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California Competes Tax Credit Program

Committee Meeting

Thursday, June 16, 2022

1:00 p.m.

CalEPA Headquarters Building
Sierra Hearing Room
1001 I Street
Sacramento, CA 95814

And (via teleconference)
The Westin Denver International Airport
8300 Peña Blvd, Room 1306
Denver, CO 80249

And via Live Stream at:

<https://video.calepa.ca.gov>

MEMBERS:

Dee Dee Myers, *Chair*
Director
Governor's Office of Business
and Economic Development

Fiona Ma
State Treasurer

Keely Bosler, *Director*
Department of Finance

Todd Walters, *Appointee of the*
Senate Committee on Rules

Madeline Janis, *Appointee of*
the Speaker of the Assembly

MINUTES

OPEN SESSION

A. Call to Order and Roll Call

Chair Myers called the meeting of the California Competes Tax Credit Committee (Committee) to order at 1:04pm.

Members Present: Chair Dee Dee Myers, Todd Walters via teleconference (representing the Senate Committee on Rules), Tim Schaefer (representing the State Treasurer), and Gayle Miller (representing the Director of the Department of Finance).

Members Absent: Madeline Janis (representing the Speaker of the Assembly)

B. Approval of Minutes from April 21, 2022, Committee Meeting

Chair Myers asked if there were any questions from Committee Members or public comments on Item B with regards to the minutes from the April 21, 2022, meeting. Deputy Director Dosick confirmed there



were no public comments. Member Walters confirmed there were no public comments at his location. Chair Myers requested a motion for approval of Agenda Item B.

Action Moved/Seconded: Members Miller/Schaefer

Yes: Members Miller, Schaefer, Walters, Myers

No: None

C. Deputy Director's Report

- Agenda Overview – Agreements with 16 Businesses, Total Tax Credits \$178,257,469

Deputy Director Dosick reminded the audience in Sacramento that they could submit a public comment by filling out one of the public comment cards located at the entrance of the room. He reminded the public that if they submit a public comment, to include their name and organization for identification purposes only, and to note the agenda item for which they have comments. He also stated that members of the public attending at the Denver location could provide the same information to the committee member at that location. He stated that individuals who submitted public comments would be called upon to speak in the order they are received, and that public commenters would be requested to limit their comments to no more than 3 minutes.

Mr. Dosick stated that GO-Biz is recommending 16 tax credit awards today totaling \$178.2 million. GO-Biz continues to see a rise in applications from inland parts of the state, areas of high unemployment and poverty, and increasing numbers from the green tech sectors. The 16 agreements for the Committee's consideration today represent commitments for a net increase of over 7,600 new full-time jobs and over \$1.7 billion of capital investments in California in exchange for \$178.2 million in total recommended tax credits. Each of the businesses recommended for award today has certified in its application that this credit will be a significant factor in their decision or ability to remain and expand in California.

Mr. Dosick stated that in recognition of the success of both the CalCompetes Tax Credit and Grant program in attracting and retaining employers and fulltime jobs in California, the Governor's May Revise budget proposal included a 5-year extension of the tax credit and a one-time extension of the grant program for the 2022-23 fiscal year. GO-Biz will update the Committee and all CalCompetes stakeholders once a final budget has been signed.

Mr. Dosick stated that the CalCompetes team will be hosting 3 online webinars throughout July and August prior to the start of the first application period of the 2022-23 fiscal year. These webinars are free to attend, and everyone is encouraged to share the links with any interested parties. He also stated that GO-Biz has been meeting with representatives of the California Labor Federation and the United Food and Commercial Workers Union to collaborate on reaching out to businesses that may be unaware of the opportunities associated with the CalCompetes program.

Mr. Dosick thanked the CalCompetes team for their ongoing commitment to this program and the state.



Mr. Dosick also thanked CalEPA for making this room available for today's meeting and for handling all of the IT needs including connecting a Committee member remotely and livestreaming this entire meeting.

D. Discussion and Approval of California Competes Tax Credit Agreements

Total Recommended Tax Credits:	\$175,957,469
Total Recommended Tax Credits after Adjusting for S-Corporation Law¹:	\$178,257,469

Chair Myers proposed removing Agenda Item D-14 from consent for further discussion. She asked if there were any other questions or comments from the Committee or members of the public on any of the items not pulled at this time. Deputy Director Dosick confirmed we did not receive any public comments. Member Walters confirmed there were no public comments at his location. Chair Myers called for a motion to approve all items under Agenda Item D except for Item D-14.

- Action Moved/Seconded:** Members Miller/Schaefer
- Yes:** Members Schaefer, Miller, Walters, Myers
- No:** None

E. Discussion and Approval of Recommendations for California Competes Tax Credit Recapture

Total Tax Credits Recommended to be Recaptured:	\$23,281,100
Total Tax Credits Recommended to be Recaptured after Adjusting for S-Corporation Law²:	\$24,225,600

Chair Myers asked if there were any questions from Committee Members or public comments on Item E.

Deputy Director Dosick stated that Scott Mandeville was here to provide a comment regarding Agenda Item E-35.

Mr. Mandeville thanked the Committee for the opportunity to speak. He stated that Just Say Music, Inc. had been achieving its milestones until 2020, which was the final year of its CCTC agreement. As a result of COVID protocols, he was forced to close in 2020, which resulted in the termination of all of his employees. He also stated that music education was not allowed back in school until this year as the Department of Public Health advised against mouth-blown instruments. Just Say Music, Inc. was given

¹ One-third of the California Competes Tax Credit may be utilized by an S-Corporation to offset the tax on net income at the S-Corporation level (R&TC §23803(a)(1)). The remaining two-thirds is disregarded and may not be used as a carryover for the S-Corporation (R&TC §23803(a)(2)(A)). However, the full amount of the California Competes Tax Credit is also passed through to the S-Corporation's shareholders (R&TC §23803(a)(2)(F)).

² One-third of the California Competes Tax Credit may be utilized by an S-Corporation to offset the tax on net income at the S-Corporation level (R&TC §23803(a)(1)). The remaining two-thirds is disregarded and may not be used as a carryover for the S-Corporation (R&TC §23803(a)(2)(A)). However, the full amount of the California Competes Tax Credit is also passed through to the S-Corporation's shareholders (R&TC §23803(a)(2)(F)).



an extension into 2021 but that did not cover the lull that was experienced. He stated that the federal government recognizes it's business as belonging to a hard hit industry.

Mr. Mandeville stated that they did not maintain their milestones into the fifth year, though they were on track to do so until COVID. The \$36,000 recapture would be significant to the business. He stated that they did not meet the milestones because the government shut them down.

Chair Myers stated that she sympathized with the challenges that the business, and many others faced. Beyond the one-year extension that was offered in 2021, the program does not allow for any additional flexibility.

Mr. Dosick stated that there are proposals in the governor's budget specifically for hard hit industries and small business relief grants.

Chair Myers asked if Mr. Mandeville had applied for small business relief grants in the last two years.

Mr. Mandeville stated that he had and that he was denied.

Chair Myers stated that there is money allocated for small businesses in the Governor's budget that still must be reconciled with the legislature. Given the way that the program is written we have to proceed with the recapture. She also stated that GO-Biz would be happy to discuss with him further.

Mr. Mandeville stated that the recapture requires amending 12 tax returns and that the resulting penalties and interest would also be concerning.

Mr. Dosick stated that it doesn't necessarily require that. He offered to speak to Mr. Mandeville after the meeting.

Member Miller stated that while the Franchise Tax Board has certain requirements, we can ensure that you receive as much assistance as possible and that it is the least painful process as possible. She thanked Mr. Mandeville for being so gracious and professional.

Mr. Dosick stated that the CalCompetes statute indicates that the FTB will assess the taxes owed due to a recapture in the tax year in which the credit was recaptured. While we must be careful to not give tax advice, the FTB can talk about the benefits of waiting for the credit to be recaptured instead of going back and amending prior tax returns.

Chair Myers asked if there were any other public comments on Agenda Item E. Deputy Director Dosick confirmed we did not receive any public comments. Member Walters confirmed there were no public comments at his location. Chair Myers called for a motion to approve Agenda Item E.

Action Moved/Seconded: Members Walters/Miller

Yes: Members Schaefer, Miller, Walters, Myers

No: None



F. Discussion and Approval of Recommendations for Modified California Competes Tax Credit Recapture

Total Recommended Tax Credits to be Recaptured:	\$2,290,000
Total Recommended Tax Credits to be Recaptured after Adjusting for S-Corporation Law³:	\$2,555,000

Chair Myers asked if there were any questions from Committee Members or public comments on Item F. Deputy Director Dosick confirmed there were no public comments. Member Walters confirmed there were no public comments at his location. Chair Myers requested a motion for approval of Agenda Item F.

- Action Moved/Seconded:** Members Miller/Schaefer
- Approve:** Members Schaefer, Miller, Walters, Myers
- No:** None

D-14. Communaute LLC

At the request of Chair Myers, Deputy Director Dosick elaborated on Agenda Item D-14. He described the company and the proposed tax credit Agreement to the Committee. Agenda item D-14 is a California Competes Tax Credit Agreement with Communaute LLC. Communaute LLC is a designer and online retailer of women’s and children’s clothing. Communaute’s apparel is sold online and distributed through its wholesale partners. Communaute partners with its suppliers based on collaborative governance, ethical labor practices, efforts towards the empowerment of women in the workforce, and quality standards to ensure corporate social responsibility over its supply chain. As a result, more than 80% of Communaute’s products are manufactured in women-owned or co-owned factories. Furthermore, Communaute stated in its application that it endorsed the Garment Worker Protection Act last year which commits to reinforce fair and improved practices to protect garment workers’ rights. In exchange for a \$1,325,000 tax credit, Communaute is proposing to create 101 new, full-time jobs and make \$3,800,000 in investments. Communaute has certified in its application that absent award of the California Competes Tax Credit, its project may occur in another state; and, it may terminate all or a portion of its employees in California or relocate all or a portion of its employees in California to another state. Communaute was previously awarded a \$390,000 California Competes Tax Credit on April 12, 2018, in exchange for its commitment to create 50 new full-time jobs. The net increase of 101 jobs proposed for this Agreement is above and beyond the proposed growth from its first agreement. To date, Communaute is on track to meet all of its previous employment and investment milestones. The

³ One-third of the California Competes Tax Credit may be utilized by an S-Corporation to offset the tax on net income at the S-Corporation level (R&TC §23803(a)(1)). The remaining two-thirds is disregarded and may not be used as a carryover for the S-Corporation (R&TC §23803(a)(2)(A)). However, the full amount of the California Competes Tax Credit is also passed through to the S-Corporation’s shareholders (R&TC §23803(a)(2)(F)).



jobs Communaute is committing to create are in classifications such administration, sales, marketing, operations, logistics, and executive leadership.

Communaute indicated in its application that it plans to expand by adding a new logistics facility in either California or Arizona. Specifically, Communaute stated that it is considering opening a new facility in Van Nuys, California while also expanding its existing Los Angeles, California facility or moving its existing Los Angeles facility to Chandler, Arizona to a facility large enough to support both the existing employees and the projected growth. Communaute indicated in its site selection analysis that it could save \$1,344,000 in labor costs, real estate costs, taxes, credits, and incentives over the next five years if it selects Arizona instead of California. However, if awarded a tax credit, Communaute stated that it is willing to commit the job and investment growth to California instead of Arizona.

Mr. Dosick introduced Margaret Kleveland, Owner and Chief Executive Officer; Joanne Fadul, Vice President of Finance; Katya Young, Financial Controller; and Sarah Hoyt, Communaute's consultant, who were available to answer the Committee's questions.

Margaret Kleveland introduced her team and thanked the Committee for the opportunity to speak regarding its application. She also thanked the Committee for its existing California Competes Tax Credit which has played a significant part in its decision making to date. She stated that she and her co-founder recognized and were met head on daily with inequities in representation for women in the fashion supply chain. The company was started with the mission to close the gender gap and support women in all aspects of its ethical supply chain.

Ms. Kleveland stated that it has two means of carrying out that mission. One of them lies in its factory selection. She stated that it has a matrix of factory requirements including programs to develop employees, and auditing and certification programs. She stated that Communaute has spent a lot of resources on developing internal employee development programs. In preparation for B Corp certification, which it is pursuing, it has just finished mapping its carbon footprint for Scopes 1, 2, and 3, something that she believes is unprecedented for a company of this size. She stated that they found significant emissions reduction by keeping some operations in California that could otherwise be relocated. Remaining in California is good for the environment and it is good for employees. She stated that they are committed to providing good, dignified jobs with clear paths for growth. They have created innovative policies to elevate woman and people of color with the organization.

Member Walters asked to hear more about the jobs and work being performed at the new Van Nuys facility.

Ms. Kleveland stated that the jobs are in primarily in distribution and logistics, but there are others that have corresponding roles to support sales and the new "reCommerce" division.



Mr. Walters asked if they were planning on bringing in a lot of new technology at this facility.

Ms. Kleveland stated that they have brought in new technology. They are interested in conducting lifecycle analysis as part of their environmental responsibility commitments. This includes QR coding with unique blockchain codes per garment. She stated that in 2019 and 2020, the business significantly invested in upgrading its Enterprise Resource Planning ERP system and warehouse management system. As a result of this investment and having sophisticated systems, they are easily able to integrate new technology. She stated that because of the quality of their products, which are made in the U.S., Italy, Portugal, Europe, and Asia, it is important to the company to have internal employees trained in quality control, which will always be a highly manual task.

Mr. Walters asked if they have looked into training employees in these new technologies.

Ms. Kleveland stated that they do a lot of excel training for employees. Excel skills are crucial and can be something that moves an employee from a manual job to an administrative or a leadership role. They conduct excel trainings twice a year up to the higher intermediate skill level. She stated that they also train employees on soft skills for leadership trainings, emotional intelligence, and conflict resolution. As the business becomes more sophisticated, there will be trainings that go along with it.

Mr. Walters congratulated Ms. Kleveland for breaking down barriers and being a model for the industry.

Chair Myers asked about the impact from the last CalCompetes award.

Ms. Kleveland stated that even though the jobs were entry level distribution center jobs they pay much more than minimum wage. The California Competes Tax Credit allowed the company to create well-paying jobs, whereas in another situation attempting to remain competitive, it wouldn't have been able to do that. She also stated that it has helped with retention over the tumultuous last two years. The feedback from the team at the distribution center is that these are well-paying jobs. She also stated that as part of a larger business community, the feedback from other businesses in the fashion, beauty, and consumer product industries is that they have not been incentivized to stay in California. Being able to create those well paying entry jobs has been its competitive edge.

Chair Myers stated that GO-Biz's mission to keep innovative, young businesses in California and allow them to grow. She thanked Ms. Kleveland for her response.

Member Schaefer stated that he represents a woman on this Committee, who is a constitutional officer of this state. She has been very vocal about promoting opportunities here in California for women entrepreneurs and she would be strongly supportive of this item.



Member Miller stated she was pleased to hear about the positive relationship with the workers in the distribution center as it is a great model. She also stated that she liked hearing about soft skill training provided to employees.

Chair Myers asked if there were any other questions from Committee Members or public comments on Item D-14. Deputy Director Dosick confirmed there were no public comments. Member Walters confirmed there were no public comments at his location. Chair Myers requested a motion for approval of Agenda Item D-14.

Action Moved/Seconded: Members Schaefer/Miller

Yes: Members Schaefer, Miller, Walters, Myers

No: None

G. Public Comment

Chair Myers asked if there were any other public comments. Deputy Director Dosick confirmed there were no public comments. Member Walters confirmed there were no public comments at his location.

H. Adjournment

Chair Myers adjourned the meeting at 1:36 p.m.