and; Energy Efficient Commercial Buildings Credit. The IRAs prevailing wage provisions additionally apply to the New Energy Efficient Home Credit and Zero-Emission Nuclear Power Production Credit.[1] Those who wish to avail themselves of the tax benefits must ensure laborers and mechanics are paid the applicable prevailing wages and benefits.

Infrastructure Investment and Jobs Act

According to January 2023 estimates, California is expected to receive a guaranteed $41.9 billion from the federal Infrastructure Investment and Jobs Act (IIJA, also referred to as the Bipartisan Infrastructure Law (BIL)) **formula funding**.[2] The IIJA funding is intended to rebuild roads, bridges, and rail, expand access to clean drinking water, ensure access to high-speed internet, confront climate change, advance environmental justice, and invest in communities that have too often been left behind. Similar to the IRA, most IIJA projects must utilize prevailing wages and benefits for workers.

The projects that are subject to these labor standards are: roads, bridges, and public transit; airports, ports, and waterways; water infrastructure, power, and grid; enhanced disaster resiliency; low-carbon and zero-emission buses and ferries; electric vehicle charging; addressing legacy pollution, and; passenger and freight rail. Federal agencies and funding recipients must ensure applicable labor standards are included in contracts.[3] Additionally, all contractors must also maintain accurate records of hours, workers and wages paid to workers and submit certified payroll records on a weekly basis to the funding agency or funding recipient.

This hearing will attempt to identify whether California is positioned to compete for these federal funds. Do we meet or exceed the labor standards in the federal acts, and do we need to attach those to the state investments that do not already exist in order to leverage more funds?

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[1] Prevailing Wage and the Inflation Reduction Act | U.S. Department of Labor (dol.gov)

[2] http://rebuildingca.ca.gov/iija-by-the-numbers/#:~:text=IIJA%20includes%20funding%20for%20multiple,to%20Department%20of%20Transportation%20projects.

[3] Protections for Workers in Construction under the Bipartisan Infrastructure Law | U.S. Department of Labor (dol.gov)

State Investments

As noted above, California is taking bold actions to address the impact of climate change. These efforts are an essential piece of the California Climate Commitment, a record $54 billion investment in climate action that, according to the Governor, will create 4 million new jobs. The initiative targets various efforts from reducing fossil fuel consumption to accelerating clean energy projects. The funding for all these efforts impacts many different departments and agencies, making it difficult to track. Our goal is to identify the various entities responsible for utilizing and implementing these funds while evaluating the need for certain labor standards that can ensure high-quality jobs.

Some projects in existing law may already require certain labor standards like the payment of prevailing wage, especially when it fits under the definition of a public works project or when it has legislatively been required for certain funding. In transportation, the state has already established the practice of providing prevailing wages for construction jobs. However, in other areas of transportation, the state lacks experience in ensuring labor standards. For instance, there are limited workforce and jobs-related requirements in the Transit and Intercity Rail Capital Program, a large component of the recent Transportation Infrastructure Package, which provides funding for transit capital projects. Other opportunities exist to ensure state funds are awarded to clean energy, transportation, and other climate projects that provide high-quality jobs in the emerging "green economy".

This hearing will attempt to identify where labor standards can best be applied to the various funds the state is allocating toward climate projects.

Conclusion

As regulations implementing these climate policies are adopted, it is our responsibility to ensure workers' best interests are at the forefront. Additionally, the state must ensure that these investments and innovations are available to all communities. The state is making equity a priority by directing state agencies to ensure that public expenditures that address climate change adaptation prioritize protecting vulnerable communities, rectifying intersectional and systemic inequities, and enhancing low-income and vulnerable communities' abilities to weather the impacts of climate change. (*AB 1384 - Gabriel, Chapter 336, Statutes of 2022*) How does the state oversee these efforts to ensure equity?

With the information gathered through this hearing, we are empowered to take action and add labor requirements, where appropriate, to deliver those high-quality jobs. Next, we turn our attention to the workers themselves. Do we have the workers needed and available to enroll in apprenticeship programs to follow through on the climate goals we have set? If not, how do we expand our apprenticeship program pipeline to increase enrollment and ensure equity? A future oversight hearing will explore these questions and examine our apprenticeship system and its ability to train for these new opportunities. In exploring these issues, our committees are attempting to be proactive and focus on finding a balanced approach to help California reach both our climate and workforce development goals.