



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

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Tax Credit Program*

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Committee Meeting

**Thursday, April 14, 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

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*

MINUTES

OPEN SESSION

A. Call to Order and Roll Call

Chair Avdis called the meeting of the California Competes Tax Credit Committee (Committee) to order at 1:32 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 November 10, 2015, 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 Gordon, Janis, Ortega, and Zapata

No: None

Abstain: Chair Avdis



C. Chief Deputy Director's Report

- **Agenda Overview – Agreements with 103 Businesses, Total Tax Credits \$70,539,413**

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

- There are 103 agreements before the Committee representing a net increase of over 9,000 full-time jobs and \$1.3 billion of investments in California and the total recommended tax credits is \$70.5 million.
- Agenda Item F contains a previously approved agreement that is recommended for termination by GO-Biz. The business associated with this agreement voluntarily requested termination for reasons referenced in the agenda.
- Agenda Item H, Other Non-Business Action, has been added at the request of Member Janis to discuss her memorandum relating to the California Competes Tax Credit application process and asking demographic related questions.

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

Total Recommended Tax Credits:	\$54,023,000
Total Recommended Tax Credits after Adjusting for S-Corporation Law¹:	\$55,771,333

Chair Avdis called for any questions or comments from the Committee or the public regarding Agenda Item D. Chief Deputy Director Koch stated Member Janis had requested that Agenda Items D-1, D-2, D-3, and D-30 be moved for further discussion after Agenda Item D.

Chair Avdis moved forward with the request and asked for a motion to approve Agenda Items D-1 through D-68, excluding D-1, D-2, D-3, and D-30.

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

The following Agenda Items were discussed further:

D-1. Faraday & Future, Inc.

At the request of Chair Avdis, Chief Deputy Director Koch elaborated on Agenda Item D-1. Faraday & Future, Inc. (Faraday) is a startup company that is developing and manufacturing fully-electric vehicles. In exchange for a \$12,725,000 California Competes Tax Credit, Faraday has committed to a net increase of 1,990 full-time employees and an investment of over \$311 million. The jobs Faraday

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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is committing to create are in classifications such as: supply chain analyst, vehicle engineer, finance, human resources, attorney, and paralegal.

Member Janis indicated that she is supportive of electric vehicles and the company's mission to reduce consumption of fossil fuels; however, she wanted to learn more about the locations for the various types of jobs that will be created. Crystal Peterson, Faraday Human Resources Director, explained that the company's employment growth is focused around research and development and prototype development with a majority of the jobs being for engineers and designers. The production jobs will be distributed across all four locations, but will mainly occur in the Southern California location.

Member Janis asked about the opportunities the company provides for women and minorities. Specifically, she wanted to know if the company offers any formal training for its employees and if it had any outreach activities planned. Crystal Peterson explained that the company had developed a workforce plan in mid-2014 to achieve a diverse workforce. Part of its plan includes targeting universities and technical schools to recruit the right talent. Also, the company has a robust career plan including tuition reimbursement and leadership programs to help employees advance within the company. In the laboratory space, the company allows a flexible schedule, including opportunities to work night or weekend shifts to allow for more gender diversity and be more appealing to individuals with families.

Member Janis wanted to understand the workforce plan for the Rancho Dominguez location. Crystal Peterson responded that the company hires extensively from the local community. In addition, Faraday works with the local high schools and community colleges in the area to recruit its workforce.

Member Gordon expressed his support for the company and inquired about its production schedule. Syed Rahman, Faraday's Operations Controller, who participated via teleconference, stated that the first car will be on the market in late 2017. Member Gordon also was interested to learn about the company's production facility in Nevada. He wanted to know what Nevada offered that California did not. Crystal Peterson explained that the company wanted to get the manufacturing site as close as possible to the engineering site, but needed a larger space for the manufacturing facility and that space was not available in California. The company is building the facility it needs in Nevada.

Member Gordon inquired about Faraday's place in the automobile market. Syed Rahman stated that the company plans to enter the market initially with high-end vehicles to demonstrate to consumers what the company is capable of. Nine months after the launch of the high-end vehicles, mass market vehicles will be released.

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 Ortega

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

No: None



D-2. Nordstrom, Inc.

At the request of Chair Avdis, Chief Deputy Director Koch elaborated on Agenda Item D-2. Chief Deputy Director Koch stated Nordstrom, Inc. (Nordstrom) is a fashion retailer with 322 stores throughout the United States. Nordstrom is currently deciding whether to open a new distribution and online fulfillment center in Fresno, Visalia, Arizona, or Western Nevada. In exchange for an \$11,000,000 California Competes Tax Credit, Nordstrom has committed to a net increase of 367 full-time employees and an investment of \$171 million. The jobs Nordstrom is committing to create are in classifications such as: laborer, material mover, warehouse supervision and management. Despite the state's overall economic recovery from the Great Recession, 10 percent of Central Valley residents are still unemployed and, in the case of Fresno, over 25 percent are living in poverty. GO-Biz had received numerous letters of support from local leaders and economic development professionals strongly encouraging award of this credit to Nordstrom and attesting to the significant positive economic impact this project could have on the region.

Member Janis inquired if there is a deadline in place for deciding on the location of the proposed project. Chief Deputy Director Koch responded that there is no deadline within the agreement; however, he believes the company will be making a decision soon.

Member Janis expressed appreciation for the economic support in a depressed area and the local support from Fresno and Visalia; however, she believes it is unusual to give the credit to a retailer. Chair Avdis clarified Nordstrom's proposed project for this credit, stating that it is creating an online order fulfillment warehouse.

Member Janis wanted clarification about the data provided for median hourly wages for the region. Chief Deputy Director Koch explained the median hourly wages for the region were provided by California's Employment Development Department (EDD) under its Labor Market Information Division. The wage information provided to the Committee is the most recent available data, which was reported by EDD in the first quarter of 2015. Chief Deputy Director Koch further explained that GO-Biz staff provides this information to demonstrate that what might appear as a low wage may not actually be considered a low wage for the area for comparable job classifications. The minimum wage for Nordstrom's proposal is \$29,000 and the data confirms that in this part of the state many warehouse employees make lower wages than that.

After receiving information on the median wage data, Member Janis expressed concern about the minimum wages in Nordstrom's proposal. She wanted to understand the company's commitment to adhere to California's newly passed minimum wage law. Elaine Marr, Nordstrom's representative, responded that Nordstrom is ranked in the top ten of employers. Given that it is the company's goal to be an employer of choice, the wages will be at least in compliance with the new law, if not above. She stated that Nordstrom has been around for 100 years and is committed to continuing to be an employer of choice.

Member Janis inquired if Nordstrom is committed to locating in California. Elaine Marr responded that its board must decide where its final location for the distribution center will be. In response to a question from Member Janis about taking back the credit if the company decides not to locate this



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facility in California, Chief Deputy Director Koch clarified that, as with all of the CCTC agreements, claiming the credit is predicated on the company actually achieving its contractual milestones.

Chair Avdis invited the Mayor of Fresno and other interested parties to provide public comment on the proposed project. Mayor Ashley Swearengin, City of Fresno, clarified that her letter of support included additional jobs that are going to occur beyond what Nordstrom committed to in its California Competes application. She expressed the economic need for Nordstrom to locate in Fresno, citing the city's unemployment rate of 11.4% and median income, which is 36% lower than the state average. She also stated that only on three occasions in the past 25 years did the unemployment rate drop below double digits. Lastly, she expressed that Fresno needs these jobs to see continued economic progress.

Mike Olmos, City Manager and Mayor Steve Nelsen, City of Visalia stressed the desire to attract a high quality employer like Nordstrom due to the significantly high unemployment and poverty in the region. In addition, Nordstrom's presence would help to diversify this agricultural-based economy and create an opportunity for its citizens to be paid well and receive benefits.

Member Zapata expressed support for this project. She stated that she believes that Nordstrom's project could help break the cycle of high poverty in these locations.

Member Janis asked for clarification on the number of jobs being created. Elaine Marr stated that the jobs outlined in the contract are in compliance with the California Competes specific definition for a full-time job. Nordstrom will naturally have additional seasonal and part-time employees that are not included in the agreement, and the support letters reflect the significantly higher total number of full-time, part-time, and seasonal jobs being created.

Member Janis inquired if there is an official training program available to help part-time employees transition to full-time employees and if the company plans to use a temporary employment agency to hire employees. Elaine Marr stated that she does not believe there is an official program. However, Nordstrom prefers to hire directly, and it will only utilize a temporary employment agency if it cannot directly hire employees during peak retail seasons. She further clarified that all temporary employees have the opportunity to be hired on as full-time staff.

Member Gordon applauded the local representatives for seeing the value in a diverse economy. He inquired about the possibility for citizens from both communities to work for Nordstrom if Fresno was the chosen location. Mayor Steve Nelson stated the City of Visalia anticipates at least one-third of employees will be from Visalia.

Member Ortega commented on all of the questions about the commitment to satisfy minimum wage jobs. She explained that the California Competes Tax Credit program involves a legal contract between the state and the company that requires that the businesses comply with all state laws, including the minimum wage law. In addition, she stated that no tax credits are allocated until the salary commitments are satisfied.

The following individuals expressed their support for Nordstrom, Inc.'s credit request:



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- Adam Peck, Workforce Investment Board of Tulare County
- Eric Coyne, County of Tulare
- Esmeralda Sorin, City of Fresno
- Steve Brandau, City of Fresno, Councilman District 2
- Jose N. Mora, Fresno County Economic Development Agency

Chair Avdis called for any questions or other 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 Zapata/Member Gordon

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

No: None

D-3. Snapchat, Inc.

At the request of Chair Avdis, Chief Deputy Director Koch elaborated on Agenda Item D-3. Chief Deputy Director Koch stated Snapchat, Inc. (Snapchat) is a technology and social media company that operates a mobile application allowing users to share photos and short video messages. In exchange for a \$5 million California Competes Tax Credit, Snapchat has committed to a net increase of 1,194 full-time employees and an investment of \$32 million. The jobs Snapchat is committing to create are in classifications such as: business operations, customer support staff, and application designer.

Member Janis asked Snapchat to explain why it needs the credit. Jonathan Locascio, Snapchat's Director of Tax, stated that the company is at the beginning of its revenue cycle and it is largely funded by venture capital, which is a very unstable funding source. There is no guarantee that these funds will continue to be available.

Member Janis questioned if there is something in particular about the company's expansion that this money is needed for. Jonathan Locascio stated that the company plans to double in size and the tax credit will free up cash flow to ensure this growth occurs in California.

Chair Avdis asked if the jobs being created can happen anywhere. Noah Edwardsen, Snapchat's Communications Manager, stated that the jobs could be anywhere, but the company wants to stay in California.

Member Gordon asked if venture capital covers operational costs. Jonathan Locascio clarified that it does not typically cover operational costs and that the tax savings from the credit could be used to support salaries and benefits.

Member Janis asked what the company is doing to ensure a diverse workforce. Noah Edwardsen stated that the mobile app currently has 60 million users and it is a priority of the company to have a workforce that reflects the diversity of its users. To support this effort, the company has recently created a Head of Diversity Recruiting and has established partnerships with organizations such as Women Who Code, National Society of Black Engineers, and Military MOJO.



Chair Avdis called for any questions or comments from the Committee or the public regarding Agenda Item D-30. Hearing none, she requested a motion to approve Agenda Item D-30.

Action: Moved/Seconded: Member Gordon/Member Ortega

Yes: Members Avdis, Gordon, Ortega, and Zapata

No: None

Abstain: Member Janis

D-30. Vision Fine Foods LLC

At the request of Chair Avdis, Chief Deputy Director Koch elaborated on Agenda Item D-30. Chief Deputy Director Koch stated Vision Fine Foods LLC (Vision Fine Foods) is a food product manufacturer that produces tortillas and other bakery products. Vision Fine Foods intends to open a new manufacturing facility in Stockton to expand its production capacity. In exchange for a \$300,000 California Competes Tax Credit, Vision Fine Foods has committed to a net increase of 115 full-time employees and an investment of over \$10.6 million. The jobs Vision Fine Foods is committing to create are in classifications such as: baker, mechanic, and supervisor. With 9.5% of Stockton residents unemployed and over 24% living in poverty, full-time jobs are vitally needed in the region.

Member Janis stated that the commitment to a place like Stockton is important; however she noticed that the minimum wage is \$27,400 in the agreement. She wanted assurance that the company plans to meet the new minimum wage requirements. Joe Hurwich, Vision Fine Foods' CPA and de-facto CFO, stated the company will definitely comply with the new law.

Chair Avdis called for any questions or comments from the Committee or the public regarding Agenda Item D-30. Hearing none, she requested a motion to approve Agenda Item D-30.

Action: Moved/Seconded: Member Gordon/Member Ortega

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

Chair Avdis called for any questions or comments from the Committee or the public regarding Agenda Item E.

Mac Clemmens, Digital Deployment, expressed his gratitude for the credit. He explained that his company was started during his college career at CSU Monterey and was recently named one of the

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)).



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"Best Places to Work" by the Sacramento Business Journal. This credit will allow the company to provide quality health benefits.

Chief Deputy Director Koch stated Member Janis had requested that Agenda Item E-1 and E-3 be moved for further discussion after Agenda Item E. Chair Avdis moved forward with the request and asked for a motion to approve Agenda Items E-1 through E-30, excluding E-1 and E-3.

Action: Moved/Seconded: Member Gordon/Member Ortega

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

No: None

The following Agenda Items were discussed further:

E-1. Magic Leap, Inc.

At the request of Chair Avdis, Chief Deputy Director Koch elaborated on Agenda Item E-1. Chief Deputy Director Koch stated Magic Leap develops 3-D wearable virtual image video devices (e.g., glasses or goggles) capable of superimposing 3-D images onto real world objects. The company's technology is currently used in the development of video games, movies, and sports entertainment. In exchange for a \$3.3 million California Competes Tax Credit, Magic Leap has committed to a net increase of 141 full-time employees and an investment of over \$6 million. The jobs Magic Leap is committing to create are in classifications such as: engineer and software programmer.

Member Janis stated that she is in support of Magic Leap and was interested in understanding the evaluation of the cost per job, citing that many state programs have an established guideline for the amount of money the state is going to invest per job being created. Chief Deputy Director Koch replied that GO-Biz staff does review the cost per job for every application; it also considers the proposed capital investments. Generally speaking, the most this Committee has ever approved was \$38,000 per job. The New Employment Credit, which was created at the same time as Cal Competes can max out at over \$60,000 per job and the California Competes Tax program is significantly under that benchmark. Chief Deputy Director Koch explained that the intent of the program is to be flexible; however, GO-Biz staff is very cognizant of Member Janis' point to ensure that the state gets the best possible return. If the cost per job is too high, GO-Biz will negotiate a lower credit amount.

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

Action: Moved/Seconded: Member Gordon/Member Ortega

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

No: None

E-3. Pride Resource Partners LLC

At the request of Chair Avdis, Chief Deputy Director Koch elaborated on Agenda Item E-3. Chief Deputy Director Koch stated Pride Resource Partners LLC is a small business consulting firm that provides architectural, engineering, relocation, and project management services. The firm consults



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on public utility projects including gas and electric transmission, and the generation of solar, water, and wind energy. In exchange for a \$1.8 million California Competes Tax Credit, Pride Resource has committed to a net increase of 251 full-time employees and an investment of \$12,750,000 million. Pride Resource is committing to create jobs in classifications such as: project manager and coordinator.

Member Janis expressed a desire to better understand the company's business plan and if it will be providing health benefits. Joe Maak, President of Pride Resources, explained that his company is a certified LGBT firm and currently has committed contracts with various utility companies. In addition, a majority of the company's employees are women. Joe Maak stated the company will be hiring 30 different classifications including, but not limited to, accountant, clerical staff, engineer, and project manager. In addition, the company plans to provide paid sick leave, holidays and vacation, health, dental, and vision insurance, nutrition and health care, gym memberships, and real estate down payment advice. The company also plans to sponsor employees to become certified in their specialties through a tuition reimbursement program.

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

Action: Moved/Seconded: Member Gordon/Member Janis

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

Chair Avdis called for any questions or comments from the Committee or the 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.

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)).



H. Other Non-Action Business

Member Janis discussed a memo she circulated to the committee relating to the California Competes Tax Credit application process and asking demographic related questions. Member Janis stated that during the previous Committee meeting GO-Biz counsel did a presentation explaining that she was not able to ask these types of questions about a company's workforce. Member Janis commissioned her own lawyer to determine the types of questions she can ask and what data she can request to ensure that the program is meeting the intent of the Legislature.

She elaborated that a good job creation program is about creating diversity in the workforce. There are certain industries, like manufacturing, that do not have women and minorities in its workforce. Member Janis asserted this is a problem and that the continued lack of diversity can lead to instances of sexual harassment and discrimination.

Member Janis stated that she would like the Committee to be able to ask questions about diversity and inclusion. She expressed her belief that the Committee should be able to ask for broad outreach to assist in solving the problem.

Member Janis explained that the Legislature's intent for the program is ambiguous and more information is needed to confirm the meaning of certain sections of the law that created California Competes. For example, the statute lists "strategic importance to the state" as one of the factors to review for the California Competes Tax Credit. In the Senate Rules Committee report, the Legislature finds and declares that the goal of California's economic development policy should be designed to create good jobs with middle class wages and benefits and target for assistance individuals with barriers to employment. She expressed her belief that this definition allows for questions about inclusion and diversity. Member Janis also stated that the collection of demographic information would not be in violation of Proposition 209.

Member Janis stated that because the California Competes Tax Credit program is the only component of the Governor's Economic Development Initiative that has oversight from the Legislature, with two Legislative appointees on the Committee, the intent of the Legislature should be considered in its implementation.

Member Ortega responded to Member Janis' request to be able to ask questions about inclusion. She expressed concern about collecting the data. Specifically, how or who should be deciding if the company is not diverse enough. She also stated that these types of inquiries may be beyond the workload capacity of the available staff. Member Janis stated that simply asking the questions sends a message.

Chair Avdis stated that she needed additional time to review the memo and thanked Member Janis for her commitment to the success of the program.

I. Adjournment

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

Action: Moved/Seconded: Member Gordon/Member Zapata



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

No: None

Chair Avdis adjourned the meeting at 3:07 p.m.