



GOVERNOR'S OFFICE OF BUSINESS
AND ECONOMIC DEVELOPMENT



California Competes Tax Credit Program

Edmund G. Brown, Jr
Governor

Panorea Avdis
Director

Will Koch
Chief Deputy Director

Kristen Kane
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California Competes
Tax Credit Program

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Committee Meeting

Thursday, June 16, 2016
1:30 p.m.

Department of Food and Agriculture
Auditorium
1220 N Street
Sacramento, CA 95814

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

MINUTES

MEMBERS:

Panorea Avdis, *Chair*
Director
Governor's Office of Business
and 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

Chair Avdis called the meeting of the California Competes Tax Credit Committee (Committee) to order at 1:41 p.m.

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

B. Approval of Minutes from April 14, 2016, Committee Meeting

Chair Avdis called for any questions or comments from the Committee or public regarding Agenda Item B. Hearing none, she requested a motion to approve Agenda Item B.

Action: Moved/Seconded: Member Gordon/Member Janis

Yes: Members Avdis, Gordon, Janis, Ortega, and Zapata

No: None

C. Chief Deputy Director's Report

- **Agenda Overview – Agreements with 67 Businesses, Total Tax Credits \$46,776,921**



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

- Kristen Kane is the new Deputy Director for the California Competes Tax Credit Program.
- To date, GO-Biz staff has conducted 100 public workshops across the state and 17 webinars. Over the next few months, GO-Biz will be hosting another 20 or so workshops focusing on high need areas of state, such as Imperial County, the Inland Empire, the Central Valley, Salinas, Northern California, and other locations.
- There are 67 agreements before the Committee, representing a net increase of over 4,000 full-time jobs and \$1.3 billion of investments in California and the total recommended tax credits is \$46.7 million.
- Agenda Item F contains three previously approved agreements that are recommended for termination by GO-Biz. Each of the three businesses associated with these agreements voluntarily requested termination due to reasons referenced in the agenda.
- The GO-Biz legal team reviewed the demographics topic from the previous Committee meeting and concluded that the law as written would not allow GO-Biz to use demographic data as a consideration for awarding a California Competes Tax Credit even if GO-Biz was in possession of a business's workforce demographics data. As a result, GO-Biz will not be amending its regulations to collect demographic data. However, GO-Biz will be proposing amendments to its regulations to ask in the application about a business's hiring and recruiting practices to promote a diverse and inclusive workforce. As part of the regulatory process, there will be an opportunity for members of the Committee, stakeholders, and any member of the public to provide input and comments on the proposed changes. The regulatory process is expected to be finalized before the next Committee meeting in November and an update will be provided.

Chair Avdis asked if the proposed regulations will be ready for the upcoming application period. Chief Deputy Director Koch clarified that the regulations will not be in effect for this upcoming application period.

Member Janis stated she is pleased that GO-Biz has taken into consideration the demographics topic and believes the change to the regulations is a good compromise for an issue that Californians care about. She stated that it is important to make businesses think about their plans because many are not consciously thinking about diversity or inclusion. Member Janis requested to have the update on the status of the regulations be its own agenda item on the next Committee meeting agenda.

In addition, Member Janis stated that GO-Biz staff should consider anything in the application that may indicate the law is not being followed, given, that the California Competes Tax Credit Agreements require businesses to abide by all state and federal laws, which include anti-discrimination laws.

Chair Avdis called for any questions or comments from the Committee or public regarding the Chief Deputy Director's Report. Hearing none, she moved on to Agenda Item D.



D. Discussion and Approval of California Competes Tax Credit Agreements with Businesses other than Small Businesses

Total Recommended Tax Credits: \$39,688,838
Total Recommended Tax Credits after Adjusting for S-Corporation Law¹: \$41,412,838

Chair Avdis called for any questions or comments from the Committee or the public regarding Agenda Item D. Deputy Director Kane stated Member Janis had requested that Agenda Items D-1, D-2, D-3, and D-4 be removed from consent for further discussion after Agenda Item D.

Chair Avdis moved forward with the request and asked for a motion to approve Agenda Items D-5 through D-44.

Action: Moved/Seconded: Member Ortega/Member Janis
Yes: Members Avdis, Gordon, Janis, Ortega, and Zapata
No: None

The following Agenda Items were discussed further:

D-1. NextEV USA, Inc.

At the request of Chair Avdis, Deputy Director Kane elaborated on Agenda Item D-1. NextEV USA, Inc. (NextEV) is a start-up technology company and zero emissions vehicle manufacturer. In exchange for a \$10,000,000 California Competes Tax Credit, NextEV has committed to a net increase of 917 full-time employees and an investment of over \$138 million. The jobs NextEV is committing to create are in classifications such as mechanical and computer engineer as well as director and lead of information technology, machining, and program design departments. Currently, NextEV is primarily engaged in research and development to roll out its zero emissions vehicle. NextEV received letters of support from Senator Bob Wieckowski and Assemblymember Kansen Chu.

Member Gordon asked what type of vehicle NextEV will be manufacturing.

Paula Kutansky-Brown, NextEV's Associate General Counsel, stated that NextEV will not be manufacturing in California in the immediate future, but is considering doing so in the future. The goal is to create a passenger vehicle in the price range between a Tesla Model S and a Chevrolet Volt.

Member Janis asked for additional clarification of the proposed project if NextEV was not currently pursuing manufacturing.

Kutansky-Brown explained that the project location in San Jose is focusing on the vehicle's software development – essentially the vehicle's operating system, the user interface, telematics,

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)).



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infotainment system, etc. In addition, the California Competes Tax Credit would allow the company to ramp up the hiring of engineers, designers, and research and development staff. Kutansky-Brown explained that to make a global vehicle, NextEV needs to invest more in research and development to satisfy safety standards around the world.

Member Janis asked about the company's ownership.

Kutansky-Brown explained that NextEV is not a public company and is largely comprised of Chinese investors with a smaller but growing percentage of shareholders from Europe and America.

Member Janis requested the agreements on each business state the proposed minimum annual wages versus minimum annual salaries to be consistent with the new labor regulations implemented by the Obama administration.

Chief Deputy Director Koch stated that the agreements for each business include the minimum annual salaries because the California Competes Tax Credit program has a specific definition for salary, which is outlined in the regulations.

Member Janis asked about NextEV's plans for hiring and training to make sure the company is committed to diversity.

Kutansky-Brown explained that the company's CEO, Padmasree Warrior, is a woman of color from the Central Valley. She further explained that currently 56% of the workforce consists of underrepresented individuals and 30% are women. She elaborated that the CEO's goal for NextEV is to have a workforce that represents an equal gender balance. In addition, the CEO is actively involved in creating a pipeline in the Central Valley to get more women in the software engineering and design fields. Kutansky-Brown said, the company has only been in existence for one year and has already demonstrated its commitment to diversity.

Member Janis asked if the NextEV will use any temporary employees in its workforce.

Kutansky-Brown stated that NextEV will only use a few temporary employees, approximately five percent of the workforce, and is committed to converting them to full-time hires within six months. She further explained that using temporary employees is helpful for the start-up to fill in any gaps as the company grows. In addition, she clarified that none of the 917 jobs NextEV committed to creating in its Agreement will be temporary positions.

Member Zapata asked if NextEV plans to work with universities in the future and expressed her desire for the company to continue its outreach to other regions of the state, such as the Central Valley and Imperial County.

Kutansky-Brown stated that she shares Member Zapata's wish that partnerships will expand throughout the state. She explained the company plans to establish partnerships with local universities within the next two to three years.



Chair Avdis called for any questions or comments from the Committee or the public regarding Agenda Item D-1. Hearing none, she requested a motion to approve Agenda Item D-1.

Action: Moved/Seconded: Member Gordon/Member Janis

Yes: Members Avdis, Gordon, Janis, Ortega, and Zapata

No: None

D-2. OWB Packers LLC

At the request of Chair Avdis, Deputy Director Kane elaborated on Agenda Item D-2. OWB Packers LLC (OWB) is a beef processing company that is proposing to purchase and renovate a processing plant in Brawley, California. In exchange for a \$6,000,000 California Competes Tax Credit, OWB has committed to a net increase of 605 full-time employees and an investment of over \$38 million. The jobs OWB is committing to create are in classifications such as meat processing, maintenance, purchasing, quality control, sales representative, shipping and security. OWB's expansion will be centered on the implementation of new technology, refined standards, and bringing jobs back to an area where National Beef closed this facility in 2014. This closure resulted in the layoff of 1,300 employees and forced local ranchers to ship a significant portion of their cattle to processing facilities in Arizona and Texas. Brawley was hit extremely hard by the Great Recession and continues to have some of the highest unemployment and poverty rates in the State. Data from the Labor Market Division of the California Employee Development Department indicates that the 2015 statewide average wage for slaughterers and meat packers was less than \$25,000 per year. The average wages OWB projects for its meat processing employees exceed this amount. Recognizing the extent of poverty in Brawley, OWB indicated it will offer free shift meals to its employees. The meals are prepared by other OWB employees who are participating in an OWB sponsored culinary arts training program. The company also prides itself on providing cross training opportunities for its staff and promoting employees from within its ranks into supervisory and managerial positions. OWB received a letter of support from Assemblymember Eduardo Garcia.

Chair Avdis stated that she had worked with National Beef when it was closing and expressed her happiness for OWB's proposal to revive the meat processing facility and bring these jobs back to Brawley.

Member Zapata stated she received a letter earlier that day from Earth Justice, which expressed concern regarding the environmental impact the planned facility would have on the local community. Member Zapata asked the company to expand upon its business plan to make sure the local community will not be negatively impacted.

Chair Avdis, Chief Deputy Director Koch, Deputy Director Kane, Member Gordon, and Member Ortega stated that they had not received the letter from Earth Justice.

Member Janis said she received the letter by e-mail at approximately 12:45 p.m.



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Armand Nicholi, OWB's Chief Financial Officer, explained that the company had been in the process of acquiring the plant for the last 15 months. The company had spent over a million dollars to get the necessary permits and be in accordance with all regulations. Nicholi expressed that receiving the California Competes Tax Credit would be very helpful because the regulations are very costly. Nicholi also stated that OWB was in full compliance with its discharging processes and that all regulatory boards have approved the company's plans.

Eric Brandt, OWB's owner, explained that the company closed escrow on June 15, 2016 for the meat processing facility and it has not been operational since 2014. In addition, Brandt stated that National Beef's discharging processes were in compliance with the Regional Water Quality Control Board and the City of Brawley.

Member Janis asked Brandt to explain why the company had a \$3.7 million fine levied against it by the California Regional Water Quality Control Board

Brandt explained that National Beef, the former owner of the facility, was responsible for the fine and he believes that it was settled. Brandt clarified, that OWB Packing is a new entity that has not yet started operation, and therefore could not be in violation of any regulations. Brandt stated the OWB just closed escrow on the former National Beef facility on June 15, 2016 and plans to be in full compliance as it develops. In addition, Brandt stated that OWB has a very different business model as a craft beef company serving a niche market as opposed to the volume based business run by National Beef.

Chair Avdis asked how many heads of cattle the facility will process per day.

Nicholi stated that the company plans to ramp up slowly, only processing a few hundred a day. The facility can support 2,400 a day, but the company plans to max out at 1,200. Nicholi went on to explain that operating at these lower levels will dramatically reduce the amount of effluent flowing from the facility compared to the amount during National Beef's operation of the plant. He also elaborated on the on-site effluent pretreatment system to ensure all discharges to the city of Brawley's sewer system meet city and regional regulatory requirements.

Member Janis inquired about the company's sustainable practices.

Brandt explained that OWB plans to create a fully transparent process where smaller meat producers can get a fair processing fee. In addition, Brandt stated that animal welfare is a high priority for the company. Being a USDA certified processing facility, Brandt explained that the government has assured that the meat is safe for consumption and animal welfare is preserved. In addition, Brandt noted that their systems are a Temple Grandin design to help ensure animal welfare.

Chair Avdis asked where next the nearest meat processing facility is.

Brandt stated that Arizona has the closest large-scale facility with two small ones in Los Angeles and Central Valley.



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Member Janis expressed her belief that slaughtering is one of the most dangerous jobs in the world. She asked OWB to explain their position regarding the OSHA citations, worker injuries, and quashed employee attempts to organize a union at the former National Beef facility.

Brandt explained that OWB is a new entity and these instances are not a reflection of their company. The Brandt family was previously part of a co-operative that had partial ownership in National Beef; however, they had no involvement in the management of the company. In addition, the Brandt family has had no involvement since 2005 when National Beef bought out the family's shares. Brandt also stated that he believes everything is about culture and he plans to establish a culture of treating people and animals with respect.

Member Janis asked what OWB plans to do to reduce injuries and increase bathroom breaks.

Nicholi stated that OWB has every intention of running the business in a way that is profitable to both the shareholders and the employees. The company will be ramping up slowly over the next four years and Brandt has worked every job within the industry which will inform how the company develops its culture. In addition, Nicholi stated that OWB plans to work with a consultant to implement an injury and illness prevention model program that will ensure safety standards and workers' rights are met. Nicholi said the company has every intention to create the absolute best working environment.

Member Janis asked if the numbers in the milestone chart in the California Competes Tax Credit Agreement needed to be adjusted to make sure the minimum wage requirements were met.

Deputy Director Kane stated that the minimum wages for each tax year in the Agreement meet or exceed the projected minimum wages requirements.

Member Janis asked GO-Biz staff why the current due diligence process did not uncover the environmental issues associated with the former meat processing facility.

Deputy Director Kane stated that OWB is an entirely new entity that affirmatively stated it has not violated any laws. In addition, she said, OWB committed to a smaller operation that will result in less discharge than the former National Beef facility. Deputy Director Kane stated that going forward the company has committed to being in compliance with all of California's environmental standards.

Member Janis voiced her concerns about water sanitation due the facility's discharge into local bodies of water and Member Ortega questioned what still needed to be done to ensure environmental standards are met.

Nicholi explained that National Beef was operating at much larger volumes than OWB plans to be, but it was still in compliance with the City of Brawley and the Regional Water Quality Control Board. Nicholi discussed the process of filtration before discharge, explaining that the water being discharged from the facility will actually cleaner than the highly polluted New River into which the water will flow. Brandt further stated that all permits given to OWB were based on the condition that the company will be processing at a much lower level than National Beef.



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Member Gordon offered a summary of the information discussed: OWB is a family owned business, in compliance with all current laws and regulations, and plans to bring much needed jobs back to Brawley.

Chair Avdis called for any questions or comments from the public regarding Agenda Item D-2.

Assemblymember Eduardo Garcia stated his belief that OWB has appropriately answered the issues discussed in the letter sent in by Earth Justice. He stated that he agrees we should ensure that the meat processing facility is in compliance with environmental regulations. He then explained that the unemployment level in Imperial County consistently remains above 20%, compared to 5.2% across the state. In addition, there is no university in the region, the Small Business Development Center had to shut down due to lack of funding, and the region is ranked among the highest in the nation for economic development issues. Furthermore, he stated this proposal has strong local support and the local water agency has put forward a \$2.5 million grant and the county has offered a loan of \$2.5 million in support of OWB's efforts. Assemblymember Garcia encouraged the Committee approve OWB's credit request.

Member Janis asked if additional language could be added to the contract related to compliance with environmental regulations.

Deputy Director Kane stated that the Agreement already contains language that states the business must be in compliance with all state and federal laws and regulations.

Chief Deputy Director Koch stated that if the company is in violation of state or federal law, then the company is in breach of its Agreement. Accordingly, GO-Biz can recommend a recapture of the credit.

Chair Avdis asked for any additional public comments.

Richard Harmon, representing Imperial County, and Jack Gualco, representing the Imperial Irrigations District, stated their strong support for OWB.

Sara Flocks, California Labor Federation, stated the organization was concerned about OWB's predecessor but was neither in support or opposed to OWB's credit request. She expressed the organization's hope that a lot of attention will be given to worker safety and requested that OWB look to experts for help.

Chair Avdis called for any questions or comments from the Committee or the public regarding Agenda Item D-2. Hearing none, she requested a motion to approve Agenda Item D-2.

Action: Moved/Seconded: Member Gordon/Member Ortega

Yes: Members Avdis, Gordon, Ortega, and Zapata

No: None

Abstain: Member Janis



D-3. Pabst Brewing Company LLC

At the request of Chair Avdis, Deputy Director Kane elaborated on Agenda Item D-3. Pabst Brewing Company LLC (Pabst) is a large-scale brewing company that produces over two dozen branded products. In exchange for a \$3,047,500 California Competes Tax Credit, Pabst has committed to a net increase of 328 full-time employees and an investment of over \$400,000,000 million. The jobs Pabst is committing to create are in classifications such as operations staff, accountant, engineer, brewer, administration, plant manager, and corporate staff. Pabst is seeking to make a very significant financial investment in California by establishing a new brewery capable of packaging and shipping 8 million barrels of beer annually in Central or Northern California. While Pabst has not decided on a specific location yet, it is expected to have a very significant economic impact in any region it occupies. Pabst has manufacturing facilities throughout the country and these good wage manufacturing jobs with a strong benefits package do not have to be in California.

Member Janis asked if the company has chosen a final location and if it is committed to California.

Seth Martindale, Pabst's representative, stated that the California Competes Tax Credit is a significant factor in the company's decision whether to site its new facility in California, a decision Pabst has yet to make.

Member Janis asked how GO-Biz staff can analyze an application if there is no information on where the job growth will occur.

Deputy Director Kane explained that without a stated location it is not possible to grant the preference that a company would get for moving into an underserved or economically depressed area. However, when a company is offering jobs that would be competitive for their classification anywhere in the state, as is the case here, GO-Biz can evaluate the application using statistics and information more general to California rather than to a specific location in California. Furthermore, she explained that one of the purposes of this credit is to attract businesses to California that may otherwise locate in another state. When a company has not yet selected a site and is considering locations both inside and outside of California, like Pabst is, awarding the credit may be the final impetus for the company to choose California over another state. As such, continued Kane, it is often necessary to consider a credit award before the company has selected a location to meet the purpose of attracting companies to California.

Martindale also explained that Pabst cannot divulge where the potential sites are at this point in time because it would hurt the company's leverage in negotiations.

Chair Avdis called for any questions or comments from the Committee or the public regarding Agenda Item D-3. Hearing none, she requested a motion to approve Agenda Item D-3.

Action: Moved/Seconded: Member Gordon/Member Ortega

Yes: Members Avdis, Gordon, Janis, Ortega, and Zapata

No: None



D-4. GreenPower Motor Company, Inc.

At the request of Chair Avdis, Deputy Director Kane elaborated on Agenda Item D-4. GreenPower Motor Company, Inc. (GreenPower) is a manufacturer of electric-powered transit, coach, and school buses. In exchange for a \$3,000,000 California Competes Tax Credit, GreenPower has committed to a net increase of 190 full-time employees and an investment of over \$10 million. The jobs GreenPower is committing to create are in classifications such as assembler, sales support staff, sales and operations manager, and marketing and investment relations staff. GreenPower is proposing to construct its manufacturing plant in Porterville, California which has extremely high poverty and unemployment rates of 28.8% and 21.3% respectively. As GreenPower has facilities outside of California, these potential manufacturing jobs do not have to be in California.

Chair Avdis stated that she believes this proposed project is a great opportunity for the area given the high levels of poverty and unemployment.

Member Janis stated that she is in full support of this business and was interested in learning about the types of technologies the company plans to use and if the California Competes Tax Credit would have any impact on the location of GreenPower's suppliers.

Fraser Atkinson, GreenPower's Chairman, who participated via teleconference, described the various types of charging systems the company plans to incorporate into its buses, its customer base, and the role the California Competes Tax Credit would play in helping to encourage its suppliers to move to Porterville in the hopes of creating a hub of green technology. To illustrate this point, he indicated that GreenPower's battery supplier had already agreed to locate in close proximity to its Porterville facility.

Member Janis inquired about the company's commitment to recruiting and training a diverse workforce.

Atkinson explained that the local college has a program that is closely aligned with the company's desired skillsets. He also stated that GreenPower intends to work with other local colleges and universities to ensure the curriculum syncs up with the company's needs. In addition, Atkinson indicated that GreenPower plans to adjust its current training programs to better serve people within the community. Atkinson stated that he believes that the company can continue to do better to ensure diversity, but has done a pretty good job thus far. GreenPower is actively pursuing a Director of Human Resources that will help the company develop a training and development program.

Chair Avdis called for any questions or comments from the Committee or the public regarding Agenda Item D-4. Hearing none, she requested a motion to approve Agenda Item D-4.

Action: Moved/Seconded: Member Gordon/Member Janis

Yes: Members Avdis, Gordon, Janis, Ortega, and Zapata

No: None



E. Discussion and Approval of California Competes Tax Credit Agreements with Small Businesses

Total Recommended Tax Credits: **\$14,005,560**
Total Recommended Tax Credits after Adjusting for S-Corporation Law²: **\$14,768,080**

Deputy Director Kane stated that no items under this agenda item were requested to be removed from consent. Chair Avdis called for any questions or comments from the Committee or public regarding Agenda Item E. Hearing none, she requested a motion to approve Agenda Item E.

Action: Moved/Seconded: Member Gordon/Member Ortega
Yes: Members Avdis, Gordon, Janis, Ortega, and Zapata
No: None

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

Total Tax Credits Recommended to be Recaptured: **\$1,620,000**
Total Tax Credits Recommended to be Recaptured after Adjusting for S-Corporation Law³: **\$1,626,667**

Deputy Director Kane stated that no items from this agenda item were requested to be removed from consent.

Chair Avdis called for any questions or comments from the Committee or public regarding Agenda Item F. Hearing none, she requested a motion to approve Agenda Item F.

Action: Moved/Seconded: Member Gordon/Member Ortega
Yes: Members Avdis, Gordon, Janis, Ortega, and Zapata
No: None

G. Public Comment

Chair Avdis called for any other questions or comments from the public or the Committee and heard none.

H. Adjournment

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)).

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)).



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After asking if there were any additional comments from the public or the Committee and seeing none, Chair Avdis adjourned the meeting at 3:07 p.m.

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