



GOVERNOR'S OFFICE OF BUSINESS
AND ECONOMIC DEVELOPMENT



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**MINUTES OF THE
CALIFORNIA COMPETES
TAX CREDIT PROGRAM
COMMITTEE MEETING**

For the meeting held on
June 18, 2015

Sacramento City Hall
Council Chambers
915 I Street
Sacramento, CA 95814

And (via teleconference)
City of Fontana City Hall
Executive Conference Room
8353 Sierra Avenue
Fontana, CA 92335

MEMBERS:

Michael E. Rossi, Chair
*Senior Advisor to the Governor
of California,
Delegate to the Director,
Governor's Office of Business &
Economic Development*

John Chiang
State Treasurer

Michael Cohen, Director
Department of Finance

Denise Zapata, Appointee of
the Senate Committee on Rules

Madeline Janis, Appointee of
the Speaker of the Assembly

A. Call to Order and Roll Call

Chairman Rossi called the meeting of the California Competes Tax Credit Committee (Committee) to order at 1:36 p.m.

Members Present: Michael Rossi, Alan Gordon (representing the State Treasurer), Eraina Ortega (representing the Director of the Department of Finance), Madeline Janis, and Denise Zapata via teleconference.

Members Absent: None

B. Approval of Minutes from April 16, 2015, Committee Meeting

Chairman Rossi called for any questions or comments regarding Agenda Item B.

Member Janis wanted to emphasize to the public that they do not need to communicate to the Committee or GO-Biz staff prior to the committee meeting.

Chairman Rossi requested a motion to approve Agenda Item B.

Action: Moved/Seconded: Member Ortega/Member Gordon

Yes: Members Michael Rossi, Alan Gordon, Madeline Janis, Eraina Ortega, Denise Zapata

No: None



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C. Deputy Director's Report

Deputy Director Will Koch provided the Committee with the following updates:

- The Committee has approved agreements for 178 businesses that are projected to create over 24,000 jobs and invest over \$6 billion in California.
- GO-Biz will be announcing the application periods and committee meeting dates for next fiscal year prior to the end of this month. There will be three applications periods again, with the first starting in the last week or two in July and the next committee meeting will be in November. The amount of tax credits available will be predicated on the Department of Finance notifying the Legislature of the amount available, which will be happening in the coming days after this meeting. GO-Biz expects to have the full \$200 million available as prescribed by statute.
- GO-Biz staff will also be conducting a series of statewide workshops next month.
- There are 63 agreements before the Committee today that represent roughly 11,000 jobs and \$3.4 billion of investments in California and the total recommended tax credits is \$49.8 million.

Chairman Rossi inquired about the review process, now that the program is at a point where awardees have started to report achievement of contractual milestones.

Deputy Director Koch stated that this program is built on transparency and accountability. The Franchise Tax Board will review books/records for agreement compliance for large businesses and it may review books/records for agreement compliance for small businesses. If the Franchise Tax Board identifies a potential material breach, GO-Biz will be notified and in turn give the business the opportunity to cure the breach of agreement pursuant to the terms and conditions of the agreement. If the business is unable to cure the breach of the agreement, GO-Biz will make a credit recapture recommendation to the Committee.

Chairman Rossi requested a definition of material breach.

Deputy Director Koch commented that establishing a specific definition of material breach could lead to applicants inflating their commitments and that a better course of action would be to evaluate each potential material breach on a facts and circumstances evaluation.

Member Janis offered a course of action – if the breach is small, then GO-Biz staff can decide internally, but if the breach is significant than it should be brought to the Committee.



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Member Zapata had concerns about the Franchise Tax Board having the discretion to review the books and records of small businesses.

Deputy Director Koch offered to have a discussion with the Franchise Tax Board regarding its plans to review the books and records of small businesses.

Member Janis requested that Agenda items D-1, D-7, D-9, D-10, and D-21 be moved for further discussion after Agenda Item D.

D. Discussion and Approval of Applications for the California Competes Tax Credit from Businesses other than Small Businesses

Chairman Rossi called for any questions or comments from the Committee or the public regarding Agenda Item D. Hearing none, he requested a motion to approve Agenda Items D-1 through D-37, excluding D-1, D-7, D-9, D-10, and D-21.

Action: Moved/Seconded: Member Gordon/Member Janis

Yes: Members Michael Rossi, Alan Gordon, Madeline Janis, Eraina Ortega, Denise Zapata

No: None

The following agenda items were discussed further:

D-1. Tesla Motors, Inc.

At the request of Chairman Rossi, Deputy Director Koch elaborated on Agenda Item D-1. Deputy Director Koch stated in exchange for a \$15 million California Competes Tax Credit, Tesla has committed to a net increase of 4,426 full-time employees and an investment of over \$2.3 billion in California. Most of the net increase of full-time employees is attributable to growth in manufacturing jobs in Fremont and Lathrop. However, the company will also be adding engineering, research and development, and other job classifications throughout the state. These are the types of jobs that could easily be in another state or country. Most of the tax credit will be awarded in 2019, and in order to avoid recapture of the credit, Tesla must maintain its 2019 level employment for at least three years thereafter.

Member Janis asked for further clarification of the proposed \$2.4 billion in investments.

Diarmuid O'Connell, Tesla Vice President for Business Development, explained that no other incentives are contributing to the \$2.4 billion in investments that will occur in the state of California. The company has received an educational grant from California, which is meaningful, but marginal considering the 9,000 employees the company has in California.

O'Connell stated that every time the company creates a job in California it is typically more expensive than anywhere else – due to wage inflation, and associated costs of doing business related to transportation, operations, and health and safety.



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Member Janis questioned if Tesla really needed this tax credit.

O'Connell responded that the credit is meaningful for each job that is created. The benefit of the income tax credit will tip the balance of creating a job in California versus somewhere else and now versus later.

Member Janis inquired how many women does the company employ and if there are plans to help support gender diversity.

O'Connell stated it is challenging to recruit women as engineers. Currently, women represent 20% of engineers and 15% of the manufacturing associates at Tesla. The company has taken action to help increase the number of women in this field. Specifically, Tesla is a member of Women in Tech, offers a University Intern Program to support women in STEM fields, and received an award for the Human Rights Campaign for "Best Place to Work for 2015."

Chairman Rossi called for any questions or comments from the Committee or the public regarding Agenda Item D-1. Hearing none, he requested a motion to approve Agenda Items D-1.

Action: Moved/Seconded: Member Gordon/Member Ortega

Aye: Members Michael Rossi, Alan Gordon, Eraina Ortega, Denise Zapata

No: Member Madeline Janis

D-7. Avasant, LLC

At the request of Chairman Rossi, Deputy Director Koch elaborated on Agenda Item D-7. Deputy Director Koch stated Avasant, LLC is a global management consulting firm. The company has clients throughout the United States and abroad and works to help them with business, operations, and technology challenges. In exchange for a \$1 million California Competes Tax Credit, Avasant has committed to a net increase of 55 full-time employees and an investment of \$750,000. The jobs Avasant is committing to create are in classifications such as engineer, business consultant, and administrative personnel. Given Avasant's services and its U.S. and global clientele, these jobs do not have to be in California. Currently, the company is deciding if it will increase the size of its corporate headquarters in California or another state. The California Competes Tax Credit will incentivize Avasant to expand its operations in California.

Member Janis wanted to know, given that Avasant certified that absent award of the credit, the project would occur in another state, how does a \$1 million tax credit make a difference?

Ravi Mahalingam, Avasant Partner and General Counsel, stated that the company's client base has shifted out of California, and major clients have moved to Texas. The company has had to compete with rival consulting firms that are able to provide lower costs. As a small business, the tax credit would make a significant difference by equalizing the labor costs and tax burden.



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The company is at a standstill; to stay competitive the company cannot raise prices significantly to offset the costs, while it must also maintain high salaries to adjust for the cost of living. Without the tax credit, the company cannot project how many more employees it will be able to hire in California.

Chairman Rossi called for any questions or comments from the public regarding Agenda Item D-7. Hearing none, he requested a motion to approve Agenda Item D-7.

Action: Moved/Seconded: Member Gordon/Member Ortega

Aye: Members Michael Rossi, Alan Gordon, Madeline Janis, Eraina Ortega, Denise Zapata

No: None

D-9. LendingClub Corporation

At the request of Chairman Rossi, Deputy Director Koch elaborated on Agenda Item D-9. Deputy Director Koch stated LendingClub Corporation operates an online marketplace that connects individuals and small businesses that want to borrow money to investors that want to lend money. In exchange for a \$1 million California Competes Tax Credit, LendingClub has committed to a net increase of 1,644 full-time employees and an investment of over \$14 million. The majority of the full-time jobs that LendingClub is creating are engineers and operations staff. These jobs do not need to be in California as LendingClub operates in an online environment. The California Competes Tax Credit will incentivize LendingClub to continue to expand its operations in California at a time when it is evaluating its global strategy.

Member Janis wanted clarification on what the company actually does. She wanted assurance that this company is not preying upon the individuals that make the lowest income in the state, such as a payday lender.

Joanne Chang, LendingClub Vice President of Corporate Tax, explained that LendingClub is an online market place that connects borrowers with investors. Borrowers with a minimum credit score of 660 go online to fill out an application. The terms of the loans range from 3-5 years and are designed to be paid off within that time period. The service also provides a fixed rate with no penalties and fees for early repayment. This company helps borrowers to consolidate debt; it is essentially the opposite of a payday lender.

Member Janis inquired if there is anything in the application process that would catch encroaching interest rates or predatory practices.

Deputy Director Koch stated that a thorough analysis of each applicant is built into the application process. During the review, GO-Biz asks about any material litigation, tax liens, environmental, health and safety violations that the company may be involved in. In addition, GO-Biz subscribes to a public database that provides additional information concerning any violations or litigation the applicant identified in the application. If GO-Biz staff discovers a lien or violation, then GO-Biz will



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request an explanation of the violation and ask if it has been resolved. GO-Biz has this process in place to ensure the credit is distributed effectively.

Chairman Rossi called for any questions or comments from the public regarding Agenda Item D-9. Hearing none, he requested a motion to approve Agenda Item D-9.

Action: Moved/Seconded: Member Gordon/Member Janis

Aye: Members Michael Rossi, Alan Gordon, Madeline Janis, Eraina Ortega, Denise Zapata

No: None

D-10. Weber Metals, Inc.

At the request of Chairman Rossi, Deputy Director Koch elaborated on Agenda Item D-10. Deputy Director Koch stated Weber Metals, Inc. produces large-scale metal parts for the aerospace industry, including structural frames and engine parts. In exchange for a \$1 million California Competes Tax Credit, Weber has committed to a net increase of 26 full-time employees and an investment of over \$18 million. Weber is in the process procuring a 60,000 ton metal forging press. The new forging press will have a 50-year operational life and will create long-term ties with the state and the aerospace industry. The forging press will allow Weber to produce large structural aircraft parts. In June of last year, Weber was awarded a California Competes Tax Credit based on a commitment of a net increase of 60 full-time employees and over \$170 million in investments. Since that time, Weber has identified significant additional costs associated with the acquisition and installation of the forging press that have prompted its ownership group to strongly consider options outside of California. The California Competes Tax Credit will incentivize Weber to maintain and expand its operations in California at a time when it is considering incentive packages from other states.

Member Janis wanted to know how many women are on the production floor and what the company is doing to open up more doors to women. In addition, she inquired if there are any policies in place that support this.

Paul Arnold, a Financial Analyst with Weber, stated that women represent 9% of the company's workforce. The company does have a rotational development program for engineers, with 3 out of the 7 participants being women. In addition, the company has a relationship with San Luis Obispo College to help recruit more women engineers.

Member Janis wanted to know if the California Competes Tax Credit Program would allow GO-Biz to ask applicants about gender specific programs.

Deputy Director Koch stated that the questions in the application are in the program's regulations and any question in the regulations must be consistent with the California Competes Tax Credit statutes.



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Member Janis claimed that almost every single applicant has proposed male dominated jobs and wanted to emphasize gender equality is important to Speaker Toni Atkins.

Member Zapata cautioned against looking just at women – resulting in a slippery slope of targeting specific demographics. Member Zapata also recommended GO-Biz staff connect with local chambers and encourage state legislators to promote the workshops.

Member Janis stated it is appropriate to ask about the demographics of the workforce and recommended to GO-Biz that it consider amending the program's regulations.

Member Ortega cautioned that gender inequality is not isolated to California Competes and is not sure how much altering of the application process would serve to solve this issue.

Deputy Director Koch stated he would have staff look into the legality of amending the program's regulations to ask gender specific questions.

Chairman Rossi called for any questions or comments from the public regarding Agenda Item D-10. Hearing none, he requested a motion to approve Agenda Item D-10.

Action: Moved/Seconded: Member Gordon/Member Janis

Aye: Members Michael Rossi, Alan Gordon, Madeline Janis, Eraina Ortega, Denise Zapata

No: None

D-21. J&D Meat Company, Inc.

At the request of Chairman Rossi, Deputy Director Koch elaborated on Agenda Item D-21. Deputy Director Koch stated J&D Meat Company, Inc. is a meat processing and restaurant supply wholesaler located in Fresno, California. J&D plans to expand its distribution capabilities through the construction of a new cold storage and packing facility in Fresno. In exchange for a \$150,000 California Competes Tax Credit, J&D has committed to a net increase of 52 full-time employees and an investment of \$9.9 million. Fresno, along with other parts of the Central Valley, is not experiencing as robust of a recovery from the great recession as other areas in California. Almost 29% of Fresno residents live below the poverty line and 11.6% are unemployed. The California Competes Tax Credit statutes require GO-Biz to give preference to applicants doing business in high poverty and high unemployment areas.

Member Janis had concerns about the minimum and average salaries proposed by J&D.

Deputy Director Koch explained that according to most recent employment data from the Employment Development Department, the proposed salaries are consistent with the market wages in Fresno.



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Kelly Trevino, Economic Development Analyst with the City of Fresno, stated that Fresno has an extremely high poverty and unemployment rate. J&D's proposed wages are good wages for the people of Fresno. This company is committed to the community and works with a halfway house for struggling teens that need a better life and good paying jobs. The company has increased its employment from 59 jobs to 100 jobs in the past 3 years. J&D is very important to the economy in Fresno. The City of Fresno also appreciates the workshops that have been given to its community.

Chairman Rossi stated that the goal of the California Competes Tax Credit Program is to incentivize job growth. While all members of the Committee would love to see higher paying jobs, in high poverty areas, the impact of a credit leading to jobs will be significant.

Chairman Rossi called for any questions or comments from the public regarding Agenda Item D-21. Hearing none, he requested a motion to approve Agenda Item D-21.

Action: Moved/Seconded: Member Gordon/Member Janis

Aye: Members Michael Rossi, Alan Gordon, Madeline Janis, Eraina Ortega, Denise Zapata

No: None

E. Discussion and Approval of Applications for the California Competes Tax Credit from Small Businesses

Chairman Rossi called for any questions or comments from the Committee or the public regarding Agenda Item E. Hearing none, Chairman Rossi requested a motion to approve Agenda Items E-1 through E-25.

Action: Moved/Seconded: Member Gordon/Member Janis

Yes: Members Michael Rossi, Alan Gordon, Madeline Janis, Eraina Ortega, Denise Zapata

No: None

Given the frequent discussions throughout the meeting about the business climate in California, Member Gordon wanted members of the Committee and public to consider the general costs of doing business in California. It is not often that housing costs are discussed. If the median cost of living in San Francisco was that of the national average, then the city would have 100,000 more jobs. The State Treasurer wants to put together a package to help address some of the business concerns around housing costs in the state.

F-1. Discussion and Approval of California Competes Tax Credit Agreement Deferred from the April 16, 2015, Committee Meeting

At the request of Chairman Rossi, Deputy Director Koch elaborated on Agenda Item F-1. Deputy Director Koch stated National Steel and Shipbuilding Company (NASSCO) is the largest full service shipyard on the West Coast and is capable of maintaining and repairing any sized ocean-going vessel. In exchange for a \$2 million California Competes Tax Credit, NASSCO has committed to a net increase of 384 full-time employees and an investment of over \$100 million. NASSCO's increase in



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jobs will be largely comprised of welders, electricians, engineers, and pipefitters. GO-Biz has received numerous letters of support for NASSCO in the last few days, which have been emailed to the Committee members. GO-Biz also received a letter from the California Labor Federation indicating that it is not opposed to NASSCO's agreement.

Member Janis expressed concerns that California is investing in a company that outsources its work to Mexico.

Peter Bollenbecker, Senior Director and Controller with NASSCO, stated that the company has had operations in Mexico since 1991. There are certain limitations built into contracts with the United States that mandate work must be completed at the company's San Diego location. The company's operations in Mexico equates to 2% of the workforce, specifically for steel operations and basic metal fabrication such as ladders. NASSCO is unable to make assurances that it will not hire more employees in Mexico, but it will keep the proportion of the workforce the same relative to its growth in San Diego.

Deputy Director Koch explained that the California Competes Tax Credit Agreement states that net increase in jobs and investments must be in California. The Franchise Tax Board will be verifying this information when it reviews the company's books and records. The California Competes Tax Credit program is premised on growth in California.

Kristin Tillquist, with San Diego Mayor Kevin Faulconer's Office, was in support of NASSCO. She stated the company is the west coast's largest ship building company and it fits into San Diego's clean natural gas industry and innovative nature.

Sara Flocks, with the California Labor Federation, representing Union workers for boilers and machinists, stated the organization was not opposed to NASSCO receiving a tax credit. Ms. Flocks indicated the California Labor Federation has complete faith that the Franchise Tax Board will monitor the number of direct hires.

Chairman Rossi called for any questions or comments from the Committee or the public regarding Agenda Item F-1. Hearing none, Chairman Rossi requested a motion to approve Agenda Item F-1.

Action: Moved/Seconded: Member Gordon/Member Janis

Yes: Members Michael Rossi, Alan Gordon, Madeline Janis, Eraina Ortega, Denise Zapata

No: None

After multiple discussions regarding employee wages, Member Janis concluded that she believes the statute's purpose is to incentivize good jobs and will continue to ask questions to make sure living wages are earned.



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Chairman Rossi stated the proposed wages are in every staff report and cautioned to maintain perspective. The market will dictate the wages and there will be a different demand in San Francisco relative to Fresno.

Member Janis stated that she has been fighting her entire life for the living wage, and she will continue to push for higher minimums. She recognizes that there is only so much to ask for and this is the best program in the nation right now, but everyone wants to make enough money to support their children.

G. Public Comment

Chairman Rossi called for any other questions or comments from the public or the Committee and heard none.

H. Adjournment

After asking if there were any additional comments from members of the public or the Committee, and seeing none, Chairman Rossi asked for a motion to adjourn the meeting.

Action: Moved/Seconded: Member Ortega/Member Gordon

Yes: Members Michael Rossi, Alan Gordon, Madeline Janis, Eraina Ortega, Denise Zapata

No: None

Chairman Rossi adjourned the meeting at 3:04 p.m.