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**California Competes Tax Credit Program**

**Committee Meeting**

**Thursday, April 11, 2019**

**1:30 p.m.**

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

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

**MEMBERS:**

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

**Fiona Ma**  
*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 Mendonca called the meeting of the California Competes Tax Credit Committee (Committee) to order at 1:31 p.m.

**Members Present:** Lenny Mendonca, Karen Finn (representing the Director of the Department of Finance), Tim Schaefer (representing the State Treasurer), Madeline Janis, and Denise Zapata via teleconference.

**B. Approval of Minutes from November 5, 2018 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 Janis/Mendonca

**Yes:** Members Mendonca, Janis, Zapata

**Abstain:** Members Finn/Schaefer

**No:** None



### C. Deputy Director's Report

- **Agenda Overview – Agreements with 35 Businesses, Total Tax Credits \$70,112,152**

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

Ms. Akin provided a brief overview of the California Competes Tax Credit program for the new Committee members. Ms. Akin stated that the California Competes Tax Credit program was created in July 2013 as a replacement for the prior Enterprise Zone credit. The program's purpose and intent is to attract and retain high-value employers to California while ensuring accountability for the state's job creation efforts and the effective use of taxpayer dollars. The California Competes Tax Credit is prospective; businesses apply for the credit in advance, before undertaking their proposed hiring or investment activity in California. The credit was intentionally designed this way in order to encourage and incentivize the creation of high-quality, full-time jobs and investment in California rather than rewarding behavior which would have occurred regardless of the credit. When applying, each business asks for the amount of credit it needs over a 5-year period in order to impact its willingness or ability to create new full-time jobs in California. Only the most competitive applications are recommended to the Committee for award of the credit.

Ms. Akin further explained that each business recommended for award of the credit signs an agreement with GO-Biz which lays out the job creation, wages, investment, and credit allocation for each applicable year. A business may claim each year's credit when it achieves the milestones for that particular tax year. Businesses have the entire five years of the agreement to achieve any of the specified annual milestones and to "play catchup" to earn any or all of the credit provided for in the agreement. Businesses that are unable to achieve their milestones or are in breach of their agreements with GO-Biz may be recommended to the Committee for recapture of the credit. Recaptured credits are then made available to other businesses in the subsequent fiscal year. Finally, the Franchise Tax Board is statutorily required to do a books and records review of all non-small businesses awarded a credit to ensure compliance with the agreements. This includes verification that a business actually achieved the milestones for any credits the business claims on its tax returns.

Ms. Akin reminded the Committee that the California Competes Tax Credit program was initially scheduled to sunset on June 30, 2018 but was extended by the legislature last June for an additional five years, through the 2022-23 fiscal year, with \$180 million in tax credits available for allocation each year. This amount is adjusted annually for any prior unawarded or recaptured credit amounts.

Ms. Akin brought to the Committee's attention that the first batch of agreements originally awarded in 2014 are beginning to reach the conclusion of their five-year contract term. Ms. Akin noted that most of these agreements expire at the end of the 2018 tax year which is the final year to achieve



the milestones and claim any corresponding credit provided in the agreement. Any credit not earned by the expiration of the agreement must be recaptured by the Committee in order to be made available to other California businesses. As these companies submit the compliance worksheets for their final tax year, GO-Biz will be able to determine whether these companies achieved all, some, or none of their milestones for the 2014 through 2018 tax years and earned all, some, or none of the credit allocated to these years in the agreements. Ms. Akin noted that GO-Biz is likely to see increased end of agreement recaptures going forward and that five of the recaptures proposed in this Committee Meeting are due to the end of the agreement. In addition, Ms. Akin noted that there are also four voluntary recaptures on the agenda, where the businesses have informed GO-Biz that due to a change in circumstance or business plan, they will not be able to do the hiring and investments outlined in their agreements.

Finally, Ms. Akin informed the Committee that there are 35 agreements for the Committee's consideration today. The agreements represent commitments for a net increase of 4,221 full-time jobs and \$1.074 billion in investments in California. The total in recommended tax credits is \$70.1 million.

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

<b>Total Recommended Tax Credits:</b>	<b>\$68,162,771</b>
<b>Total Recommended Tax Credits after Adjusting for S-Corporation Law<sup>1</sup>:</b>	<b>\$70,112,152</b>

Chair Mendonca proposed removing Agenda Items D-3, D-12, D-16, and D-27 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 Janis indicated she had additional questions for GO-Biz staff regarding Agenda Items D-1, D-4, and D-13.

Chair Mendonca asked the Committee if there were any other questions. There were none. Chair Mendonca then asked if there were any public comments for items in Agenda Item D that were not pulled for further discussion. Hearing none, he called for a motion to approve all items under Agenda Item D except for items D-1, D-3, D-4, D-12, D-13, D-16, and D-27.

**Action Moved/Seconded:** Members Janis/Finn  
**Yes:** Members Mendonca, Janis, Finn, Schaefer, Zapata  
**No:** None

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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)).



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>\$4,535,000</b>
<b>Total Tax Credits Recommended to be Recaptured after Adjusting for S-Corporation Law<sup>2</sup>:</b>	<b>\$4,716,667</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 Janis/Schaefer  
**Yes:** Members Mendonca, Finn, Janis, Schaefer, Zapata  
**No:** None

**D-3. Cubic Corporation**

At the request of Chair Mendonca, Deputy Director Akin elaborated on Agenda Item D-3. Ms. Akin described the company and the proposed agreement to the Committee. Cubic Corporation (Cubic) develops transportation, communication, and software solutions for the defense, law enforcement, and transportation industries.

In exchange for a \$8.5 million California Competes Tax Credit, Cubic has committed to create 300 new full-time jobs and make \$113,765,000 in investments in California. The jobs Cubic is committing to create are in classifications such as: administration, accounting, finance, human resources, contracts, information technology, and legal. Cubic confirmed that the credit would be a significant factor in its decision to expand its headquarters in California.

Cubic indicated in its application that its San Diego headquarters is over 40 years old and in need of replacement. Cubic stated that it has already moved several accounting and payroll positions from San Diego to its offices in Orlando, Florida. Before deciding on the scope of its building construction plans, it is evaluating the cost of keeping these employees in California versus relocating these employees to its existing facilities in Florida, Tennessee, and/or Alabama. Cubic affirmed that if awarded this credit, it would commit to retaining its existing workforce at its San Diego

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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)).



headquarters and add 300 new positions in San Diego instead of continuing to explore locating these employees at its facilities outside of California.

Ms. Akin indicated that Jim Edwards, Cubic's Vice President, General Counsel, and Corporate Secretary; Michael Paa, Cubic's Corporate Counsel (via teleconference); and Ann Marie Collins, Executive Vice President of Savills Studley and Cubic's consultant (via teleconference) were available to address any questions the Committee had.

Chair Mendonca welcomed the representatives from Cubic and asked if they had anything to add to Ms. Akin's statement.

Mr. Edwards thanked the Committee for the opportunity to benefit Cubic and the San Diego community.

Ms. Janis asked for a description of the company's products and proposed growth.

Mr. Edwards stated that Cubic has two main lines of business: one is in defense, consisting of train systems and communications, and the second in fare collections systems for public transit.

Ms. Janis asked if most of Cubic's customers are California public agencies.

Mr. Edwards stated that Cubic has contracts with public transit agencies in San Francisco, Los Angeles, and San Diego. He believes those are Cubic's largest public agency customers.

Ms. Janis asked if any portion of the public contracts encourage Cubic to remain in California.

Mr. Edwards indicated that Cubic's customers out of California want Cubic to relocate to their states, but that Cubic would like to stay in San Diego, where it was founded, if it makes economic sense.

Ms. Janis asked if Cubic's current workforce of more than 1,000 employees is at risk of relocation out of California but for award of a California Competes Tax Credit.

Mr. Edwards stated that Cubic is assessing where it can best grow. He stated that Cubic has the opportunity to expand in other locations. He described Cubic's current headquarters location as aging and stated that it is not a good recruiting tool for the company.

Ms. Janis asked about Cubic's current workforce demographics.



Mr. Edwards stated that he did not have those statistics with him but that Cubic has an active outreach program for workforce diversity. He stated that Cubic's board has two women and one minority ahead of California's law for women representation on boards. He stated that women also fill other senior leadership positions in the company.

Ms. Janis asked if any of the proposed 300 new jobs would be hired through a temporary employment agency.

Mr. Edwards stated that all new jobs would be at Cubic and that temporary employees were not included in the 300 proposed new jobs.

Ms. Janis asked if Cubic's employees were unionized.

Mr. Edwards stated that Cubic's employees were not unionized.

Chair Mendonca asked if there were other 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 Finn/Schaefer

**Yes:** Members Mendonca, Finn, Janis, Schaefer, Zapata

**No:** None

#### **D-12. Sovereign Lending Group Incorporated**

At the request of Chair Mendonca, Deputy Director Akin elaborated on Agenda Item D-12. Ms. Akin described the company and the proposed agreement to the Committee. Sovereign Lending Group Incorporated (Sovereign Lending) is a national, direct-to-consumer mortgage lender. Unlike a typical retail mortgage bank, Sovereign Lending's business model is not limited by its geographical location, allowing it to provide services to customers throughout the nation.

In exchange for a \$1,737,143 California Competes Tax Credit, Sovereign Lending has committed to create 474 new full-time jobs and make \$1,355,000 in investments in California. The jobs Sovereign Lending has committed to create are in classifications such as: processor, production staff, and administrator. Sovereign Lending confirmed that the credit would be a significant factor in its decision to expand in California rather than relocating its existing California staff out-of-state.

Sovereign Lending indicated in its application that more than 70% of its business is generated outside of California and that without award of the credit it will likely phase out its Costa Mesa office and begin to relocate its employees to its existing offices in Las Vegas, Nevada and Phoenix, Arizona. Sovereign Lending has stated that it has the ability to operate anywhere in the United



States and indicated that it has already acquired office space in Las Vegas and Phoenix. Sovereign Lending affirmed that award of the credit would sufficiently offset the higher cost of doing business in California such that it would commit to remaining and growing in Costa Mesa.

Ms. Akin indicated Daniel Holtz, Sovereign Lending's Co-Founder and President, and John Czechowicz, Sovereign Lending's consultant (via teleconference), were available to address any questions.

Chair Mendonca thanked Mr. Holtz for attending and asked if there was anything he would like to add before they begin.

Mr. Holtz thanked the Committee for the opportunity to participate and stated he was happy to answer any questions.

Chair Mendonca asked if there were any questions for Sovereign Lending from the Committee.

Ms. Janis asked how Sovereign Lending's products are different from those of commercial banks.

Mr. Holtz stated that Sovereign Lending only lends to residential customers.

Ms. Janis asked how the company's products are different than a mortgage from a bank.

Mr. Holtz stated that Sovereign Lending provides products directly to the consumer. He stated that all loan products are manufactured at Sovereign Lending's central location in Costa Mesa. He described the change in consumer behavior toward online applications through mobile phones and apps rather than in-person transactions at banks. He stated that because Sovereign Lending operates digitally, it provides services across the United States.

Ms. Janis asked how long Sovereign Lending has existed.

Mr. Holtz stated that Sovereign Lending formed in 2005 and began operations in 2006.

Ms. Janis asked what Sovereign Lending did during the financial crisis.

Mr. Holtz stated that Sovereign Lending rightsized and determined which programs it could continue to provide. He stated that because the federal government bailed out Fannie Mae and Freddie Mac, Sovereign Lending was able to continue to sell loans to them.

Ms. Janis asked who regulates Sovereign Lending, whether the company is subject to the Community Reinvestment Act, and to what extent it must work with poor communities.



Mr. Holtz stated that Sovereign Lending is an independent mortgage bank that primarily does mortgage origination. He stated that Sovereign Lending is regulated by each of the states in which it is licensed to do business. He further stated that in California, Sovereign Lending is regulated by the Department of Business Oversight and the Bureau of Real Estate.

Ms. Janis asked why Sovereign Lending is not regulated by the Community Reinvestment Act. Chair Mendonca asked whether the company accepts deposits. Mr. Holtz stated that Sovereign Lending does not accept deposits. Chair Mendonca stated that is likely the reason Sovereign Lending is not covered by the Community Reinvestment Act. Mr. Schaefer clarified that the Community Reinvestment Act is only applicable to banks that accept deposits and make consumer loans. He stated that a mortgage broker is not subject to these regulations unless attached to a bank.

Ms. Janis asked what programs Sovereign Lending has in place to ensure fair lending practices.

Mr. Holtz stated that 70% of Sovereign Lending's loan consumers are veterans. He stated that the company specializes in Veterans Affairs (VA) loans. He stated that banks have tighter regulations and guidelines in providing VA loans than Sovereign Lending does.

Ms. Janis asked how the guidelines are tighter and whether the guidelines exist to protect consumers.

Mr. Holtz stated that some guidelines exist to protect banks from risk.

Ms. Zapata stated that Sovereign Lending markets debt consolidation on its website. She asked what training programs the company has to ensure employees are not targeting consumers with low financial education and to ensure debt consolidation on refinances do not cause future financial crises.

Mr. Holtz stated that all Sovereign Lending's loans are written to Fannie Mae, Freddie Mac, and Ginnie Mae, who publish the loan guidelines. Sovereign Lending then manufactures the loans to meet those criteria. The company also internally assesses the risk of each loan independently of Fannie or Freddie. He stated that the company consistently calls the VA for guidance as well.

Ms. Zapata stated that marketing debt consolidation may cause consumers to become overextended.

Mr. Holtz stated that the VA recently provided further guidelines regarding debt consolidation. He stated that these guidelines indicated that up to 90% of a house's value is considered a cash out refinance and that if a consumer is paying off debt, the residual income and overall amount of





money the veteran is spending on payments each month must go down. He stated that rate reductions must be one half of one percent and the refinance cannot be subject to exorbitant fees. He stated that Sovereign Lending belongs to the Mortgage Bank Association and reviews these issues to ensure it proactively follows the required guidelines.

Ms. Janis stated that this is not the kind of investment that she would like to see with tax dollars in that it is essentially an unregulated mortgage broker that is not subject to the regulations in place to address challenges in the financial sector and in affordable housing.

Mr. Holtz stated that Sovereign Lending operates in 46 states and that it is constantly analyzing its internal processes and programs. He stated that the Consumer Financial Protection Bureau regulates the company and the company is subject to regular and ongoing oversight. He stated that Sovereign Lending has an interest in preventing future financial crises and is actively working to stay ahead of them. He added that many of Sovereign Lending's competitors operate in Texas giving them a cost advantage due to their lack of income taxes.

Ms. Janis asked if Texas businesses do not pay income tax.

Mr. Holtz stated that they do not pay personal taxes. Mr. Czechowicz stated that Texas businesses pay annual franchise taxes but not income taxes.

Ms. Zapata asked about Sovereign Lending's strategy to eliminate predatory marketing to communities with low income and low education. She asked what education efforts the company provides and what it intends to do when the market slows and interest rates increase.

Mr. Holtz stated that Sovereign Lending regularly reviews economic reports, which all forecast consistent growth. He stated that housing development continues to grow and with that, increased need for financial services. He described the changes to consumer spending habits and that Sovereign Lending can accommodate these changes. He stated that banks offer fewer mortgages now and that Sovereign Lending sees opportunity for growth and does not expect a financial event like in 2008.

Chair Mendonca asked Mr. Holtz to describe the history of the company, why Sovereign focuses on veterans, and how it is able to meet the needs of customers when banks cannot.

Mr. Holtz stated that the company started focusing on VA loans in 2013. He stated that Sovereign Lending enjoys serving the veteran population and that it is rewarding to service those clients. He added that big banks are constrained by the new regulations of the Dodd-Frank Wall Street Reform and Consumer Protection Act. He stated that loan origination is expensive and costs about \$8,500 per loan, which has caused banks to move to other types of activities. He stated that because



Sovereign Lending specializes in loan origination, and has experience working on those types of loans, it can offer those products more efficiently and at a lower cost than banks.

Ms. Zapata asked which institutions are purchasing Sovereign Lending's loans. She asked if Sovereign Lending offers these to real estate investment trusts (REITs) or pension funds.

Mr. Holtz stated that Sovereign Lending releases the servicing of its loans to private companies. He stated that he did not believe any of those purchasing companies were REITs or pension funds. He stated that the loans are securitized with Fannie Mae, Freddie Mac, or Ginnie Mae and he does not know who is purchasing the securitization of the bonds.

Ms. Zapata stated that she would like to know whether these loans end up in pensions, public REITs, or non-public REITs to understand the true lifespan and utility of the loans offered to veterans.

Mr. Holtz stated that the VA guarantees 20% of the losses to the holder of the debt in the event that a homeowner defaults on a loan.

Ms. Zapata stated her belief that institutions like Sovereign Lending should track the purchasers of their loans since this was a problem in the financial crisis ten years ago.

Mr. Schaefer asked if Sovereign Lending originates, packages, and sells mortgages into mortgage backed securities issued by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

Mr. Holtz indicated that Sovereign Lending originates loans and sells them to an aggregator that does the remaining steps described by Mr. Schaefer.

Mr. Schaefer asked if Sovereign Lending is an approved lender by the California Housing Finance Agency in their first-time homebuyer's program.

Mr. Holtz stated that Sovereign Lending is not.

Ms. Janis asked if Sovereign Lending offers refinances.

Mr. Holtz stated that Sovereign Lending offers refinances.

Chair Mendonca asked if there were other questions or comments from the Committee or the public. Hearing none, he requested a motion for approval of Agenda Item D-12.

**Action Moved/Seconded:** Members Schaefer/Finn



**Yes:** Members Mendonca, Finn, Schaefer

**No:** Members Janis/Zapata

**D-16. Graham Packaging PET Technologies, Inc.**

At the request of Chair Mendonca, Deputy Director Akin elaborated on Agenda Item D-16. Ms. Akin described the company and the proposed agreement to the Committee. Graham Packaging PET Technologies, Inc. (Graham Packaging) is a manufacturer of rigid plastic packaging for the food and beverage industry. Graham Packaging is proposing to expand the manufacturing capacity of its PET plastic wine bottles.

In exchange for an \$830,000 California Competes Tax Credit, Graham Packaging has committed to create 24 new full-time jobs and make \$9,281,211 in investments in California. The jobs Graham Packaging is committing to create are in classifications such as: packaging specialist, forklift operator, and machine operator. Graham Packaging confirmed that the credit would be a significant factor in its decision to expand its existing facility in Modesto, California.

Graham Packaging indicated in its application that it is deciding whether to expand at its existing manufacturing facility in Modesto, California or Selah, Washington. Both of these locations manufacture similar products and each sell to customers on the West Coast. Graham notes while there are some non-cost benefits to expanding in Modesto, this option remains significantly more expensive than the Selah expansion option. Graham Packaging affirmed that award of this credit would sufficiently offset these cost differences such that it would commit to expanding at its California manufacturing facility.

Ms. Akin introduced Jude Sweeney, Graham Packaging's Project Portfolio Manager, and Kathy Mussio, Graham Packaging's consultant, and stated that they were present to answer any questions.

Chair Mendonca asked if Mr. Sweeney or Ms. Mussio had anything they would like to add.

Mr. Sweeney stated his appreciation to be invited to the Committee meeting and for its consideration. He indicated that the credit would be important for its plant and employees in Modesto.

Chair Mendonca asked the committee members if they had questions.

Ms. Finn asked if this company had previously been awarded a sales tax exemption from the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) board.

Mr. Sweeney stated that it had been.



Ms. Finn asked if there was any prohibition on Graham Packaging obtaining a California Competes Tax Credit if it had already received a sales tax exemption from CAEATFA.

Ms. Akin stated that the California Competes Tax Credit is only one incentive that companies can use as part of a package of incentives to enable it to grow or expand in the state.

Ms. Finn asked if Graham Packaging had previously disclosed its CAEATFA award.

Ms. Akin stated that the application process specifically asks about and considers the other incentives the company is taking advantage of in California and what incentives it may utilize in another state.

Ms. Janis stated that this type of applicant is good for the program to focus on because it is environmentally friendly and in a low-income area. She asked whether the company had provided a description of its equity and diversity hiring.

Ms. Akin stated that the company did include this information in its application and that answers to the diversity in hiring application question are provided to the Committee when the credit award is \$1,000,000 or more as a standard practice to protect staff time. She indicated that the current standard practice could be updated if needed.

Ms. Janis stated that she understands that staff time is limited and that this information is good to know. Ms. Janis described the wages in Graham Packaging's proposed agreement and asked if Graham Packaging's employees' earnings are at or near minimum wage.

Ms. Akin clarified that the minimum and average annual wages described in the proposed agreement only apply to the new jobs at Graham Packaging rather than its entire workforce. She further indicated that the low wages may only apply to the new jobs in the first year after hire and that the wages likely increase in subsequent years.

Ms. Janis asked whether the 24 new employees' earnings would be at or near minimum wage.

Mr. Sweeney stated that those earnings would be new employees' starting wages.

Ms. Janis asked if their wages would be \$15 per hour.

Mr. Sweeney stated that wages could be higher depending on classification and experience.



Chair Mendonca asked if there were other questions or comments from the Committee or the public. Hearing none, he requested a motion for approval of Agenda Item D-16.

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

**Yes:** Members Mendonca, Finn, Schaefer, Zapata, Janis

**No:** None

#### **D-27. Clerprem USA Corp.**

At the request of Chair Mendonca, Deputy Director Akin elaborated on Agenda Item D-27. Ms. Akin described the company and the proposed agreement to the Committee. Clerprem USA Corp. (Clerprem) is a designer and manufacturer of passenger seating systems for trains and seating components for the automotive industry. Clerprem has manufacturing facilities in Italy, Germany, Mexico, Tunisia and a new facility in Sacramento, California.

In exchange for a \$380,000 credit, Clerprem has committed to creating 18 new full-time jobs and make \$380,000 in investments in California. The jobs Clerprem is proposing to create are in the classifications of: operator, logistics coordinator, office manager, and plant manager. Clerprem confirmed that the credit would be a significant factor in its decision to expand in California.

Clerprem indicated in its application that it was recently awarded contracts to supply passenger seats in both Florida and Canada and that new production facilities are needed to supply these contracts. Clerprem is considering adding a second production line at its newly opened Sacramento facility or developing a new manufacturing plant in Canada to meet this additional demand. Clerprem is seeking the California Competes Tax Credit to help offset the cost difference between growing in Sacramento or building a new facility in Canada and will commit to expanding in California if awarded the credit.

Ms. Akin introduced Filippo Amoroso, Clerprem's Assistant Treasurer, and Pamela Paradiso, Clerprem's consultant, and stated that they were present to answer any questions.

Chair Mendonca asked Mr. Amoroso and Ms. Paradiso if there was anything they would like to add.

Mr. Amoroso thanked the Committee and stated that he is honored to be considered for award. He stated that this will be important to address the challenges Clerprem has as a startup facility. He stated that the Clerprem group has 1,200 employees around the world including in Tunisia and Mexico. He indicated that with its recent \$13 million contract award from Siemens it has recently opened its Sacramento manufacturing site. He stated that award of the credit will help Clerprem grow in California.



Ms. Janis stated her interest in using the California Competes Tax Credit to induce growth of industry clusters. She asked if Clerprem has located near Siemens.

Mr. Amoroso stated that Clerprem has two contracts with Siemens and that he is not sure how close the new Sacramento facility is geographically to Siemens.

Ms. Janis asked if Clerprem is co-owned by Siemens. Mr. Amoroso stated that Clerprem is wholly owned by Clerprem SPA, an Italian corporation, which currently manufactures products for Ferrari, BMW, and Audi. He stated that Clerprem would like to manufacture products for Tesla and take advantage of Sacramento's proximity to Palo Alto.

Ms. Janis asked if there are other companies in this industry that are also locating in Sacramento.

Mr. Amoroso stated that he did not know. He stated that Clerprem serves a niche within the industry but that that type of clustering has happened at Clerprem's Italy location.

Chair Mendonca asked if there were other questions or comments from the Committee or the public. Hearing none, he requested a motion for approval of Agenda Item D-27.

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

**Yes:** Members Mendonca, Finn, Janis, Schaefer, Zapata,

**No:** None

#### **D-1. Brex, Inc. and D-4. Ancestry.com Operations, Inc.**

Chair Mendonca commenced the discussion of the items that were pulled to ask further questions of staff.

At the request of the Committee, Deputy Director Akin elaborated on Agenda Item D-1. Ms. Akin described the agreement with Brex, Inc., stating that Brex is a financial services company that provides credit to startup companies. Traditional credit card companies typically are not willing to extend credit to new businesses without revenue or cash flow. Brex offers credit cards to startups with limited credit history by taking into consideration the founders, investors, funds raised, and spending habits when assessing risk.

In exchange for a \$10 million credit, Brex committed to create 782 new full-time jobs and make \$20.15 million in investments in California. The jobs Brex is committing to create are in classifications such as: data, engineering, finance, compliance, operations, business development, product design, administrative, sales, and marketing support. Brex confirmed that the credit would be a significant factor in its decision to expand in California rather than in a different state. Brex



indicated in its application that it is deciding whether to remain in San Francisco or move its operations to either Vancouver, Canada, or Salt Lake City, Utah. Brex has established a Canadian entity and notes that it offers a deep enough talent pool to make its potential expansion there a success, and that it could save millions in labor costs and \$10.5 million in rent costs compared to San Francisco over the next five years. Brex further indicated that Salt Lake City similarly offers lower labor costs and that it could offer \$10,000 per job created there through a combination of state and local credits. Brex affirmed that award of this credit would sufficiently offset these cost differences such that it would commit to remaining and growing in San Francisco.

Ms. Akin asked Member Janis if she would like further background on Ancestry.com Operations, Inc. before answering any questions. At the request of Member Janis, discussion of these agenda items commenced.

Ms. Janis stated that the California Competes Tax Credit program was created in part due to lack of clear benefits from the eliminated Enterprise Zone program, specifically to target key areas of the state and create specific types of jobs. She described San Francisco's low unemployment rate and its challenges including homelessness, housing issues, and the need for job creation outside of the technology industry. She stated that awarding technology companies to hire more coders and engineers in San Francisco does not meet the primary objectives of the program. She stated she has nothing against these companies but indicated that these funds could potentially be better used elsewhere.

Ms. Finn asked whether the program's statutes provide criteria regarding Ms. Janis' concerns.

Ms. Akin stated that the primary objective of the credit is to create new, high quality full-time jobs in California that would not otherwise be created in the state. She described the program's additional statutory criteria when considering applicants and provided examples of the required evaluation factors. Ms. Akin stated that the program weighs each of the factors when considering award recommendations and that GO-Biz can only evaluate the applications it receives. She stated that the program seeks to award applicants creating jobs in strategically significant locations in California and provided examples of several recommended awardees in Brawley, Modesto, and Fresno, California. She further stated that total amount of recommended awards for this Committee meeting totaled \$70.1 million which is less than the \$75 million available during this funding round. Ms. Akin noted that GO-Biz did not award all of the credits available during this application period despite the program receiving requests well in excess of \$75 million because GO-Biz did not find that these other businesses had adequately demonstrated that award of the credit would impact their ability or willingness to create new full-time jobs in California. GO-Biz is recommending Brex and Ancestry.com for award of the credit because these companies sufficiently demonstrated that award of the credit would impact their willingness to create these jobs in California rather than outside of the state and awarding these credits did not prevent GO-Biz from awarding other



applicants in more strategically important or economically challenged areas of the state. Ms. Akin stated that GO-Biz would love to award more businesses looking to locate to inland or more rural parts of the state but is limited by the applications the program receives.

Chair Mendonca indicated that raising the awareness of business opportunities in other parts of the state is a priority for the Governor. He stated that this includes Central California, the Inland Empire, and rural parts of the state as well as urban areas that have opportunities for high quality jobs growth.

Ms. Akin stated that targeting these areas is a high priority for GO-Biz and the California Competes Tax Credit program as well. She stated that GO-Biz intends to increase its outreach to encourage more applications from those areas of the state. Ms. Akin again stated that GO-Biz would love to award more large credits to large projects in other parts of the state.

Ms. Finn inquired about the outreach strategy. Ms. Akin stated that GO-Biz intends to coordinate with local officials in targeted areas to make presentations on a range of GO-Biz services, including this program.

Chair Mendonca indicated the Governor's strategic commitment to raising visibility on this issue. He stated his belief that there are opportunities for businesses to expand if they have the awareness and aspiration. He stated that this effort could bring high quality jobs into places where people need them.

Ms. Finn asked how to encourage businesses to expand in areas of high need.

Chair Mendonca indicated the need to build awareness. He described recent efforts to connect Silicon Valley employers with community members in the Central Valley in an effort to help these businesses become more successful by creating jobs in areas that are not overcrowded.

Ms. Janis stated that the argument that labor costs are lower in other states is not very compelling.

Ms. Janis further stated that the extent to which an applicant provides training is an important factor particularly to marginalized groups and that this is an area of focus for the legislature. She indicated that she would like to know how this information could be better included in the future.

Ms. Akin stated that a specific question on training has now been added to the application as part of the regulation that was recently developed. She stated that this information is considered as one of the factors for evaluation and that communication of this information to the Committee can be updated. Ms. Janis asked if this information is scored. Ms. Akin stated that while each of the statutory evaluation factors are considered and evaluated, GO-Biz does not assign a numeric score





to each factor. Instead GO-Biz uses a more holistic and qualitative analysis to assess the statutory evaluation criteria and the merits of the application as a whole. Ms. Akin indicated that training is a heavily considered factor and that a rigid numeric scoring system would constrain GO-Biz's ability to recommend the best candidates for award since award of the credit is based on so many different statutory evaluation criteria.

Chair Mendonca suggested that specific examples of applicants with robust training programs could potentially be included in the company reports given by the Deputy Director.

Ms. Janis stated that the evaluation of workforce training should consider the differences between typical, on-the-job training, versus apprenticeships or other training that provides more robust skill development.

Ms. Akin stated that GO-Biz worked with the Executive Director of the Employment Training Panel to ensure the training question included in the application specifically addressed this issue. She indicated that the regulation and application request specific details on this topic including the type of training offered, whether it is an apprenticeship program, and whether the training is live, paid, and in a classroom setting as opposed to just on-the-job, task-oriented training. Ms. Akin stated her agreement that these specifics should be considered in the evaluation of applications and asked if the Committee had other suggestions for the program.

Ms. Janis stated that because the program's goal is to help provide jobs for people that do not have opportunities it is important to include this in the evaluation.

Chair Mendonca asked if there were other questions or comments from the Committee or the public. Hearing none, he requested a motion for approval of Agenda Items D-1 and D-4.

**Action Moved/Seconded:** Members Finn/Schaefer

**Yes:** Members Mendonca, Finn, Janis, Schaefer, Zapata

**No:** None

### **D-13. Meals for All, Inc.**

Chair Mendonca commenced discussion of Agenda Item D-13.

Ms. Janis asked if the Committee would be giving \$1 million to a company that profits from providing meals to poor individuals.

Ms. Akin stated that was not her understanding of what the company does. She described the business as a provider of meal solutions for emergency situations and natural disasters such as



earthquakes and fires. She stated that Meals for All, Inc.'s customers are hospitals and other care facilities rather than underprivileged populations and that the meal solutions provided by Meals for All are specifically designed to meet the special dietary requirements of the patients and residents of such hospitals and care facilities.

Chair Mendonca asked if there were other questions or comments from the Committee or the public. Hearing none, he requested questions or comments on Agenda Item D-13.

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

**Yes:** Members Mendonca, Finn, Janis, Schaefer, Zapata

**No:** None

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

Chair Mendonca called for questions from the public. There were none. He added that he appreciates the quantity and quality of the materials presented. He also acknowledged and thanked the members of the public in attendance as well as the members of the organizations present. Lastly, he thanked the Committee members who did the due diligence, the research, and showed the willingness to ask hard questions and stated that, that is our job. Chair Mendonca concluded by stating that it may feel sometimes as if we are being detail-oriented but that is what we should be.

#### **Adjournment**

Chair Mendonca adjourned the meeting at 2:57 p.m.