



**Gavin Newsom**  
Governor

## California Competes Tax Credit Program

### MEMBERS:

**Chris Dombrowski**  
Acting Director

### Committee Meeting

**Chris Dombrowski**, Chair  
Acting Director  
Governor's Office of Business  
and Economic Development

**Scott Dosick**  
Deputy Director,  
California Competes  
Tax Credit Program

**Thursday, November 5, 2020**

**1:00 p.m.**

**Fiona Ma**  
State Treasurer

**Jeel Liyanage**  
Assistant Deputy Director,  
California Competes  
Tax Credit Program

*In response to the Governor's Executive Order [N-29-20](#) authorizing public bodies to take necessary action to protect the public from the spread of Coronavirus (COVID-19), the California Competes Tax Credit (CCTC) Committee Meeting was live streamed and open to the public on [Zoom](#).*

**Keely Bosler**, Director  
Department of Finance

Governor's Office of Business  
and Economic Development  
1325 J Street, 18<sup>th</sup> Floor  
Sacramento, CA 95814

*Members of the public were encouraged to submit public comments or requests during the meeting through email at*

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

*[CalCompetes@gobiz.ca.gov](mailto:CalCompetes@gobiz.ca.gov).*

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

## MINUTES

### OPEN SESSION

#### A. Call to Order and Roll Call

Chair Dombrowski called the meeting of the California Competes Tax Credit Committee (Committee) to order at 1:01 p.m.

**Members Present:** Chair Chris Dombrowski, Fiona Ma (State Treasurer), Gayle Miller (representing the Director of the Department of Finance), Madeline Janis (representing the Speaker of the Assembly), and Todd Walters (representing the Senate Committee on Rules)

Chair Dombrowski stated that the Agenda would be taken in order today and moved on to Item B.

#### B. Approval of Minutes

1. **June 18, 2020 Committee Meeting**
2. **June 29, 2020 Committee Meeting**

Chair Dombrowski noted that this Item consisted of the minutes for both the June 18, 2020 and June 29, 2020 meeting. He then asked for comments from the Committee.

Member Janis thanked Deputy Director Dosick for the thorough minutes.



Chair Dombrowski asked if there were any public comments regarding the minutes. Hearing none, he requested a motion for approval of Agenda Item B.

**Action Moved/Seconded:** Members Miller/Ma  
**Yes:** Members Dombrowski, Miller, Walters, Janis, Ma  
**No:** None

### C. Deputy Director's Report

- **Agenda Overview – Agreements with 4 Businesses, Total Tax Credits \$80,000,000**

Chair Dombrowski congratulated the newly appointed Deputy Director, Mr. Dosick, who had previously served as the Assistant Deputy Director and as the Acting Director for some time.

CalCompetes Deputy Director Dosick thanked the Committee and provided the following updates to the Committee:

Mr. Dosick reminded members of the public who were watching the meeting online that public comments could be submitted by emailing [CalCompetes@gobiz.ca.gov](mailto:CalCompetes@gobiz.ca.gov). He explained that CalCompetes staff would monitor the CalCompetes email and would forward emailed comments to the Committee. Alternatively, requests to make public comments may be submitted during the meeting using the Question and Answer (Q&A) tool through the Zoom toolbar at the bottom of the screen. He requested that individuals requesting to make a public comment include their full name, organization they are representing (if applicable), and agenda item. He explained that name and organization are optional and for identification purposes only. He instructed individuals with any technical difficulties to call the CalCompetes hotline at 916-322-4051.

For today's meeting, there are two discussion items on our agenda at the request of Committee Members. The first is a report and discussion from Atieva. The second is a discussion of diversity and inclusion as a component of the CalCompetes program.

Mr. Dosick stated that there are also 64 Agreements up for recapture. As stated at previous meetings, CalCompetes awardees sign an Agreement or contract that sets forth how much credit they can claim each year if they achieve their employment, wage, and investment milestones. 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 there is a recommendation for a partial recapture of the credit. In other cases, the businesses failed to achieve any of their milestones over the 5-year period and thus the entire credit is recommended for recapture. As always, there are some voluntary requests from businesses to have their credit recaptured as their business plans changed; and, as a result, they requested that the Committee recapture the credit to make it available to other businesses. In those situations where the credit recipient is in material breach of its agreement, for example, for failure to submit the annual reports required by the Agreement, there is a recommendation that the Committee approve recapturing the entire credit.



Lastly, GO-Biz is recommending 4 tax credit awards today totaling \$80 million. GO-Biz received over \$450 million in credit requests during this application period. The 4 agreements for the Committee's consideration today represent commitments for a net increase of over 6,500 new full-time jobs and over \$400 million of capital investments in California in exchange for \$80 million in total recommended tax credits. Each of the businesses recommended for award today has certified in its application that this credit will be a significant factor in their decision to remain and expand in California.

Mr. Dosick also thanked the CalCompetes team. He stated that this dedicated team continues to perform and collaborate at a high level while working 100% remotely without any "live" face-to-face interaction. Mr. Dosick turned the meeting back over to Chair Dombrowski.

Member Janis asked Chair Dombrowski if it was appropriate to ask questions now about the recaptures.

Chair Dombrowski recommended we address those questions under Agenda item E and that the Committee move on to discuss Agenda Item D.

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

<b>Total Recommended Tax Credits:</b>	<b>\$80,000,000</b>
<b>Total Recommended Tax Credits after Adjusting for S-Corporation Law<sup>1</sup>:</b>	<b>\$80,000,000</b>

**D-1. Lockheed Martin Corporation**

At the request of Chair Dombrowski, Deputy Director Dosick elaborated on Item D-1. Mr. Dosick described the company and the proposed agreement to the Committee. Lockheed Martin Corporation (Lockheed) is an aerospace manufacturing company.

In exchange for a \$29,800,000 California Competes Tax Credit, Lockheed has committed to a net increase of 450 full-time employees, retention of 1,000 jobs, and an investment of over \$100 million. The jobs and commitments are above and beyond the commitments Lockheed made in its previous agreements. To date, Lockheed is in full compliance with its first and second agreements and has met or exceeded all of the requisite milestones. The jobs Lockheed is committing to create are in classifications such as manufacturer, engineer, and quality support. 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.

<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)).



The investments associated with this award entails a \$100 million expansion at Lockheed's Skunkworks Palmdale site, which will create space for the majority of the 450 new full-time employees for the project and development/production of aircraft. Without award of this credit, Lockheed indicated that it may expand at one of its comparable facilities outside of California. This would then cause a ripple effect at the Palmdale facility, potentially leading to fewer projects occurring at this facility and calling the long-term viability of the Skunkworks Palmdale facility into question. Without this final expansion, Lockheed indicated that future projects would likely occur at other out-of-state facilities such as Texas, Georgia, and South Carolina.

Mr. Dosick stated that Jack O'Banion, Lockheed's Vice President of Advanced Development Programs' Strategy and Business Development, Melanie Austin, Lockheed's Vice President of Advanced Development Programs' Special Projects, and Irene Helley, Lockheed's Director of Advanced Development Programs' U-2 Program were available to address any questions the Committee had.

Chair Dombrowski welcomed the representatives from Lockheed and asked if the Committee had any questions for them.

Mr. O'Banion asked to provide some commentary for the Committee.

Chair Dombrowski invited Mr. O'Banion to proceed.

Mr. O'Banion gave some background on Lockheed's history in California and the Skunkworks site in Palmdale. He stated that California enjoys a \$120 billion aerospace industry of which Lockheed has been a proud participant. Skunkworks was created 76 years ago in Southern California where it has developed iconic aircraft such as the U-2, SR-71, F-117 Stealth Fighter, F-22 Raptor, and F-35 Lighting II. These programs have employed thousands of people over the years, not only at Lockheed but through its extensive supply base.

He stated that the concern Lockheed faces at this time is that the aerospace industry has been shrinking in California. In 1990, there were 270,000 aviation jobs in Southern California. By 2015, that number had declined to 92,000. Boeing moved its manufacturing and development jobs out of California after having been here for decades. The challenge with that is once the major engineering and development jobs leave, the production jobs tend to follow because future jobs tend to go to where the development teams move.

He stated that Skunkworks is the last major aerospace developer and producer operating in California. Given that it was created in California, Lockheed wants to stay here, but it needs the Committee's help with cost. Cost is the deciding factor that the U.S. Government is using of late to decide the award of major new programs. To help, Lockheed has recently reduced certain fixed costs and is currently investing heavily in manufacturing and design processes; but that alone does not close the cost gap. Part of what creates this gap is that other states are assisting its competitors



with hundreds of millions of dollars in incentives to support their projects. Lockheed is asking for assistance in that area to help level that part of the playing field. He noted that the tax credit does not go to Lockheed; it goes directly to the federal taxpayer in the form of lower bidding costs to execute projects.

He mentioned Lockheed's past CCTC awards, and together, California Competes and Lockheed were successful in winning a major new Department of Defense program, which he affirmed would not have happened in California without the collaboration with CalCompetes. The challenge now is that it is moving to the major manufacturing stage of this program. To complete this phase, Lockheed needs to hire more and expand its facilities to allow it to execute this program and position it to win future programs as well. He stated that in the near term, this package is tied to 450 new engineering and development jobs in the Southern California area, and a \$100 million investment in new, state-of-the-art facilities that will position it to win future project bids. He added that these jobs have an economic multiplier of three or four. Lockheed has about \$18 billion in contracts with approximately 2,500 suppliers in close proximity to Palmdale. He also noted the approximately 1,000 union workers that support Lockheed's Palmdale operations. He welcomed questions from members of the Committee.

Member Janis thanked Mr. O'Banion for his thorough presentation. She stated that she supports this because of the machinist jobs. She indicated that while she has a few concerns, she was in full support of this tax credit. She asked if the planes involved in this project were bombers.

Mr. O'Banion stated that the nature of the program does not allow him to reveal specifically what the project is. He did confirm that it is a DoD program intended to be a deterrent rather than an aggressive system that might be in the DoD inventory.

Ms Janis replied that it sounds like they are weapons.

Mr. O'Banion replied that the Department has aircraft that are multi-mission, meaning they can defend themselves when called upon and can be capable enough that an adversary would not seek a military option. This project is consistent with that goal.

Ms. Janis stated that her concern is that she doesn't like weapons, but she does like good jobs. She then asked how many new jobs are going to be machinist jobs.

Ms. Austin responded that there are about 3,900 people located at the Palmdale site, and 1,500 of those are machinists. She stated that a similar percentage of the new jobs would be machinists. She also mentioned that 100% of those employees are considered essential workers who have been showing up to work every day during this pandemic.

Ms. Janis stated that the starting pay is a little above minimum wage, and then asked what kind of positions are paid \$32,000. Ms. Austin replied that she believed the average wage was \$107,000. Mr. O'Banion stated that although the application shows a minimum of \$32,000, the average is well



over \$100,000. The minimum salary reflects what an entry level role would be as opposed to the median salary.

Ms. Janis asked if the credit is essentially going to the federal government to allow it to buy cheaper planes. Mr. O'Banion stated that the credit allows Lockheed to meet its stated cost which was a condition of the contract and it allows it to do the work at the Palmdale facility that it wouldn't be able to do otherwise. He noted the price point of its nearest competitor's bid for this project was less than the total package of Lockheed's CalCompetes credits. Without the package of the CalCompetes credits, Lockheed would not have the program at all.

Ms. Janis asked if this is something unique to the Trump administration or if the Obama DoD did this as well. Mr. O'Banion replied that this has occurred in multiple administrations, including the Obama administration. He stated that it is an interesting practice whereby states can actively participate in inviting more attractive bids to the Department of Defense, which typically awards to the lowest bidder in the interest of the federal taxpayer.

Ms. Janis stated that what they are actually doing is driving costs downward so that it is more beneficial for Lockheed to go to a state where the minimum wage is lower and the jobs are not as good. She said that the federal government is basically pressuring Lockheed to go to Louisiana or a place where jobs aren't as good.

Mr. O'Banion stated that they are pressuring Lockheed to find ways for it to give the lowest bid price possible. He noted that Missouri put up \$2 billion to support Boeing, which he believes is partly why Long Beach closed. This is partly why Lockheed came to CalCompetes because without having been able to put together this set of awards, Lockheed would have lost this project. He stated that if it is able to complete the package, Lockheed will have a brand-new set of facilities which will give it an advantage going forward in competition with other contractors.

Ms. Janis thanked Mr. O'Banion for providing clarity.

Member Walters thanked the representatives from Lockheed for their time. He asked if Lockheed would be bringing in outside vendors who may not be employees to do some of the manufacturing work. Ms. Austin replied that it has only hired contract engineers when it could not hire them directly. She noted that engineering talent is a scarce resource that Lockheed works very hard to retain once it has them.

Mr. O'Banion asked Ms. Helley to discuss her experience in retaining new talent at Lockheed. Ms. Helley stated that Lockheed has worked to build a pipeline to the local community through elementary schools, high schools, and local colleges. It has reached out to groups looking for certain licensures, internships, and noted that she would be sitting on a panel this weekend aimed at careers for young women. There is a focus in reaching out to underserved, under-privileged areas to contact those who might not be exposed to this career path.





Mr. Walters stated that he has seen a wave of employers moving toward hiring contract workers instead of employees. He wanted to confirm that these would be 450 good jobs and that Lockheed only hires contractors for specialized engineering situations. Mr. O'Banion replied that this is one area where being a defense contractor is actually an advantage because its customers like to see that it has talent on its staff. They are limited in granting security clearances for the kind of work it does, and customers feel better seeing someone they will have a long relationship with rather than someone who will pop in and out of its workforce.

Mr. Walters thanked the representatives for their response.

Chair Dombrowski 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 Miller / Walters

**Yes:** Members Dombrowski, Miller, Walters, Janis, Ma

**No:** None

#### **D-2. Better Holdco, Inc.**

At the request of Chair Dombrowski, Deputy Director Dosick elaborated on Item D-2. Mr. Dosick described the company and the proposed agreement to the Committee. Better Holdco, Inc. (Better) is a mortgage company that provides direct-to-consumer home loan services online.

In exchange for a \$25,000,000 California Competes Tax Credit, Better has committed to a net increase of 3,500 new, full-time employees and an investment of over \$55.4 million. The jobs Better is committing to create are in classifications such as loan officer, IT technician, onboarding associate, appraisal coordinator, and underwriter.

Better is headquartered in New York City and has a presence in Oakland and Irvine, California. Better indicated in its application that due to an upcoming lease expiration in Oakland in February 2021, it has decided to explore real estate options in California and in Charlotte, North Carolina. Better stated the proposed jobs will serve customers throughout the United States. Better indicated that North Carolina offers an extremely competitive incentive package of grant funds, real and personal property tax abatement, and sales tax exemptions. Better stated in its application that the credit will be a significant factor in choosing California for this expansion.

Mr. Dosick stated that Arthur Matuszewski, VP, Talent, Clayton Carol, VP, Financial Strategy & Investor Relations, Jenine Whitter, Senior Manager, Diversity, Inclusion, and Employee Engagement, and Malcom Glenn, Director of Public Affairs were available to address any questions the Committee had.



Mr. Glenn thanked the committee for the opportunity to meet today. He began by stating that about half of Better's 3,000 employees identify as minorities and/or women. Better is a digital mortgage company that uses a technology platform and loan consultants who don't work on commission to deliver its products. In the 4 years since it launched, it has expanded with two California offices in Oakland and Irvine. He stated that Better prioritizes its employees through a number of groups, including its ten Employee Resource Groups (ERGs) for employees who share common characteristics, experiences, or interests. These ERGs are run by employees and represent women, people of color, and employees who are black, Latinx, Asian, veterans, mothers, and LGBTQ+. In addition, Better is focused on working in communities that are underrepresented in many of the spaces which it occupies. In partnership with its BetterVets ERG, it has an initiative regarding hiring veterans. Better has also joined inclusive organizations such as the Fintech Equality Coalition and Civic Alliance. Better also brings in speakers to discuss discrimination in home ownership in order to help educate its employees. He stated that Better looks forward to continued growth in California and appreciates the opportunity to be here.

Chair Dombrowski opened it up to questions from the Committee.

Member Walters thanked the representatives for their time. He asked the representatives to elaborate on the health, dental, and vision benefits offered to its employees. Mr. Matuszewski stated that the company aims to be more than fair with its employees as the employees are more than fair with their contributions to the company. Better offers full health coverage plans for workers and dependents and fully subsidized dental and vision plans. Better works with Kaiser, and in some locations, Empire, to offer a range of plans to accommodate its diverse employee population. He stated that Better also offers resources to help employees handle student debt and offers other resources to encourage health and wellness to employees. He also stated that Better has a very limited segment of contracted and part-time workers across its population. These typically are reserved for one-off projects or for specialized talent that it may not have on staff.

Member Miller stated that she was curious about how difficult it is for certain communities to access opportunities in loans. She asked if they had thoughts, specifically, about how the public and private sector could work together to this end. Mr. Glenn stated that Better welcomes those opportunities. He said Better has people who interface with government agencies specifically for those purposes. A couple of examples include efforts to aid employees who engage in their own communities regarding all aspects of financial literacy to better help their prospects of buying a home. He added that one of the central tenets of its platform is how it mitigates discrimination that has historically been present in the mortgage space and cited a recent New York Times article that discussed the significant value that digital lenders provide over traditional lenders in terms of helping black and brown families get access to mortgages in ways they hadn't in the past. He added that the article specifically cited Better customers. Ms. Miller thanked Mr. Glenn for his response and would love to follow up.





Mr. Matuszewski asked his colleague, Ms. Whittier, to discuss Better's work toward identifying bias in the workplace and with its customers. Ms. Whittier responded that Better is committed to partnering with its employees to build a knowledge base about the historical implications of housing policy. She stated that they have employees read The Color of Law as part of its onboarding program, and it invites speakers to come and talk to employees about racial equity. Ms. Miller stated that Better has set the bar for all other applicants.

Member Janis stated that it is impressive and exciting that Better has its employees read The Color of Law. She asked what niche Better was trying to fill when it was created. Mr. Carol responded that Better was created by the experience its founder had in trying to get a mortgage from a major bank, who found it to be such a tough task even for a financially literate person such as himself. From this experience, the founder believed that there must be many people who experience even more severe hurdles in purchasing a home. He added that the dream of this company is to collapse all barriers for a variety of financial transactions. For instance, if you want to buy a stock, Better aims to provide a better and easier experience to the consumer by leveraging the power of technology. He stated that when people think of banks, they often think of the mortgage crisis of 2008 and 2009. At that time, banks were 70% of the market, and non-bank lenders represented the minority. Since then, that ratio has actually flipped, and banks now rarely originate loans.

Ms. Janis asked how the company gets its financing and if it packages the mortgages and sells them. Mr. Carol stated that the company is venture-backed by some major banks and well-known funds. He stated that for the assets, Better funds its mortgages from a warehouse lender and then sells it within 10 days to major banks or government agencies like Fannie and Freddie. He added that the business model is to drive costs down and efficiencies up so it can give lower rates to consumers and a better experience. He said it gives banks the assets they want, and Better takes a fee for sourcing, underwriting, and then selling the loans. He added that Better is an originator and not a holder of loans. He also stated that Better does not securitize.

Ms. Janis stated that this has been an excellent presentation and wishes Better could be used to create a template for how to address issues the Committee cares about.

Treasurer Ma asked if she missed a part about first time homebuyers and the down payment requirement. Mr. Glenn stated that she did not miss it. As part of its policy work, Better is supportive of down payment assistance programs for families, both at the federal and state level. Mr. Carol added that Better is licensed to add Federal Housing Administration (FHA) loans, which offers loans to lower FICO score customers. Better recently got that designation 3 or 4 months ago so it will be able to serve that customer base better.

Chair Dombrowski 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/Janis

**Yes:** Members Dombrowski, Miller, Walters, Janis, Ma

**No:** None

### D-3. Cepheid

At the request of Chair Dombrowski, Deputy Director Dosick elaborated on Item D-3. Mr. Dosick described the company and the proposed agreement to the Committee.

Cepheid manufactures molecular diagnostic equipment.

In exchange for a \$20,000,000 California Competes Tax Credit, Cepheid has committed to a net increase of 2,510 new, full-time employees and an investment of over \$250 million. The jobs Cepheid is committing to create are in classifications such as factory worker, manager, scientist, and engineer.

Cepheid indicated in its application that it is planning to expand global manufacturing capacity of its rapid diagnostic test kits, which are currently authorized for emergency use by the Food and Drug Administration for its automated molecular test for Covid. Cepheid is considering expanding its Lodi facility or opening manufacturing facilities in either China and/or India to support the global production of its devices. Cepheid stated that both China and India have offered incentives, site selection, and permit procurement assistance. When including the incentives with lower labor costs, Cepheid conservatively estimates cost savings of \$39 million from 2020 to 2024 if it expands in China and/or India instead of California. Cepheid stated that it would place approximately 1,300 jobs in China and/or India instead of California if it moves forward with the foreign site selection. Cepheid indicated in its application that the credit will offset the potential savings of expanding internationally and will be a key factor in determining whether expanded production of its rapid diagnostic test kits occurs in California.

Mr. Dosick stated that Laurent Bellon, Senior Vice President, Global Operations, Jennifer Marasco, Senior Vice President, Human Resources and Communications, Dave Benjamin, Senior Director, Global Real Estate and Workplace Operations, Becky Zhou, Senior Director, Tax were available to address any questions the Committee had.

Chair Dombrowski welcomed the representatives from Cepheid and asked if they had any opening remarks.

Mr. Bellon thanked the Committee for the opportunity. He stated that Cepheid has been collaborating with U.S. Government agencies since 2003 when the U.S Postal Service utilized its anthrax biothreat assay and continues today where Cepheid is a prime player in fighting the pandemic through the emergency use authorization of its COVID-19 molecular diagnostic test. If



this award is approved, Cepheid will select California as the home base for its manufacturing expansion plans.

Chair Dombrowski asked if they could elaborate regarding their plans over the next few years and why they are choosing California.

Mr. Bellon stated that they are seeing an increasing demand for its products requiring an additional 200 million tests over the next 5-year period. He added that Cepheid is a global company, and while it understands the appeal of increasing production in California, it also must be mindful of its overall cost structure in its manufacturing operation. Cepheid has already been looking at developing its capabilities that it has located in India and China and it must look at those potential locations as economically viable investments.

Chair Dombrowski thanked Mr. Mellon for the elaboration and invited questions from the committee.

Ms. Janis stated that she could not imagine a better use of the tax credit. She stated that we need to bring home our emergency needs in order to deal with a pandemic and that she strongly supports this project. She thanked GO-Biz for bringing this application forward.

Mr. Walters asked about safety protocols being used to protect the workers. Mr. Benjamin stated that in the early days of the pandemic, Cepheid instituted additional measures such as installing more air filtration systems and mandating health screenings at the door to the building. The employees wear a sticker each day for others to know that they have been screened. Following the regulations of the state and county, Cepheid ensures that all employees wear facemasks in public spaces. He added that the company has collectively created a COVID response team to discuss new information and any new procedures that need to be put in place.

Chair Dombrowski asked if there were any more questions or comments from the Committee or the public. He noted that he appreciated Ms. Janis' comment but he mostly wanted to thank Cepheid for submitting the application. He called for a motion to approve Agenda Item D-3.

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

**Yes:** Members Dombrowski, Miller, Walters, Janis, Ma

**No:** None

#### **D-4. American Honda Finance Corporation**

At the request of Chair Dombrowski, Mr. Dosick elaborated on Item D-4. Mr. Dosick described the company and the proposed agreement to the Committee. American Honda Finance Corporation (Honda) is an auto loan financing, underwriting, and servicing company.



Honda has certified in its application that absent award of the California Competes Tax Credit, its project may occur in another state; and, it may terminate all or a portion of its employees in California or relocate all or a portion of its employees in California to another state. In exchange for a \$5,200,000 California Competes Tax Credit, Honda has committed to a net increase of 75 full-time employees and an investment of over \$9.2 million. The jobs Honda is committing to create are in classifications such as entry level customer service representative, senior customer service representative, team lead, credit buyer, dealer relations manager, assistant manager, business development manager, and region manager.

Honda indicated in its application that it has begun reorganizing its regional financial services offices and is considering whether to merge its two current California facilities in San Ramon and Cypress into one service center in Cypress or to close all California offices and merge those operations into its existing offices in Texas or Georgia. Should it choose Cypress, it would need to lease additional office space near its existing site to relocate the jobs currently located in San Ramon, California. Should Honda choose Texas, it expects to receive at least \$3 million in grants, tax abatements, and incentives and approximately \$2.2 million in real estate and labor cost savings. If Georgia is selected, it anticipates receiving approximately \$4.5 million in state and local grants and incentives through the Opportunity Zone credit and the Georgia Regional Economic Assistance Grant program. Choosing either out-of-state option would result in the loss of approximately 168 California existing full-time jobs.

Mr. Dosick introduced Michael Greene, Manager, Business Operations Services, Katy Parato, Manager, Human Resources, Jon Oda, Risk Management and Regulatory Compliance Officer, Jon Eldridge, Senior Manager, Sales, Marketing and Communications, Jennifer Thomas, Vice President, Government and Industry Relations, and John Johnston, Assistant Vice President, Field Operations and Sales who were available to answer the Committee's questions.

Chair Dombrowski welcomed the representatives from Honda and asked if they had any opening remarks.

Mr. Greene stated that American Honda Finance Corporation provides retail financing and leasing to customers and dealers of Honda and Acura products in the United States. Honda currently has 3.4 million customers, and roughly 60 to 75 percent of Hondas and Acuras sold in America are financed through American Honda Finance Corporation. He stated that Honda has nine regional offices around the country, two of which are located in Cypress and San Ramon.

Mr. Greene provided background on Honda's history in California. Honda has been in business in California for over 40 years and it is also the home of its national headquarters. In California alone, Honda has 15 facilities with 3,300 employees. Its indirect California employment includes 1,200 dealerships, 18,000 employees, and \$174 million purchases in parts from California suppliers. Honda is undergoing a necessary transformation which will result in a reduced number of regional offices. Honda has identified the Cypress location as one of the larger and more capable facilities



and plans to retain 164 employees currently employed in the California regional offices. In addition to this retention, Honda is working to grow the Cypress location by 75 employees over five years. This site could be operational in Q3 in 2021.

Ms. Parato spoke about diversity, such as Honda's commitment to "respect for the individual" and having an inclusive work environment. She stated that at the level of assistant manager or above, 41% are ethnic minorities and 41% are females; and its entire workforce is comprised of 54% ethnic minorities and 62% females. The company also has various resource groups to support African American, Latinx, and LGBTQ employees. She thanked the Committee for the opportunity and welcomed questions. She also noted that the outcome is material to Honda's decisions going forward.

Chair Dombrowski invited questions from the committee.

Member Walters asked for elaborations regarding the \$9.2 million in investments in the building. Mr. Greene stated about \$5.4 million will be capital expenditures to increase the space across the street from the current location, which will double the existing Cypress footprint. This will include technology advancements, desks, and providing the right work environment for the employees. He added that additional costs would be leasing costs, which would bring the total investment to \$9.2 million. When an office of that size opens, it will bring a significant amount of hiring opportunities at that location. He also stated that Honda will encourage as many of its associates at the San Ramon location to transition and relocate. For those who don't, the company has had a great relationship with staffing agencies and colleges in the region.

Mr. Walters asked if the materials involved will be purchased in California. Mr. Oda replied that he was unsure if the PCs, for example, would be California-based products but he noted that they always try to stay local in this regard. He apologized for being unable to answer the question. Mr. Walters stated that he understood but wanted to make sure that California would benefit from product purchases. He then asked if contractors would be used for any of the 75 new employees. Ms. Parato stated that Honda is committing to those employees as associates and an additional 30% would be hired on a contingent basis.

Mr. Walters asked how many people on site would not be employed by Honda. Ms. Parato stated that it depends on the call volumes that come in. Mr. Greene stated that the 164 employees are going to remain, plus the 75 included in the agreement, totaling 239. Those will all be Honda employees. In addition to those 239, Honda generally operates with up to another 30% that are flexible staff. After a certain period of time, those 30% can potentially transition to associates. He reiterated that the employees included in the application, both retention and growth, are all Honda employees.

Mr. Walters thanked the members of Honda.



Chair Dombrowski asked if there were any more questions from the Committee.

Member Janis stated that given the current time, with so many people unemployed, it does not seem like the best use of CCTC funding to award 75 jobs for \$5.2 million, which is about \$69,000 per job. The previous application discussed was more in line with what the program should be awarding. She added that she could not support this kind of expenditure for this number of jobs. She appreciated Honda's presentation, but at this moment of crisis, this doesn't seem appropriate.

Chair Dombrowski thanked Ms. Janis for her comments. He mentioned that the retention of the California jobs is a big reason why GO-Biz is excited about this proposal despite the lack of many net new jobs that come with other projects. He then asked other Committee members for comment.

Mr. Eldridge asked to respond to Ms. Janis. He stated that he was formerly the regional manager at the Cypress facility before coming to the corporate office in his current role. He said that many young people just out of school come into that office seeking opportunities. He elaborated that the culture is very welcoming and that the associates there believe in the mission of helping people not only with financing but also in helping customers through challenging times such as we are in now. They believe that they play a vital role in helping the local economy and helping the associates grow in rewarding careers.

Mr. Oda stated that Honda is proudly a California company and acknowledged that there are so many challenges everywhere and at Honda as well. Honda wants to be a part of the future of electrification in California and it fully supports California moving forward with its environmental initiatives. These are challenging times; and, this is the beginning of a whole new environment in the auto industry. Honda wants to be a leader in this new space and do so in California.

Chair Dombrowski asked if there were any other questions from the Committee.

Treasurer Ma asked about the manufacturing side of Honda, specifically, what types of electric vehicles are made and where are they made.

Ms. Thomas stated that Honda was proud to be one of the auto makers to recognize California's authority to regulate greenhouse gas emissions and to recognize its own contribution to climate change. This is why Honda agreed to exceed more aggressive vehicle greenhouse gas requirements than the federal government is requiring. She added that Honda was also proud to stand by Governor Newsom's announcement to electrify the entire fleet by 2035. Honda has committed to electrify two-thirds of its vehicles by the end of the decade. She stated that Honda has been manufacturing in the U.S. for over 40 years and it has the second most U.S.-made components in its vehicles behind only Ford.

Ms. Janis stated that Honda has a plant in rural Alabama. Ms. Thomas confirmed that it does and that is where the Honda Odyssey is proudly made.





Mr. Oda added that Honda also has plants in Ohio and Indiana. Honda created the first commercial hybrid vehicle and has been produced hydrogen vehicles for over ten years. He said that Honda prides itself on how much it invests in research and development.

Chair Dombrowski stated that GO-Biz looks forward to continuing to work with Honda on all things ZEV-related.

Treasurer Ma asked about the connection to manufacturing elsewhere and financing here in California. Mr. Oda stated that the two aren't necessarily connected. Treasurer Ma asked if California is one of Honda's largest markets. Mr. Oda stated that it is, and they view it as one of the largest markets going forward. Ms. Thomas stated Honda has a presence in 12 states. Its headquarters are in Torrance, and that it why California is obviously important to the company.

Chair Dombrowski 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 Ma/Miller

**Yes:** Members Dombrowski, Miller, Walters, Ma

**No:** Member Janis

#### **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>\$24,058,500</b>
<b>Total Tax Credits Recommended to be Recaptured after Adjusting for S-Corporation Law<sup>2</sup>:</b>	<b>\$25,168,833</b>

Chair Dombrowski opened it up to Committee for questions.

Member Janis asked what lessons can we learn about this batch of recaptures and if it is indicative of our criteria or judgment being off in awarding companies that didn't really have a plan to take advantage of the credit. She added that when we award one company, there are many others that could have gotten the credit and it would be good to take stock of the lessons learned. She asked if there are any reflections and if new awarding criteria needs to be adapted.

Chair Dombrowski stated that he appreciated the question and he encouraged the Speaker's Office to work with GO-Biz to ensure that GO-Biz is sharing what it has learned. He added that much has been

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<sup>2</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)).



learned through the years. This is a program that has grown and changed, thanks to Ms. Janis's own input. He said that some issues regarding small business are well known and noted that many of these recaptures are five years old, which predates his time. He asked Deputy Director Dosick to discuss further.

Deputy Director Dosick stated that Ms. Janis is correct that we did learn a lot over the last seven years with CalCompetes. Analysts have gotten a lot better at analyzing applications and a lot smarter in asking follow-up questions to applicants. The program is working the way it was supposed to work in that businesses that did not do everything they were supposed to do don't get the full amount of the credit. The ones that you don't see recommended for award are the ones that didn't make a strong case that the credit was going to be a material factor in their decision or ability to create new full-time jobs in California. There have been prior rounds where we didn't recommend awarding the full amount of credit available because there weren't enough quality applications to recommend for those rounds.

Ms. Janis said that she appreciated that explanation and asked in what ways have lessons been incorporated. Mr. Dosick replied that from an evaluation perspective, we look at not just the case for the credit, but also the rationale behind the amount of credit requested. There is a much more logical rationale in the nexus between the amount of credit requested and the amount of jobs proposed and investment commitments. One of the conversations the team has with applicants is to explain the difference between a credit and a subsidy. This program was never intended to subsidize operations in California. It was designed specifically to incentivize full-time job creation in California that might not otherwise happen. With the hundreds of applications that we receive each round, we are bringing you the best applications. We previously had instances, particularly when there was the small business set-aside, there were over a hundred applications presented to the Committee for review. Many of those small businesses are now coming through for recapture because having a non-refundable tax credit didn't really help. While it may have helped subsidize operations, it wasn't truly an incentive that was going to be the difference maker in their ability to create new full-time jobs.

Chair Dombrowski added that in 2018 when the CCTC program was renewed, with advice from the legislature and the Speaker's Office, the \$20 million formerly reserved for small businesses was shifted to the Technical Assistance Expansion Program (TAEP) for small business, which is administered by the Office of Small Business Advocate within GO-Biz. This was in recognition that maybe this program wasn't the best use of that set aside. He asked Mr. Dosick to provide additional clarity.

Mr. Dosick re-emphasized CalCompetes' commitment to working with small businesses. While a non-refundable income tax credit may not be the best incentive for smaller businesses in California, it can lure applicants into GO-Biz. Businesses are then referred to the Office of the Small Business Advocate or the Business Investment Services Unit that might be more beneficial to them. CalCompetes can be an entry point by which smaller businesses can gain access to other resources.



Chair Dombrowski 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 E.

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

**Yes:** Members Dombrowski, Miller, Walters, Janis, Ma

**No:** None

## F. Discussion Items

### 1. Report from Atieva USA, Inc.

Deputy Director Dosick introduced the representatives from Atieva USA, Inc.

Mr. Witt introduced himself as the Public Policy Lead for Lucid Motors and Michael Cater, Vice President of People.

Mr. Carter stated that they had a prepared video to share with the Committee.

Mr. Witt stated that Lucid is a mission-driven company, founded with the idea of inspiring the adoption of sustainable transportation. The company believes that efficiency is the key to its technology.

Mr. Carter stated that the last time the company talked to the Committee in June, it had 400 job openings and that it now has 600. It has now launched the Lucid Air Sedan for sale and is prepared to provide it to customers next Spring. He welcomed any questions from the Committee before moving on to discuss the people and culture of the company.

Chair Dombrowski invited questions from the Committee. Hearing none, he asked the representatives from Atieva to continue.

Mr. Carter stated that the company attracts people who are excited about sustainability. The company is rapidly growing with employees from around the world. Lucid scores in the top fifth of Glassdoor scores as rated by its employees and provided some examples of feedback it has received from specific employees. He then discussed some of the safety protocols instituted due to COVID-19 and noted that nobody has gone unpaid during the pandemic. Lucid's CEO has sent supportive messages regarding social justice and the company's commitment to training and development. Entry level employees complete two weeks of training before they are deployed, and manufacturing employees complete 100 hours of training. Lucid provides equity to every employee, regardless of title. They hire about 1% of people that apply, and they hire Hispanics, African Americans, and women in non-engineering jobs faster than they hire anyone else. He acknowledged that there is still work to do with respect to hiring women in engineering and executive roles and it has action plans in place to rectify that. Lucid has developed partnerships with HBCUs (historically black colleges and universities) in terms of developing a



candidate pipeline. 65% of its interview teams have more than two non-white representatives and more than 40% of the interview panels have women on them. He then discussed the fear that surrounded the George Floyd and Breonna Taylor shootings and the work to ensure employees felt safe and supported. A significant portion of its employees are new to the company and have only experienced working remotely at Lucid. He then introduced the prepared employee recruitment video. (*Lucid's video was played at this time.*)

Mr. Carter thanked the Committee and welcomed questions after conclusion of the video.

Chair Dombrowski thanked the representatives from Atieva for their time and invited questions from the Committee.

Member Miller thanked the Chair and Mr. Dosick for ensuring Lucid was responsive. She asked Mr. Witt if he read White Fragility and what he learned from it.

Mr. Witt stated that he purchased the book, and he did read it. He stated that it is appropriate given the moment and he appreciates the perspectives from other academics who have opined on similar matters. Hearing voices from both inside and outside our traditional silos is important. He appreciates the opportunity to learn more on this issue and to better educate himself. With time it would be beneficial to read these perspectives and many more.

Ms. Miller stated that Mr. Witt did not answer her question. She stated that this wasn't meant to be a debate; her question was regarding what he learned from the book, not whether he agreed with it. She stated that the book challenged her and that she admits that she has a lot of privilege. She then asked what he learned from book and what kind of implicit bias training is being done for the senior leadership team. She noted her disappointment that Mr. Witt showed up to this meeting today without an answer to a question she has asked three times. She added that she appreciated the humility in Mr. Carter's presentation and she believes the company is trying.

Mr. Carter stated that he has read White Fragility and said that there are things that on the surface people may not recognize as systemic racism. He indicated that he found the book convincing; and, mentioned Lucid's unconscious bias training. He said that he believes people need to be recognized for both their uniqueness, themselves, and the color that they bring. This topic has started some positive conversations at all levels. One thing that caught him off guard was the fear that people of color have when it comes to engaging with anything related to the system, whether that be a performance system, hiring system, or any other system. He indicated that was something that they had to educate themselves about; that this fear exists for many people and they need to be aware of that.

Ms. Miller encouraged each of them to continue to bring that sense of humility and awareness that they may not understand it all.

Member Janis stated that the company was asked to come today with a plan, per the agreement signed, and she felt what they came with was a pitch. She stated that it felt like a commercial they were going



to run on diversity at Lucid, not a plan discussing very specific measures for how the company will recruit, train, and create a culture of equity and diversity. She expected specific targets such as what percentage of women the company will have in certain roles in a year. She added that since Proposition 16 failed, the Committee may have to require a plan to deal with the lack of equity in representation and the lack of a supportive culture. She noted that this was just feedback. She then discussed that she read in an article after the last meeting that the Kingdom of Saudi Arabia actually owns Atieva, which made her nervous due to the Kingdom's history of violence toward women, violence in general, and a lack of acceptance of free speech. She asked to what extent does the Kingdom's Sovereign Wealth Fund direct Atieva, what role does it have on the Board of Directors, and what independence does Atieva have to ensure that the money California gives goes toward a business where everyone is treated equally.

Mr. Carter stated that Saudi Arabia is a major investor in the company. They do not own Atieva, but they are a major investor. Ms. Janis stated that she read that the Kingdom of Saudi Arabia actually is an owner. Mr. Carter stated that was not true.

Ms. Miller stated that, though obviously Atieva is not contractually obligated, but given Atieva's relationship with California will hopefully be a long one, she would love a statement every 3 months as to the percentage that the Kingdom owns of the company. She stated it was clear when Atieva agreed to the provisions in the contract that they would provide specific diversity numbers and she would appreciate if the company would come back to the Committee with those numbers. She does not believe that Atieva has fully complied with what the Committee asked for without having provided those numbers.

Mr. Carter stated that it absolutely was their intent to comply with all of the requests in the contract and he believes that they have done so. Ms. Miller stated that they want to see, quantitatively, where the company is at. It isn't a deal-breaker, but it does make her concerned.

Ms. Janis quoted from a Verge article in late June, "California EV startup Lucid Motors gave up majority ownership to Saudi Arabia's Sovereign Wealth Fund in exchange for the \$1.3 billion investment that was disclosed last year, according to a lawsuit that was filed on Wednesday." She stated that the lawsuit was linked to the article. She added that Mr. Carter previously stated that Saudi Arabia didn't own the company. Mr. Carter replied that he said that they didn't own them but they are a majority shareholder. Ms. Janis stated that that sounds like ownership to her.

Mr. Carter stated that he understood the question to imply that Saudi Arabia was a sole owner, which is not the case. Lucid has multiple owners, and Saudi Arabia is a majority investor in the company. Ms. Janis asked if Saudi Arabia is a majority shareholder. Mr. Carter replied in the affirmative.

Ms. Janis stated that the agreement says Atieva would present the Committee with a plan. She stated she would appreciate a plan in which Lucid can actually say, "here is a plan to improve our equity and diversity over the life of the tax credit."



Mr. Carter stated that it was their intent to fulfill that and more during the conversation today with the data they provided.

Ms. Miller stated that she believes Atieva is really close and that while she does have concerns, they were never required to talk about the shareholders. She stated that the numbers can be provided as an addendum to this presentation today.

Mr. Carter said that they can take a look at that and again stated that he thought they provided the data the Committee requested in terms of the percentage of people it hires, its efforts to source and attract diverse talent, the high relative hiring percentages of Latino, African American, and non-engineering women, and the pipelines being created for recruiting more technical executive females. He believed that was sufficient in terms of a plan, but he will take the feedback from the Committee.

Ms. Miller stated that they are close but are just missing that one piece to close the loop on this. Mr. Carter asked what the additional piece was. Ms. Miller stated that it wasn't a plan and thinks they can create a one-pager that shows what they think the next five years of this tax credit looks like and to provide some benchmarks the company hopes to meet in terms of where it is currently with diversity and where it hopes to get. It should be quantifiable.

Mr. Carter asked to confirm that she was looking for specific goals in mind. Ms. Miller stated that it would be more helpful. Mr. Carter replied that they hadn't discussed it, but they can take a look at it.

Chair Dombrowski stated that it is his understanding that they have fulfilled this part of the contract pertaining to appearing in front of our Committee today for a discussion of its current and future efforts to promote workforce diversity. There is not any requirement around numbers. He stated that in speaking on behalf of GO-Biz, they want to have a long partnership with Lucid Motors as a California success story and hopefully they want that as well. GO-Biz will continue to work with them and as the company grows it will continue to communicate regarding its efforts in this area. He then asked the presenters if they had any final comments.

Mr. Carter stated that it was their intent to fulfill the agreement today and he believes they have, but he recognizes that it appears there is more that the Committee is looking for. He accepts the feedback from the Committee but stated that it is not something they have considered yet so he would have to take that back and see if it makes sense for the company.

Mr. Witt stated that they are a growing company with imminent growth ahead made all the more challenging by the pandemic and remote working. California is a part of their culture. Lucid is growing and staying in California, which will yield ample opportunity to discuss this in the future.

Ms. Janis stated that she feels like this is corporate double-speak. What they have been asking for is clear, which is a plan to make the company more equitable and what the concrete steps are to achieve that plan. She hopes that Lucid will take that from today's conversation and recognize that the Committee is not satisfied with this.





Chair Dombrowski thanked the representatives from Atieva and moved to the next discussion item.

## **2. Discussion of Diversity and Inclusion as part of the California Competes Tax Credit Program**

Chair Dombrowski acknowledged Member Janis for putting this item on the agenda. He stated that GO-Biz had hoped to include updated agreement language regarding diversity and training for today's awardees, but that was not the case. The reality of the current situation surrounding COVID and the volume of applicants received this round made it untenable. He added that GO-Biz is still working on it and it is incredibly important. Today's discussion has given them a lot of input and things to think about with respect to the contract language. GO-Biz is sincerely committed to figuring this out in order to meet the moment. He then welcomed feedback from the Committee.

Member Miller stated that she was appreciative of GO-Biz's efforts and commitment in this area. In the contract, the term "plan" needs to be defined, as well as methods to quantify the questions the Committee is asking. She asked if Chair Dombrowski could add those items as things that need to be included so that everyone understands what is meant by an equity plan. It is not meant to be overly burdensome, but rather a thoughtful piece that the corporation should be engaging in.

Ms. Janis concurred with Ms. Miller. She added that they should take the time needed to develop this the right way with input from people who have experience. It will be less burdensome if there are clear guidelines versus what is there now. Since all businesses have their own way of describing diversity and training plans, there should be an equity plan framework dealing with systemic racism, lack of inclusion, or marginalization, rather than affirmative action. It should be about addressing problems where we ask specific questions, the business completes, and there is some scoring mechanism. She acknowledged that there was not enough time between the two meetings in June to come up with the contract language that required them to do something more specific. She hopes that an equity plan framework with a scoring mechanism judging the plans' completeness and responsiveness can be developed by the April meeting.

Chair Dombrowski thanked the members for their feedback. He noted that adding additional criteria that might require new scoring could require new staff. This could be challenging given the state's budget situation requiring it to make cuts and with staff loaned out to contract-tracing efforts. He thanked members of the CalCompetes team for its efforts given the volume of applicants and GO-Biz will continue to find the balance of what it is able to do versus the resources required. While we want the program to continuously improve, the reality of cost must be recognized. He reiterated his commitment to trying to figure this out and the Committee will be hearing a lot more in the coming months.

Ms. Janis suggested an assessment tool called responsiveness used in procurement contracts. She stated that they create very specific questions as a means to have some sort of criteria.



Chair Dombrowski thanked Ms. Janis. He then called for any further questions or comments regarding Agenda Item F. or Agenda Item G. Hearing none, he moved to adjourn the meeting.

**G. Public Comment**

Chair Dombrowski asked if there were any more questions or comments from the Committee or the public. Hearing none, he moved on to Agenda Item H.

**H. Adjournment**

Chair Dombrowski adjourned the meeting at 3:50 p.m.

DRAFT