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*Governor*

**Panorea Avdis**  
*Director*

**Cheryl Akin**  
*Deputy Director,*  
*California Competes*  
*Tax Credit Program*

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**California Competes Tax Credit Program**

**Committee Meeting**

**Monday, November 5, 2018**  
**10:30 a.m.**

Steinberg Conference Room  
1325 J Street, 17<sup>th</sup> Floor  
Sacramento, CA 95814

And (via teleconference)

Fontana City Hall  
DSO DAB Conference Room  
8353 Sierra Avenue  
Fontana, CA 92335

And (via teleconference)

Santa Clarita City Hall  
West Conference Room, Floor 3  
23920 Valencia Blvd  
Valencia, CA 91355

**MEMBERS:**

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

**John Chiang**  
*State Treasurer*

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

**Denise Zapata**, *Appointee of*  
*the Senate Committee on Rules*

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

**MINUTES**

**OPEN SESSION**

**A. Call to Order and Roll Call**

Chair Avdis called the meeting of the California Competes Tax Credit Committee (Committee) to order at 10:30 a.m.

**Members Present:** Panorea Avdis, Vince Brown (representing the State Treasurer), Jacqueline Wong-Hernandez (representing the Director of the Department of Finance), and Denise Zapata via teleconference.

**Members Absent:** Madeline Janis



**B. Approval of Minutes from June 18, 2018 Committee Meeting**

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

**Action Moved/Seconded:** Members Wong-Hernandez/Brown

**Yes:** Members Avdis, Brown, Wong-Hernandez, Zapata

**No:** None

**C. Deputy Director's Report**

- **Agenda Overview – Agreements with 17 Businesses, Total Tax Credits \$70,000,000**

Deputy Director Cheryl Akin provided the following updates to the Committee:

Ms. Akin started the report by reminding the Committee of the statutory changes made to the California Competes Tax Credit Program in June 2018. She indicated that as of result of these changes, GO-Biz has amended its regulations and noted that the amended regulations have now been submitted to the Office of Administrative Law. These amendments made the following changes to the regulations:

- Eliminated of the definition of “small business” contained in regulation section 8000(ff) and the requirement that applicants certify whether they qualify as a small business contained in regulation section 8030(b)(7). This definition and certification are no longer needed as Senate Bill 855 eliminated the 25% credit reservation for “small businesses” and repurposed \$20 million annually to separate small business grant program outside of the California Competes Tax Credit program.
- Added two new evaluation factors regarding the applicant’s ability, willingness, or both, to create new full-time jobs in this state that might not be created in the state by the applicant or any other business in California and the training opportunities applicant provides to employees. The amended regulations further clarify that these factors will be evaluated by GO-Biz as part of the Phase II evaluation process.

Ms. Akin further noted that GO-Biz initially proposed to create a new process that would allow businesses to request permission to submit applications outside a regular application period. However, after further consideration, GO-Biz decided not to proceed with the adoption of this proposed process since GO-Biz determined it already has the ability to set and amend application periods anytime during the fiscal year under its existing regulations.

Finally, Ms. Akin stated there are 17 agreements for the Committee’s consideration. The agreements represent commitments for a net increase of 2,030 full-time jobs, the retention of 4,468



existing full-time jobs, and \$468 million in investments in California. The total recommended tax credit award is \$70 million.

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

<b>Total Recommended Tax Credits:</b>	<b>\$68,216,667</b>
<b>Total Recommended Tax Credits after Adjusting for S-Corporation Law<sup>1</sup>:</b>	<b>\$70,000,000</b>

Chair Avdis proposed removing Agenda Items D-1 and D-3 from consent for further discussion. She asked the Committee and the public if there were any questions or comments regarding the remaining items included in Agenda Item D. Hearing none, she asked for a motion to approve all items under Agenda Item D except for items D-1 and D-3.

**Action Moved/Seconded:** Members Wong-Hernandez/Zapata

**Yes:** Members Avdis, Brown, Wong-Hernandez, Zapata

**No:** None

**D-1. Lockheed Martin Corporation**

At the request of Chair Avdis, Deputy Director Akin elaborated on Agenda Item D-1. Ms. Akin described the Lockheed Martin Corporation (Lockheed Martin) and the proposed agreement to the Committee. Lockheed Martin's proposed project relates to its "Skunk Works" operation which was created in 1943 and was responsible for developing America's first fighter jet.

In exchange for a \$39.5 million California Competes Tax Credit, Lockheed Martin's Skunk Works operations has committed to create 450 new full-time jobs, retain 2,429 existing jobs, and make \$100 million in investments in California. The jobs Lockheed Martin is committing to create are in classifications such as: engineering, manufacturing, production, quality support, and other technical classifications. Lockheed Martin certified in its application that absent award of the California Competes Tax Credit, its project may occur in another state; and it may terminate a portion of its Skunk Works employees in California or relocate them to another state. Lockheed Martin further certified that at least 75% of its net increase of full-time employees will work at least 75% of the time in Palmdale, which qualified as an area of high unemployment at the time Lockheed Martin submitted its application.

Lockheed Martin is currently pursuing several United States Department of Defense (DOD) contracts to design, develop, engineer, and manufacture "next generation" aircraft and related technology. Lockheed Martin has attested that award of the credit would play a significant role in its ability to bring new jobs to California as the credit would enable it to have more competitive bids when competing with out-of-state companies bidding for the same DOD contracts. Without the credit, Lockheed Martin states that it may need to perform the work related to its DOD contracts outside of California in order to remain competitive with its out-of-state competitors. If the expansion takes

<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)).



place in another state, up to 2,000 existing California jobs will also be at risk for being relocated out-of-state.

Ms. Akin then indicated Lockheed Martin representatives Melani Austin, Skunk Works' Vice President Palmdale Operations, Jack O'Banion, Skunk Works' Vice President Strategy and Customer Requirements, and Irene Helley, Skunk Works' Senior Manager for Integrated Systems were present to address any questions.

Chair Avdis asked Ms. Austin, Mr. O'Banion, and Ms. Helley if there was anything they would like to add.

Mr. O'Banion described the aerospace industry in California and the purpose of Lockheed Martin's credit request. He stated that other states such as Missouri and Florida have offered significant incentives to businesses in the aerospace industry and indicated that these financial incentives have significantly decreased the number of aerospace jobs in California. Mr. O'Banion stated that Lockheed Martin now competes for DOD contracts against companies with these financial benefits from other states. He described the actions Lockheed Martin has taken to reduce its production costs including reducing facility space by over one million square feet. Mr. O'Banion indicated that in order to win competitive bids for DOD contracts, Lockheed Martin must include prices that assume state incentives as a means to reduce costs.

Mr. O'Banion described Lockheed Martin's proposed project and the types of jobs the company intends to create. The project will include the creation of 450 new engineering and development related jobs and a \$100 million investment in new engineering and manufacturing facilities in California. He stated that Lockheed Martin's project has support from the California Conference of Machinists and the Los Angeles/Orange Counties Building and Construction Trades Council and that the jobs created will be union jobs.

Chair Avdis asked if the Committee had any questions.

Member Brown asked whether Lockheed Martin will hire the new employees from within California or recruit from outside the state. Ms. Austin stated that Lockheed Martin recognizes the challenge of staffing for this project but also indicated that the skillset Lockheed Martin needs is often already present within the Aerospace Valley region of California. She stated that the company will both recruit from within California and will work to grow the talent that is already in the state as more talent will be needed by Lockheed Martin as the contract develops in its life cycle and if the company continues wins more business.

Chair Avdis asked for a description of the relationship between Lockheed Martin and community colleges. Ms. Helley stated that Lockheed Martin has engaged students from elementary schools through the college level including high school and community college. She stated that Lockheed Martin engineers regularly teach informational classes at local elementary schools. Ms. Helley further described the company's internship program for high school and college students which is primarily focused on science, technology, engineering, and math. She stated that these internships and on-the-job training programs often result in full-time employment for two-year and four-year college graduates.



Chair Avdis asked what opportunities Lockheed Martin has for upward mobility of employees. Ms. Helley described her own career development within the company, beginning as a level one engineer and working her way to Senior Manager, a level six engineer position. She stated that Lockheed Martin employees can join Employee Resource Groups, which are networking groups available not just to engineers and management, but to employees across all disciplines. She stated that these groups assist employees in developing their career and exploring their options within the company. Ms. Helley stated that Lockheed Martin provides support and opportunities for employees seeking career growth, noting that Lockheed Martin has a spirit of taking risks and giving a lot of responsibility to people who want to take it.

Chair Avdis asked if there were other questions or comments from the Committee or the public. Hearing none, she requested a motion for approval of Agenda Item D-1.

**Action Moved/Seconded:** Members Wong-Hernandez/Brown

**Yes:** Members Avdis, Brown, Wong-Hernandez, Zapata

**No:** None

### **D-3. Foster Poultry Farms**

At the request of Chair Avdis, Deputy Director Akin elaborated on Agenda Item D-3. Ms. Akin described the company and the proposed agreement to the Committee. Foster Poultry Farms (Foster Farms) is a poultry processor. Foster Farms was founded in California in 1939 and began with the purchase of an 80-acre farm near Modesto, California. In addition to its California operations, Foster Farms now has operations in Alabama, Arkansas, Colorado, Louisiana, Oregon, and Washington.

In exchange for a \$3.2 million California Competes Tax Credit, Foster Farms has committed to create 7 new full-time jobs, retain 2,039 existing full-time employees in California, and make \$67.5 million in investments in California. The jobs Foster Farms is committing to create and retain are in classifications such as: operations and production, technical series, human resources, sales and supply chain, research and development, finance and accounting, and management and supervisory. Foster Farms 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 2,039 existing employees in California or relocate all or a portion of its employees in California to another state. Foster Farms further certified that at least 75% of its net increase of full-time employees will work at least 75% of the time in Livingston (Merced County). Livingston was an area of high unemployment and Merced County was an area of high unemployment and high poverty at the time Foster Farms submitted its application.

Foster Farms indicated in its application that it is evaluating ways to update its Livingston, California location, keep operations open, and retain more than 2,000 existing jobs in California. The potential upgrade of the Livingston location includes the construction of a state-of-the art 84,000 square foot facility estimated to cost approximately \$67 million. However, in order to make the best financial decision, Foster Farms stated that it is weighing options for more cost beneficial locations for this upgrade. In particular, Foster Farms indicated that it is considering expanding its existing facilities in



Farmerville, Louisiana and relocating its California jobs there. Foster Farms already has successful on-going operations in Farmerville and was previously awarded \$3.2 million in various incentives by the state of Louisiana in order to capture \$27 million in capital expenditures and retain just over 1,000 jobs in that state. Foster Farms stated that if awarded the credit, it would commit to staying in California and upgrading its Livingston facility, cementing its presence in California for years to come.

Ms. Akin introduced Dr. Robert O'Connor, Foster Farm's Senior Vice President of Technical Services and Doctor of Veterinary Medicine, and indicated he was present to answer any questions.

Chair Avdis asked if Dr. O'Connor if he had anything he would like to add.

Dr. O'Connor stated that Foster Farms is a family-owned business with a long history in California, having formed in the Modesto area in 1939. He described the poultry industry and the factors that make it competitive. He stated that production factors, including operations, bird growing and bird processing, all contribute to thin margins in the poultry industry.

Dr. O'Connor stated that the company's competitors primarily produce in the Southeastern United States and sell into California. He stated that those out-of-state companies benefit from the lower cost of business in those states and that Foster Farms competes with this lower cost product coming into California. Dr. O'Connor further stated that this competition is increasing. He described Costco's decision to open its own complex in Nebraska, which is expected to begin shipping product (chickens) into California starting in 2019. He stated that although Foster Farms does not typically do so, it can ship product into California from its Louisiana facilities. He added that it is possible for companies in this industry to operate in a less expensive state than California and continue to sell product into the state.

Dr. O'Connor indicated that the proposed investment would expand the Livingston facility, which he described as the central and longest standing location for the company. Dr. O'Connor explained that in 2017, the state of Louisiana provided a \$3.2 million incentive to Foster Farms for an expansion project. Foster Farms is requesting a similar incentive from California for the proposed expansion in Livingston. Dr. O'Connor stated that such an incentive would enable Foster Farms to retain employees in the state. He stated that Foster Farms employs 9,000 across the state and that 2,000 of those work in the Livingston location. He described Foster Farms as the lifeblood of the Livingston community's employment and reiterated that the company would like to stay in the area and in California.

Chair Avdis asked Members if they had any questions.

Member Wong-Hernandez asked if Foster Farms chickens sold in California are primarily sourced within the state. Dr. O'Connor stated that nearly all Foster Farms chicken sold in the state are raised and processed in California.

Ms. Wong-Hernandez asked if the company ships any product out of the state from its California facilities. Dr. O'Connor stated that the company may sell frozen chicken product outside of the state, but approximately 70% of the chickens grown in California are sold in California.



Chair Avdis asked about the impact of losing Costco as a customer since that company plans to open its own chicken processing facilities in Nebraska. Dr. O'Connor stated that the loss of Costco as a customer contributed to the planned expansion project. Foster Farms will begin supplying a different customer that requires Foster Farms to expand its production facilities.

Chair Avdis asked how much of the investment will be for expansion of facilities, machinery, or other processing equipment. Dr. O'Connor stated that the investment will be in facilities and specialized machinery needed to service the new client that is being brought on to replace Costco.

Chair Avdis asked if there were further questions from the Committee or the public.

Michael Boccadoro of the California Poultry Federation stated that his organization represents the entire industry in California, including Foster Farms. He stated that Foster Farms' request is important and that these types of requests will likely increase as the food processing industry in California faces increasing competition from other states. He expressed his appreciation for this effort and the message it sends to the poultry and broader food processing industries. He stated his strong support for this action.

Chair Avdis asked if there were other comments. Hearing none, she requested a motion for Agenda Item D-3.

**Action Moved/Seconded:** Members Wong-Hernandez/Brown

**Yes:** Members Avdis, Brown, Wong-Hernandez, Zapata

**No:** None

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

**Total Tax Credits Recommended to be Recaptured:** **\$10,930,500**

**Total Tax Credits Recommended to be Recaptured after**

**Adjusting for S-Corporation Law<sup>2</sup>:** **\$11,323,167**

Chair Avdis stated that Agenda Item E-12 was removed since it was remedied prior to the meeting. She called for any questions or comments from the Committee or public regarding Agenda Item E. Hearing none, she requested a motion to approve Agenda Item E except for item E-12.

**Action Moved/Seconded:** Members Wong-Hernandez/Brown

**Yes:** Members Avdis, Brown, Wong-Hernandez, Zapata

**No:** None

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**F. Public Comment**

Chair Avdis called for questions from the public. There were none.

**G. Adjournment**

Chair Avdis adjourned the meeting at 11:09 a.m.