



## California Competes Tax Credit Program

**Gavin Newsom**  
*Governor*

**Lenny Mendonca**  
*Director*

**Chris Dombrowski**  
*Chief Deputy Director*

**Scott Dosick**  
*Assistant Deputy Director,  
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### Committee Meeting

**Tuesday, November 12, 2019**  
**1:00 p.m.**

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

And (via teleconference)  
1 N State St.  
Suite 1500, Room 15C  
Chicago, IL 60602

### MEMBERS:

**Lenny Mendonca**, *Chair*  
*Director*  
*Governor's Office of Business  
and Economic Development*

**Fiona Ma**  
*State Treasurer*

**Keely Bosler**, *Director*  
*Department of Finance*

**Vacant**, *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 Mendonca called the meeting of the California Competes Tax Credit Committee (Committee) to order at 1:06 p.m.

**Members Present:** Lenny Mendonca, Jovan Agee (representing the State Treasurer), and Madeline Janis via teleconference.

#### B. Approval of Minutes from June 13, 2019, Committee Meeting

Chair Mendonca called for any questions or comments regarding Agenda Item B. Hearing none, he requested a motion to approve Agenda Item B.

**Action Moved/Seconded:** Members Agee/Janis

**Yes:** Members Mendonca, Janis, Agee

**No:** None



### C. Assistant Deputy Director's Report

- **Agenda Overview – Agreements with 14 Businesses, Total Tax Credits \$88,741,667**

Mr. Dosick welcomed Gayle Miller, who is representing the Director of the Department of Finance as the newest member of the Committee. He stated that Denise Zapata, the Appointee of the Senate Rules Committee, resigned from her position on the Committee. Denise was one of the original CalCompetes committee members dating back to 2014, and Mr. Dosick thanked her for her insights and more than 5 years of service to this Committee.

Mr. Dosick stated that over the last few meetings, questions have been posed regarding the compliance process for CalCompetes. At GO-Biz's request, the Franchise Tax Board prepared a document that provides details on its role in the compliance process. A copy of this document was provided to each Committee Member and will also be posted on our website to ensure that members of the public have the opportunity to review it. Mr. Dosick requested that Committee Members review the document and submit any questions they may have to GO-Biz prior to the April 23<sup>rd</sup> meeting. He stated that representatives of the Franchise Tax Board have indicated their willingness to answer questions between now and the April Committee meeting and will also have staff attend the April meeting to answer any questions in person.

Mr. Dosick expressed his thanks to the CalCompetes team. He stated that for the last three months, this team of professionals has worked tirelessly to analyze the information provided to make the recommendations before the committee today. He stated that he is grateful for their passion and dedication.

Mr. Dosick stated that there are 27 Agreements up for recapture. He explained that CalCompetes awardees sign an Agreement or contract that clearly lays out how much credit they can claim each year if they achieve their employment, salary, and investment milestones. He indicated that most of the Agreements recommended for recapture today are for Agreements whose 5-year terms have expired. In some cases, the businesses achieved some, but not all, of their milestones — which is why the recommendation is for a partial recapture of the credit. In other cases, the business failed to achieve any of its milestones over the 5-year period and thus the entire credit is recommended for recapture.

Lastly, Mr. Dosick informed the Committee that GO-Biz is recommending 14 tax credit awards for the Committee's consideration today totaling \$88.7 million. GO-Biz received over \$473 million in credit requests during this application period, with only \$90 million in credits available to award, making this one the most competitive rounds in the program's history. GO-Biz anticipated recommending the full \$90 million in awards to the Committee today, but unfortunately, two businesses that GO-Biz had been working with since August decided to no longer pursue their California expansions and declined to sign their Agreements. He explained that the \$1.2 million in unallocated credits this round will carry over to the application period that begins in March of 2020. The Agreements for consideration today represent commitments for a net increase of 2,327 new full-time jobs and over \$1.5 billion in investments in



California in exchange for \$88.7 million in total recommended tax credits. Each of the businesses recommended for award today has certified in their applications that this credit will be a significant factor in their decision to expand in California.

Chair Mendonca thanked Mr. Dosick for his summary. He agreed it was important that the Committee discuss the compliance review process. He encouraged everyone to read the material regarding the compliance process that was provided by the Franchise Tax Board and submit any questions or comments before the next meeting. He further stated that at the Committee's request, members of the Franchise Tax Board were prepared to come to the next meeting to answer any questions. He thanked the team for their hard work and then asked the other members if there were any questions at this time.

Member Janis stated she looked forward to reviewing the compliance process and engage in a discussion with the Franchise Tax Board. She expressed her concern on the opacity of the compliance process. She requested to know more about the safeguards in place to ensure follow through with commitments made on the number of jobs, wages, benefits, diversity, and training.

Chair Mendonca confirmed with Mr. Dosick that members of the Franchise Tax Board were prepared to come to the next meeting. Mr. Dosick stated that it is correct.

Mr. Dosick announced, for those on the phone, that Gayle Miller representing the Director of the Department of Finance had arrived at 1:14 p.m.

**D. Discussion and Approval of California Competes Tax Credit Agreements**

**Total Recommended Tax Credits: \$87,250,000**

**Total Recommended Tax Credits after Adjusting for S-Corporation Law<sup>1</sup>: \$88,741,667**

Chair Mendonca proposed removing Agenda Items D-1, D-2, D-3, and D-4 from consent for further discussion. He asked the Committee and the public if there were any questions or comments regarding the remaining items included in Agenda Item D. Member Miller stated she had questions on Items D-5 and D-9.

Chair Mendonca asked if there were any public comments on the remaining items included in the Agenda other than the ones mentioned.

Hearing none, he called for a motion to approve all items under Agenda Item D except for items D-1, D-2, D-3, D-4, D-5, and D-9.

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<sup>1</sup> 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)).



**Action Moved/Seconded:** Members Miller/Agee

**Yes:** Members Mendonca, Miller, Janis, Agee

**No:** None

Chair Mendonca called for agenda items to be taken out of order. Agenda Item E was reordered for discussion prior to the discussion of the remaining items under Agenda Item D.

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

<b>Total Tax Credits Recommended to be Recaptured:</b>	<b>\$10,958,698</b>
<b>Total Tax Credits Recommended to be Recaptured after Adjusting for S-Corporation Law<sup>2</sup>:</b>	<b>\$11,735,698</b>

Chair Mendonca called for any comments from the Committee or public regarding Agenda Item E. Hearing none, he requested a motion to approve Agenda Item E.

**Action Moved/Seconded:** Members Miller/Agee

**Yes:** Members Mendonca, Miller, Janis, Agee

**No:** None

Chair Mendonca called for the remaining items to be discussed in the following order: Item D-5, D-9, D-1, D-2, D-3, D-4.

**D-5. United Technologies Corporation**

At the request of Chair Mendonca, Assistant Deputy Director Dosick elaborated on Item D-5. He stated that United Technologies Corporation is proposing to add a net increase of 60 full-time employees and make \$49.9 million in investments in exchange for a \$2.25 million credit award. Mr. Dosick then asked the Committee if they had any questions.

Member Miller asked Mr. Dosick to explain how the jobs were additive and not supplanting the existing jobs in the State of California. Mr. Dosick stated that employment is calculated on an annual full-time equivalent basis. Growth in employment was measured by comparing the net increase in full-time employees to the base year. He explained that if ten employees from the base year were terminated and the business hired ten to replace them, the result would be a net increase of zero and no credit would be earned. Though the business does not need to keep the same individuals as every company

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experiences turnover, in order to earn the credit, businesses must maintain base year employment levels and show a net increase on an annual full-time equivalent basis.

Mr. Dosick further stated that part of the compliance process is validating that each of the credit recipients approved by the Committee maintains their base level employment and increases by the amounts committed to in the agreement and shown on the Milestone Chart. He further explained that the 2<sup>nd</sup> row on the Milestone Chart shows the net increase compared to the base year. He stated that supplanting would not allow a business to achieve the milestones or claim any corresponding credit.

Ms. Miller asked for verification that double dipping would not be allowed in terms of other credits and multiple usage. Mr. Dosick stated that it depended on the type of credit and part of the evaluation process was to consider other incentives or programs the business might be utilizing. He stated that part of the evaluation process is to analyze how the credit fits into a business's decision-making process. He acknowledged that the California Competes Tax Credit could be part of a package of multiple incentives that the business is considering when comparing other states to California and the incentive packages or lower operational costs they may be offering.

Ms. Miller noted that given the limited resources in the state to encourage economic development, it is helpful for taxpayers to understand when different tax credits are used for different purposes and potentially different jobs, to the extent that it is knowable. She stated that was the initial intent of the CalCompetes program.

Member Janis asked if the Committee would consider adding a question to the application that asks if the business is receiving other tax credits for the same project. Mr. Dosick confirmed that this question was already included as a part of the application. He stated that the California Competes Tax Credit is a non-refundable income tax credit; therefore, is limited to businesses that have tax liability. He stated that businesses that are not anticipating profitability, have an inordinate amount of net operating losses, or other credits, would not be able to use this credit. He noted that when or if a business will be able to utilize the credit is considered in the evaluation.

Ms. Janis asked if this information could be included on the staff report in the future. Mr. Dosick indicated that this information could be included.

Chair Mendonca asked if there were any more questions or comments from the Committee or the public. Hearing none, he requested a motion for approval of Agenda Item D-5.

**Action Moved/Seconded:** Members Agee/Miller

**Yes:** Members Mendonca, Miller, Janis, Agee

**No:** None



### D-9. Systems Machine Automation Components Corp

At the request of Chair Mendonca, Assistant Deputy Director Dosick elaborated on Item D-9. Mr. Dosick described the business and the proposed agreement to the Committee. Systems Machine Automation Components Corp (Systems Machine) is a robotics design manufacturing company in Carlsbad, CA. Systems Machine is proposing a net increase of 45 new full-time employees and \$6.5 million in investments in exchange for an \$800,000 tax credit award. Systems Machine has indicated that absent award of the credit there is a significant risk that the expansion will occur in another state. It has a facility in New Hampshire and absent award of the credit it is considering expansion in New Hampshire instead of Carlsbad, CA.

Chair Mendonca asked if there were any questions from members of the Committee.

Member Miller thanked Chair Mendonca for the excellent work done by the staff on the report and stated she had a question about robotics, job replacement, and the future of work. Member Miller acknowledged the 45 jobs proposed and asked if there was a discussion with the taxpayer around whether eventually this would be a job replacement technology or if hiring would continue after the manufacturing phase. Mr. Dosick stated that this question has come up at multiple committee meetings. Systems Machines manufactures actuators, which are finger-like robots that operate at variable speeds and strengths in repetition. These 45 jobs are aligned with manufacturing products for other entities, not for itself.

Mr. Dosick acknowledged that there is a larger, more holistic question, which he believed Ms. Miller alluded to, regarding the future of work and the role that automation is playing. He noted that the focus was that the business is manufacturing an innovative product, the manufacturing of which does not have to take place in California since the business has a viable alternative outside of California. Mr. Dosick further noted that due to demand for the product, these devices will be manufactured regardless, leaving the question of where the 45 jobs and \$6.5 million in investments will take place.

Member Miller thanked Mr. Dosick for the information. She stated it would be helpful in the future if a training component is included for these jobs to ensure that employees can be trained in these important and emerging industries.

Member Janis stated that a training criterion was added by the legislature this past year and she did not see it reflected in the staff reports. She noted that she had previously proposed the idea of a technology impact assessment which would provide information on the quantity and type of jobs being created and eliminated. She stated that a technology impact assessment would be helpful in situations like these when deciding whether this is the right investment for California and whether the Committee is investing in job creation around industries that will potentially eliminate jobs in the long run.

Chair Mendonca asked Mr. Dosick to comment on the training component and how it is included in the evaluation. Mr. Dosick stated that part of the evaluation is looking at the training opportunities



provided by applicants to its employees. Mr. Dosick stated that currently only credit requests above \$1 million warrant the applicant's training information to be provided on the staff report verbatim. He stated that moving forward his team could certainly look into including the training component on the staff reports, regardless of credit amount requested. Chair Mendonca stated such information would be helpful to better understand the applicant.

Ms. Janis stated that her understanding of the language added to the statute was that applicants would commit to providing training for employees as part of the agreement, and that those efforts would be taken into consideration for the credit. She noted that the training information she had seen so far was regarding general training provided by the company, not specific to the proposed project.

Member Agee suggested that the minutes from the previous meeting captured a robust conversation regarding training. He stated that they specifically discussed how to incorporate community colleges because many of them are grappling with how to become connected with emerging markets and opportunities.

Chair Mendonca asked if there were any more questions or comments from the Committee or the public. Hearing none, he requested a motion for approval of Agenda Item D-9.

**Action Moved/Seconded:** Members Miller/Agee

**Yes:** Members Mendonca, Miller, Agee

**No:** None

**Abstain:** Member Janis

#### **D-1. Lockheed Martin Corporation**

At the request of Chair Mendonca, Assistant Deputy Director Dosick elaborated on Item D-1. Mr. Dosick described the business and the proposed agreement to the Committee. Lockheed Martin Corporation is an aircraft developer and manufacturer.

Lockheed's proposed project relates to its Skunkworks operation which was responsible for creating America's first fighter jet. In exchange for a \$39.5 million California Competes Tax Credit, Lockheed's Skunkworks operation has committed to create 500 new, full-time jobs and retain over 2,000 existing jobs in California and make \$150 million of investments. The jobs and commitments are above and beyond the commitments Lockheed made in its previous agreement. To date, Lockheed is in compliance with its first agreement and has met or exceeded all of the requisite milestones. The jobs Lockheed is committing to create are in classifications such as: engineering, manufacturing, production, quality support, and other technical classifications. Lockheed certified in its application that absent award of the credit, its project may occur in another state, and it may terminate a portion of its Skunkworks employees in California or relocate them to another state. Lockheed further certified that



at least 75% of its increase in full-time employees will work in the City of Palmdale, which was an area of high unemployment at the time Lockheed submitted its application.

Lockheed has secured and is currently pursuing U.S. Department of Defense (DOD) contracts to design, develop, and engineer aircraft and related technology. Lockheed has attested that award of the credit will play a significant role in its ability to bring new jobs to California, as the credit would enable it to achieve the price points for existing and future Defense Department contracts. Without the credit, Lockheed states that it may need to perform the work related to DOD contracts outside of California in order to remain competitive with its out-of-state competitors or to achieve the equivalent price points by expanding in other, lower-cost states. Lockheed stated that if the expansion occurs in another state, approximately 2,000 existing California jobs will also be at risk of relocating out of state in order to keep functional teams together.

Mr. Dosick stated that Lockheed representatives Jack O'Banion, Vice President for Business Strategy; Irene Helley, Director of the U2 Program; Catherine Piotrowski, Director of Quality Assurance; and Eric Fox, Government Relations, were available to address any questions the Committee had.

Chair Mendonca thanked Mr. Dosick and asked the representatives from Lockheed Martin if they had any opening remarks.

Mr. O'Banion described the current state of the aerospace industry in California and the purpose of Lockheed's credit request. He stated that since 1990, California has lost roughly 66% of aviation-related jobs as other states have pursued these jobs aggressively. He described Boeing's recent departure from Long Beach and how the State of Missouri put forth a \$2 billion incentive package for the business to relocate its engineering and manufacturing activities. Boeing quietly relocated its design team and then its engineering and development teams as it phased out old contracts and ultimately, it no longer had enough support in Southern California to support new contracts. He stated that such a scenario is what they are hoping to prevent.

He continued to explain that the federal government is placing affordability at the top of the list in its decision-making regarding new program contracts and that puts cost as the priority. He stated that although California has the talent it needs, Lockheed is operating at a disadvantage when it comes to cost. He further explained that Skunkworks has already taken steps to reduce costs including consolidating overhead, streamlining operations, and investing in more efficient design and manufacturing practices. He continued to state that the real challenge is that the playing field is not level, as other states are directly assisting its competitors to lower their cost to the federal government for individual program bids. He stated that Lockheed needs the state's help in order to level that playing field so it can continue to compete and bring the jobs from those programs here. He affirmed that any assistance received from CalCompetes goes directly to reducing its contract price on offerings to the federal government and that those lower bid prices are key to being able to win that work. What does this particular credit do for California? As was mentioned in Scott's overview, 500 new long-term engineering, manufacturing, development, and production jobs at \$85,000 a year average salaries; \$150





million investment in state of art development, laboratories, and manufacturing facilities. These are brand new facilities that we are building here, our first construction in this state in 30 years.

On August 14 of this year, Governor Newsom and Senate Pro-tem Atkins addressed the Association Defense Communities here in Sacramento and Senator Atkins noted, “defense is so important to CA, the research, innovation, and technology has made CA the best place to do business” and we agree. The talent is here, the innovation is here, the culture is here to do that. Governor Newsom observed that CA has taken the defense industry for granted, we’ve stopped investing in our lead, we need to turn that around. The middle class of CA was built on defense jobs. Mr. Chairman, we think you summed up that conference very well when you commented that, CalCompetes is an important tool with which we can do that. We get \$48 billion in defense dollars each year, that translates to \$168 billion in total impact to the state, and defense spending is bigger than agriculture and the movie industry combined. CA is an innovation economy, we are where future is invented and you’re right, with your help and that of committee would like to continue that tradition. He closed by stating that Lockheed would like to continue to bring these innovation jobs here and would like to continue to build its future here in California.

Chair Mendonca thanked the representatives from Lockheed and asked the Committee if they had any questions.

Member Janis asked for more specifics between the previous tax credit versus the current one, specifically on achievement of its milestones and number of new jobs created. Mr. O’Banion stated that the base year from the previous agreement was 2,429 employees. He stated that Lockheed had added 450 employees, meeting the goal of the first agreement. He further stated that the 500 jobs being discussed today would be additive to that and that the business would be opening a new \$100 million manufacturing facility.

Member Janis asked if part of the last agreement was to build this new facility and if the business is seriously planning to move its project to Texas absent award of this tax credit. Mr. O’Banion reiterated Lockheed’s commitment to honoring the previous agreement. He stated that what the Committee was addressing today was regarding future work. He explained that the business had made certain commitments to the federal government for executing work at a certain level of affordability; therefore, the dilemma was where to place the new jobs as the program expands. He stated that the business would prefer to expand in California and had prioritized engagement with California Competes in order to support that activity. He further stated that, if successful, the business would go beyond the initial commitment of 450 jobs and \$100 million in investments with an additional 500 jobs and \$150 million of investments.

Ms. Janis asked how easy it would be to move its proposed project to another one of its facilities. Mr. O’Banion listed Lockheed’s facilities in Texas, Georgia, and Southern Carolina as viable alternatives for the project. He stated that these states, among others, had all shown interest; however, the business preferred to expand in California.



Ms. Janis asked Mr. O'Banion to clarify what the different price points were between California and other states. Mr. O'Banion stated that the specific price point he is referring to is the bid price the business puts forward when proposing new work in a competitive environment to the federal government. He stated that certain bids were made with the assumption that the host state would be able to assist with the cost, in terms of EDO (Economic Development Organization) support, and that was carried through to the bid's bottom line which the federal government accepted. He stated it was incumbent on the business to engage with the Committee to see if it was possible to realize the abatement cost reduction that was incorporated into the cost structure it proposed to the federal government.

Ms. Janis asked if she understood correctly that the cost of doing business in California is not necessarily greater, but that the business is counting on subsidies from each state in order to achieve its proposed bid price. Mr. O'Banion stated that it was a mix of the elevated costs of doing business in California and the desire to be able to use the incentives to anchor additional work.

Ms. Janis asked Mr. O'Banion to clarify to which elevated costs he was referring. He listed added cost to construction, added cost to doing business, and certain environmental and regulatory burdens.

Chair Mendonca asked Mr. O'Banion if he was saying that—aside from government bid requirements—the overall benefits of doing business in California, such as productivity and talent, outweighed the costs he had listed. Mr. O'Banion confirmed that was correct. He stated that Skunkworks puts itself forward to the U.S. government as agile, affordable, and innovative. He stated that the ability to innovate affordably and fast is critical to its brand and the business is willing to bear a premium to be able to access Southern California's talent and level of innovation.

Ms. Janis stated that California should not be ashamed for having good health and safety rules. Mr. O'Banion agreed with Ms. Janis. He added that the challenge facing the business is that other states are actively providing incentives to lower costs for its competitors. He stated that the business was asking for California's help to level the playing field.

Chair Mendonca noted that the federal government is having states subsidize its purchasing. Ms. Janis added that it appeared the federal government was encouraging a bidding war between states, which she stated was alarming.

Ms. Janis noted that the business received a letter of support from the machinists' union and asked if the new employees would be union employees. Ms. Piotrowsky stated the business was opening a manufacturing facility and that the manufacturing employees would be represented by its IAM union.

Ms. Janis asked if the business had numbers available in terms of percentage of women and people of color in its overall workforce. Ms. Piotrowsky stated that the total Skunkworks workforce was approximately 3,800 employees, of which 19% are women, and 40% are minorities. She further stated that 18% of its leaders are women and 27% are minorities.



Ms. Janis asked if providing information on jobs, wages, benefits, and recruitment presented a national security issue for the business. Ms. Helley responded that the information Ms. Janis was referring to was already public information and available on its careers website.

Ms. Miller asked for clarification on the total number of jobs being retained. Mr. O'Banion stated that in addition to the base year of 2,429, it would be adding a total of 950 jobs between both agreements.

Ms. Miller asked Chair Mendonca and Mr. Dosick for further clarification on the amount of retained employees listed in the agreement. Mr. Dosick noted that the milestone chart for a business's second award is different than the first award. He stated that the agreement is structured in such a way that any business that applies for a second award would not be able to claim any of that credit until it fulfilled its milestones from the first agreement.

Ms. Miller stated that she did not see anything in the agreement specifically stating that the jobs were additive. She asked Mr. O'Banion if the actual retention number was 2,929. Mr. O'Banion stated that the total was 3,379 between both agreements and assured Ms. Miller that the business was committed to retaining that amount.

Mr. Dosick added that the agreement and the milestone chart are structured such that if a business were to not retain some employees, whether it was base year employees or employees that were hired under the first agreement, it wouldn't be able to claim the credit under the second agreement unless it backfilled those positions. He noted that a business must reach the total employment number on the top row of the milestone chart to achieve the employee milestone for that year.

Chair Mendonca asked Mr. O'Banion if he could elaborate on his statement from earlier, about competing based on agility and innovation, and describe what it is about California that is advantageous. Mr. O'Banion listed the aerospace valley (a renaming of the Antelope Valley) and described it as the cradle of aviation and innovation. He also listed the proximity to test ranges, the proximity to its supply chain base, and the pool of talent. Ms. Helley added weather conditions, diversity of talent, and stated that the business takes pride in that Skunkworks started in California. Chair Mendonca thanked Ms. Helley for her comments and for reinforcing that California is great place to do business in the aerospace industry.

Chair Mendonca asked if there were any more questions or comments from the Committee or the public. Hearing none, he requested a motion for approval of Agenda Item D-1.

**Action Moved/Seconded:** Members Agee/Miller

**Yes:** Members Mendonca, Miller, Agee

**No:** None

**Abstain:** Member Janis



## D-2. Northrop Grumman Systems Corporation

At the request of Chair Mendonca, Assistant Deputy Director Dosick elaborated on Item D-2. Mr. Dosick described the business and the proposed agreement to the Committee. Northrop Grumman Systems Corporation is an aerospace and technology developer and manufacturer.

In exchange for a \$30 million California Competes Tax Credit, Northrop has committed to a net increase of 1,001 new, full-time employees, and investment of over \$1.1 billion. Northrop was previously awarded a California Competes Tax Credit in 2015. That agreement expires at the end of this year and Northrop has met or exceeded all of its milestones. All commitments for this agreement are above and beyond its previous agreement. The jobs Northrop is committing to create are in classifications such as: technician, support, and engineer. Northrop indicated in its application that in order to meet its cost targets it has relocated manufacturing jobs from California to the lower-cost state of Mississippi. It further certified that absent award of this credit, it may relocate additional California employees, and its proposed growth may take place in states other than California.

Mr. Dosick introduced Lori Nieto, Corporate Director for State Tax planning; Joe Ahn, Manager for State and Local Affairs; and Russell Mann, Aerospace Systems Director of Business Management.

Chair Mendonca welcomed the representatives from Northrop and asked if they had any opening remarks.

Ms. Nieto described the company's history in California and its commitments to working with the community. She discussed its collaborations with local universities and non-profits to provide STEM educational opportunities to communities with the greatest need. She also affirmed Northrop's commitments to the environment and sustainability by citing support for coastal cleanup and clean water initiatives. Additionally, she stated Northrop's support for the military, veterans, and their families through various organizational charities and volunteerism. She also thanked the committee for considering their application and affirmed that the credit would be used to help it remain competitive and increase its investment in its facilities and employees here in California.

Chair Mendonca thanked Ms. Nieto and asked if the Northrop team had any other opening remarks to add. Hearing none, he opened the discussion to questions from the Committee.

Member Janis thanked Northrop for its commitment to hiring in California. She asked the representatives to elaborate on the statement in the staff report indicating that the business can save more than \$50 million over the next five years by creating, or relocating, jobs to other states due to reduced payroll costs and state incentive packages. Ms. Nieto stated that the estimate was based on modeling done using labor statistics. Ms. Janis asked if the business already has facilities in the states that it listed. Ms. Nieto confirmed it has facilities in Mississippi, Florida, Arizona, Virginia and many more. Ms. Janis asked if the main basis of the credit request is that the business would receive more



incentives and pay lower wages if it were to choose another state for its expansion. Ms. Nieto confirmed that was correct.

Ms. Janis noted that the business did not get a letter of support from the machinists' union. Mr. Ahn stated that most of its employees are not represented by collective bargaining or union organizations. He added that of the \$1.1 billion investment the business was committing to, about 90% of the work would be done with union trades. Ms. Janis asked if the proposed jobs would be union jobs. Mr. Ahn replied that they would not be union jobs.

Ms. Janis stated she was impressed by the effort put into affirmative action by the business. She asked if the business had data in terms of percentages of people of color and women overall, or specifically in its California facilities. Mr. Ahn stated that overall, 35% of the business's workforce nationwide are represented by people of ethnic backgrounds or mixed race. He added that 35% of managers/executives and 27% of all supervisors are women. He noted that the chairman, CEO, and Chief Legal Counsel are women.

Ms. Janis asked if the business was providing any specific training for purposes of this agreement. Mr. Mann stated that the business has a robust training curriculum and partners with local universities and community colleges. He stated that the business has a long-standing agreement with Antelope Valley College, which has trained over 1,000 of its technicians, and stated that the business has hired 90% of those trainees. Mr. Ahn further added that of the trainees hired to be skilled technicians, over 600 were from CalWORKS and other people experiencing economic challenges.

Ms. Miller asked the representatives from Northrop if they understood that the total job retention the business was committing to is reflected in Exhibit A and is not limited to new jobs. Ms. Nieto confirmed that was correct.

Ms. Miller asked how different tax credits, like the Joint Strike Fighter credit, are applied to job creation and expansion in California in addition to the California Competes Tax Credit. Ms. Nieto stated that the jobs for the Advance Strategic Aircraft Program Credit and the California Competes Tax Credit were mutually exclusive. She confirmed that employees which are eligible for the Advance Strategic Aircraft Program Credit were not included in employment numbers for this tax credit and assured Ms. Miller there was no "double dipping".

Chair Mendonca asked what it is about California that makes the business prefer this state for expansion versus other locations under consideration. Mr. Gray stated that the Antelope Valley and Southern California have a long-standing history in aviation, along with the right talent and weather conditions required to create its products.

Chair Mendonca asked Mr. Gray if he could list the next best place to do business other than California. Mr. Gray stated that the business has locations all over the United States. He noted that cost is



considered heavily, and other states were competing for the same work with incentives to attract the business, thus making it hard to say which state is more attractive than the other.

Chair Mendonca asked if there were any more questions or comments from the Committee or the public. Hearing none, he requested a motion for approval of Agenda Item D-2.

**Action Moved/Seconded:** Members Miller/Agee

**Yes:** Members Mendonca, Miller, Janis, Agee

**No:** None

### **D-3. Rocket Lab USA, Inc.**

At the request of Chair Mendonca, Assistant Deputy Director Dosick elaborated on Item D-3. Mr. Dosick described the business and the proposed agreement to the Committee. Rocket Lab USA, Inc. is an aerospace company that provides small payload satellite launch services for government and commercial clients.

In exchange for a \$5 million California Competes Tax Credit, Rocket Lab has committed to a net increase of 147 full-time employees and investments of over \$25 million. The jobs it has committed to create are in classifications such as: administrative, executive, manager, engineer, and technician. The majority of Rocket Lab's employees are located in New Zealand, and it also has a launch facility on the east coast. Rocket Lab certified in its application that absent award of the credit, its proposed expansion would take place in New Zealand due to the lower labor and operational costs compared to California.

Mr. Dosick indicated Rocket Lab's representatives Gideon Massey, Business Development Finance Manager; and Adam Spice, CFO, were available to answer questions from the Committee.

Chair Mendonca asked the representatives from Rocket Lab if they had any opening remarks.

Mr. Spice stated that Rocket Lab considers itself to be the next generation of space technology company. He stated that in competing with very established companies like Northrop and Lockheed, Rocket Lab has been successful due to its ability to take cargo into space at much lower costs than its competition. He further stated that the company is experiencing rapid growth and it is excited to have this opportunity in California.

He also described how Rocket Lab recently opened a facility in Virginia, which is closely located to its government clients. Though proximity to clients is important, California provides skilled labor and a culture of innovation in the industry, along with proximity to LAX and the Port of Long Beach. He stated that given the relatively small size of Rocket Lab versus its competition, it has to fight for every piece of business and must consider all angles in order to be successful.



Chair Mendonca thanked the Rocket Lab representatives and opened the discussion to questions from the Committee.

Member Janis addressed Mr. Dosick stating that the cost per job to the state for the proposed 147 new full-time jobs would be \$34,000—which she noted seemed high. Mr. Dosick stated that the cost per job is certainly something that is considered. He added that a big factor in the evaluation process is the quantitative and qualitative rationale provided by the applicant as to why this is the right credit amount that is going to influence its decision or ability to expand in California versus another state. He agreed that there could be a point where the credit request will be disproportionate to the net increase of full-time employees, however, in this situation Rocket Lab provided a strong justification for why the credit would be relevant to its decision and ability to expand in California.

Member Janis asked if the business preferred to continue its growth in New Zealand or California. She also asked about the business's recruitment and hiring practices. She noted that the business currently has a small employee count and emphasized the importance of providing opportunities for good jobs to people of color, women, and others with barriers to employment as it continues to hire. Mr. Spice stated that Rocket Lab would like to reflect California and has an affirmative action program in place that targets hiring veterans and increasing diversity. He stated that the business has been involved in paid internships under the Brooke Owens Scholarship program which is designated for undergraduate women to pursue careers in aerospace and space exploration. He noted that he has seen the advantages of a diverse workforce, adding that in a smaller market like New Zealand, with only 4.5 million people in the country, the quality and breadth of talent is quite different than in California, which has a deep talent pool. He stated that award of this credit would help Rocket Lab focus its efforts in California.

Chair Mendonca acknowledged the business's aggressive growth plan and asked Mr. Spice how confident he and his investors were in meeting those expectations. Mr. Spice stated that the business has a different approach to the design of a rocket to make it more cost effective and high performing. He further stated that the market is poised for massive growth and that he and his investors were confident in meeting the expectations. Chair Mendonca asked Mr. Spice if he could publicly share the identity of the lead investor. Mr. Spice responded that Khosla Ventures and Bessemer Capital were its two largest venture investors based in California.

Ms. Miller asked if Mr. Spice had read the New York Times article about the effect satellites have in space on visibility of the stars, and issues related specifically to SpaceX. She asked if he believed the article was accurate. Mr. Spice stated he could not comment on SpaceX activities. Instead, he stated that Rocket Lab vehicles were designed not to leave any debris in space. He added that the business has invested heavily to make its vehicles environmentally friendly. He noted that New Zealand and California are both very environmentally focused and that those parts of the corporate cultures were very much aligned.



Chair Mendonca asked if there were any more questions or comments from the Committee or the public. Hearing none, he requested a motion for approval of Agenda Item D-3.

**Action Moved/Seconded:** Members Miller/Agee

**Yes:** Members Mendonca, Miller, Janis, Agee

**No:** None

#### **D-4. The Kroger Co.**

At the request of Chair Mendonca, Assistant Deputy Director Dosick elaborated on Item D-4. Mr. Dosick described the business and the proposed agreement to the Committee. Kroger is a national supermarket chain that also operates distribution centers and food manufacturing facilities.

In exchange for a \$3.3 million California Competes Tax Credit, Kroger has committed to a net increase of 243 full-time employees and investments of more than \$81 million. The jobs Kroger is committing to create are in classifications such as: laborer, freight, material mover, delivery driver, packer, transportation worker, and manager. Kroger is proposing to create a new online grocery delivery service utilizing a hub and spoke model for a centralized main distribution center and smaller, regional transfer facilities. Kroger certified in its application that absent award of the credit the project may take place in Nevada, where it already has negotiated an incentives package and would realize lower real estate and labor costs that it projects at roughly \$3.5 million.

Mr. Dosick indicated that Kroger representatives Kelly McGannon, Corporate Affairs Regional Director; Josh Wiffler, Logistics Network Strategy Project Manager; Anna Oliver, Human Resources; and Rita Williams, Director for Economic Development were available by phone to address and questions the Committee had.

Chair Mendonca invited the Kroger representatives to expand on the remarks by Mr. Dosick or provide opening remarks of their own.

Ms. Williams thanked the Committee. She described the business, its affiliates, and its presence in California. She discussed the company's commitment to various charities via its partnerships with food banks as well as a commitment to sustainability, stating that the business will no longer use plastic bags in stores by 2021. She further described Kroger's demographic makeup, indicating that over 50% of its workforce is comprised of women and 35% are minorities. Ms. Williams also elaborated on the business's plans to expand into the digital space via an exclusive partnership with a prominent U.K. grocery technology company, Ocado Solutions.

Ms. Miller asked how the business will be using this credit differently than other credits available in California such as the Sales and Use Tax Exemption. Ms. Williams stated that it would not be utilizing the Sales and Use Tax exemption on this project because the facility in question is not a manufacturing





facility. She stated the business would only be utilizing the California Competes Tax Credit on this project.

Ms. Janis asked for clarification on the Ocado model which she understood to be highly automated and almost entirely robotic. She asked if the choosing, packaging, and sorting of Kroger products would be done by robots. Ms. Williams stated that robots will be selecting the items that will be picked for each individual basket and delivering the items to a team member who will verify the products and pack them into the grocery bag. She noted that although the process is highly automated, there is a significant level of human interaction. She stated that for its brick and mortar stores all product is delivered on pallets; the pallets must be cut, split, unloaded, packed, and placed on shelves. Once an order is received, the product is taken off the shelves, put in baskets, and delivered to the end customer. She stated that the whole function of unpacking a box, putting it on the shelf, and taking it off the shelf to fill orders will be fulfilled by robotics. She stated this new model will allow Kroger to hire more skilled workers to do things robots cannot do.

Ms. Janis asked for clarification on the skilled jobs she was referring to that could not be fulfilled by robots. Ms. Oliver stated that some of the skilled positions have not been named yet; but, listed one which will be called "Shoppers." Shoppers will observe bags after robots bring them down for inspection. She stated that Kroger will also be hiring delivery drivers, but they will be more customer service based to ensure customers have a pleasant experience during home delivery of goods.

Ms. Janis asked for clarification on how these jobs are considered more skilled than a normal warehouse job or jobs currently in Kroger stores. She noted that in its application, the business is proposing to pay most of its employees close to minimum wage—between \$31,000 to \$42,000 a year for full-time work. Ms. Oliver responded that the delivery positions are different because of the customer service piece. She added that the skilled labor she had referred to will likely be management. She listed transportation management, operations management, and site leadership among those skilled-labor roles.

Ms. Janis asked how many of the proposed 243 jobs will be managers. Ms. Williams stated about 20% will be managers and 30-40% will be pickers, which identify the product, and the rest will be delivery drivers. She added that Ocado will be employing 60 full-time engineering positions which will service the robots, further adding that Kroger will have these associates at each one of the fulfillment centers.

Ms. Janis asked about the number of trucks the business is considering. She also asked for an elaboration on potential impacts of this project on Kroger's regular unionized employees and whether these jobs will be part of the United Food and Commercial Workers bargaining unit. Ms. Williams confirmed the jobs will not be covered by collective bargaining. Mr. Wiffler stated that the business is considering between 40 to 60 inbound tractor/trailer combinations; and, dependent on the time period, an end state of 150 to 170 delivery vans that would operate out of the facility in question.

Ms. Janis asked if the business will own the vehicles mentioned. Mr. Wiffler confirmed that it would.



Ms. Janis asked if any consideration was given to making the vehicles electric. Mr. Wiffler stated that the business is preparing to do that, however, the timing is unknown. He added that the transition to electric vehicles will occur slowly over time.

Ms. Janis expressed her concerns about how automation will potentially impact the existing unionized workforce. She stated there are significant doubts across industry analysts about using the Ocado Model and noted a major fire in one of the facilities in London. She asked the representatives to elaborate on risk management around the proposed project. Mr. Wiffler stated that an in-depth investigation of the London fire found that the cause was unrelated technology; thus, in terms of fire suppression, he stated the business has no related concerns regarding any of its facilities in US.

Ms. Janis asked about the debate in industry publications about the viability of this super automated robotized delivery model. Ms. McGannan stated that this is a pilot program that is not intended to be used in every one of its markets, but California is one under consideration.

Ms. Janis asked if the business has considered the impact this program will have on its existing workforce and if it has any projections on the number of customers who will no longer shop in store due to this program. Ms. McGannan stated the business does not expect or anticipate any changes to its current workforce in stores. She stated that given the competitive workforce today the business does not have enough associates to fill its current openings of about 1,000 positions between the Ralphs and Food 4 Less divisions. She added this program will be an expansion of its current workforce.

Chair Mendonca asked if Nevada would have the workforce the business needs to staff its new facility should it choose Nevada as its project location. He also asked what the starting wage of those Nevada employees would be. Ms. Williams stated the business has challenges in every market with its workforce and that it tries to work and partner with communities to fill positions.

Chair Mendonca asked what the minimum wage is in Nevada. Ms. Williams stated the business' lowest paid position in Nevada is \$15.55 per hour.

Ms. Janis asked if it was correct that the business had not identified a location in California. Ms. Williams confirmed that was correct and stated that the site selection process was still under review.

Ms. Janis stated it appeared that the business was considering California in order to be close to its California customers and that absent award of the credit the business was not at risk of moving to Nevada. Ms. Williams indicated the business has a large customer base in Nevada with over 75 stores. She stated that whether the hub is placed in California or Nevada, the business can spoke, and cross-dock in either location.

Ms. Janis asked Mr. Dosick for clarification on how applicants are scored when the project location has not been determined, noting how special consideration is given for projects in locations of high poverty and high unemployment. Mr. Dosick confirmed that special consideration was not given to the business as it had not committed to a specific location. He clarified that part of the evaluation is to consider the



role the credit will play in truly influencing a business decision that has not been made yet. He noted that Kroger has not yet chosen a state for its site selection thus making it more likely that the credit will be influential in that decision. Ms. Janis thanked him for the clarification. She added that the jobs proposed sounded nightmarish, specifically because employees will be surrounded by robots, the work appears mind-numbing, and the jobs are low wage and non-union.

Chair Mendonca asked if there were any more questions or comments from the Committee or the public. Hearing none, he requested a motion for approval of Agenda Item D-4.

**Action Moved/Seconded:** Members Miller/Agee

**Yes:** Members Mendonca, Miller, Agee

**No:** Member Janis

#### **F. Public Comment**

Chair Mendonca called for comments from the public and Committee. Ms. Janis thanked the Committee for accommodating her via teleconference.

#### **G. Adjournment**

Chair Mendonca adjourned the meeting at 03:10 p.m.