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California Competes Tax Credit Program

Committee Meeting

Thursday, June 13, 2019
10:00 a.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 10:01 a.m.

Members Present: Lenny Mendonca, Jovan Agee (representing the State Treasurer), Karen Finn (representing the Director of the Department of Finance), and Madeline Janis.

Members Absent: Denise Zapata

B. Approval of Minutes from April 11, 2019, Committee Meeting

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

Action Moved/Seconded: Members Janis/Finn

Yes: Members Mendonca, Agee, Finn, Janis

No: None



C. Deputy Director's Report

- **Agenda Overview – Agreements with 20 Businesses, Total Tax Credits \$55,805,158**

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. She stated that the purpose and intent of the California Competes Tax Credit is to attract and retain high value employers in California while at the same time ensuring accountability for the state job creation efforts and the use of taxpayer dollars. Businesses apply for the credit in advance through a competitive application process and only the most competitive applications are recommended for award of the credit. As part of this application process, businesses ask for the amount of credit that they need over a five-year period in order to impact their willingness and/or ability to create new full-time jobs in California and make new investments in California. In exchange for the credit, businesses commit to creating a specified number of new full-time jobs in California, the minimum and average wages to be paid to those new employees in California, and the net investments they will be making in California over the next five years. These hiring and investment milestones are laid out in an agreement between the business and GO-Biz. These agreements are not effective until approved by the Committee at a public committee meeting. Ms. Akin further explained that a business may only claim a credit allocated to a particular year if they achieve the hiring and investment milestones for that particular year as laid out in their agreement.

Ms. Akin stated that GO-Biz is not recommending award of the full amount of the credit available for allocation during this application period. There was a total of \$79.68 million in California Competes Tax Credit available for allocation. However, GO-Biz is only recommending award of tax credits totaling \$55.8 million to the Committee at the present meeting. While GO-Biz received credit applications in excess of the \$79.68 million available for allocation, those who are recommended for award today are only those that adequately demonstrated through the application process and materials submitted to GO-Biz that the award of the credit would impact their willingness or ability or both to create new full-time jobs in California. The remaining \$23.86 million in unallocated credits from this application period will be added to the amount of credit available for award to businesses in the next fiscal year.

Ms. Akin stated that that over the summer months, the California Competes Tax Credit program will be working with the GO-Biz Communications and External Affairs team to develop a comprehensive outreach strategy that will target all areas of the state, especially inland and economically disadvantaged areas of California. GO-Biz and the California Competes Tax Credit program are specifically working to get the message out to companies currently located in high cost areas of the state and considering expanding in or relocating to other lower cost states, that they should first consider other lower cost, inland areas of California.



Ms. Akin informed the Committee that she accepted another position and that this would be her last Committee meeting. Ms. Akin stated that she was honored to serve as Deputy Director of the California Competes Tax Credit program over the last year and a half.

Finally, Ms. Akin informed the Committee that there are 20 agreements for the Committee's consideration today. The agreements represent commitments for a net increase of 6,825 new full-time jobs and \$466.5 million in investments in California. The total recommended tax credits is over \$55.8 million.

Chair Mendonca thanked Ms. Akin for her efforts on outreach and awareness-building of the credit to areas of the state where businesses have not always applied. Chair Mendonca congratulated Ms. Akin on her new job opportunity.

Member Janis also congratulated Ms. Akin and stated her appreciation for Ms. Akin's professionalism and performance as Deputy Director of the program.

Ms. Janis stated the recently updated requirement to ask applicants about training programs should incentivize employers to provide training beyond onboarding. She stated that this training could include providing apprenticeships and certifications that provide long-term career opportunities. Ms. Janis stated that she wanted to see a company with training that included apprenticeships and certifications that provide long-term career opportunities, but she only saw descriptions that reflected minimal training opportunities. Ms. Janis asked staff to consider the quality of training available when evaluating applicants next round.

Ms. Akin stated that the program did develop a regulation asking for this type of information and that it is included as part of the application. She stated that more information regarding training was included in the materials provided to the Committee this round and that going forward, staff can look at what else can be done to ask for more specifics about the training opportunities provided by the proposed awardees to their employees and how this information can be better communicated to the Committee.

Ms. Janis stated that applicants should be asked for, as well as evaluated on, their training programs. Ms. Akin stated that the program could work with Ms. Janis to ensure that it is adequately addressing the training criteria.

Member Agee requested to see the statute referenced regarding training. He stated that the Treasurer's office has conversations with community colleges to improve how they can meet the approaching market demands. He stated that he wants to understand whether this training requirement is something the employer must do in-house or if it can be done in alignment with an institution. He stated that his office is looking at those kinds of partnerships to assist employers and the community colleges to meet these needs.



Ms. Akin stated that staff would provide both the statute and the regulation on the training evaluation criteria to Mr. Agee after the meeting.

D. Discussion and Approval of California Competes Tax Credit Agreements

Total Recommended Tax Credits: \$54,466,659
Total Recommended Tax Credits after Adjusting for S-Corporation Law¹: \$55,805,158

Chair Mendonca proposed removing Agenda Items D-1, D-2, D-6, D-8, D-10, and D-11 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. Hearing none, he called for a motion to approve all items under Agenda Item D except for items D-1, D-2, D-6, D-8, D-10, and D-11.

Action Moved/Seconded: Members Agee/Janis
Yes: Members Mendonca, Agee, Finn, Janis
No: None

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

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

Total Tax Credits Recommended to be Recaptured: \$16,856,000
Total Tax Credits Recommended to be Recaptured after Adjusting for S-Corporation Law¹: \$17,047,333

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 Agee/Finn
Yes: Members Mendonca, Agee, Finn, Janis
No: None

¹ One-third of the California Competes Tax Credit may be utilized by an S-Corporation to offset the tax on net income at the S-Corporation level (R&TC §23803(a)(1)). The remaining two-thirds is disregarded and may not be used as a carryover for the S-Corporation (R&TC §23803(a)(2)(A)). However, the full amount of the California Competes Tax Credit is also passed through to the S-Corporation's shareholders (R &TC §23803(a)(2)(F)).



D-1. Samsara Networks, Inc.

At the request of Chair Mendonca, Deputy Director Akin elaborated on Item D-1. Ms. Akin described the company and the proposed agreement to the Committee. Samsara Networks, Inc. (Samsara) develops sensors and related products that collect data to improve safety and efficiency for the transportation, logistics, construction, food production, energy, and manufacturing industries.

In exchange for a \$20 million California Competes Tax Credit, Samsara has committed to create 2,098 new full-time jobs and make \$189.8 million in investments in California. The jobs Samsara is committing to create are in classifications such as: engineer, sales, marketing, accounting, general office support, customer support, and operations. Samsara confirmed that the credit would be a significant factor in its decision to expand in California rather than in Atlanta, Georgia.

Samsara indicated in its application that it is strongly considering whether to create the additional headquarters and support positions in Atlanta instead of San Francisco. Samsara noted that many of its major customers are located in the southern United States and provided a detailed site comparison analysis comparing the costs and savings associated with expanding in San Francisco versus Atlanta. Among other things, Samsara noted that it would be eligible for approximately \$5,000 in tax credits from the state of Georgia for each new job created in that state. Samsara further noted that salary costs in Atlanta are 20 to 40 percent less than in San Francisco due to the lower cost of living there. Samsara also noted that estimated rents for expanding its offices would be approximately \$13.65 million less in Atlanta versus San Francisco. Samsara affirmed that award of this credit would sufficiently offset these cost differences such that it would commit to adding these predominantly headquarters and support jobs in San Francisco instead of Atlanta, Georgia.

Ms. Akin indicated that Samsara representatives Chloe Hill, Vice President of Finance; Bryan Stephenson, Director of Strategic Finance; and Brittany Anderson, Manager of Tax, were available to address any questions the committee had.

Chair Mendonca welcomed the representatives from Samsara and asked if they had anything to add. Ms. Hill thanked the Committee and stated that Ms. Akin's summary was sufficient.

Chair Mendonca asked if the Committee had any questions.

Member Janis asked for more elaboration on how the company's products get real-time safety information and if it is something that employees are tasked with. Ms. Hill stated that Samara is an "IoT" sensor company and working predominantly in the fleet space.



Ms. Janis asked for clarification of what an “IoT” stands for. Ms. Hill responded that IoT stands for “Internet of Things”. She stated that Samsara develops sensors that collect data which is aggregated in the cloud so that backend operators can synthesize and make real-time decisions based on that data. Ms. Hill further indicated that the sensors can collect many types of data such as temperature, location, speed, vehicle maintenance, and diagnostics. She stated that Samsara also hosts a safety platform to provide on-demand coaching for drivers. Ms. Hill stated that the cameras can also track accident footage and exonerate drivers, creating insurance cost savings.

Ms. Janis stated that many companies are considering moving out of Atlanta due to its abortion ban. She asked if that is a factor in Samsara’s decision to relocate to Atlanta. Ms. Hill responded that Samsara is a company with very strong opinions on employee rights. She stated that while Samsara is monitoring the situation, it is still evaluating whether to continue to expand there or not based on this issue.

Ms. Janis stated her concern regarding the housing crisis in the Bay Area. She asked whether all 2,000 employees will be added in San Francisco. Ms. Hill stated that the employees will be added in both San Francisco, as well as, at its existing office in San Jose.

Ms. Janis stated that if California invests \$20 million in Samsara there is a heightened responsibility on it and the Committee to not exacerbate current housing problems. She asked what Samsara is thinking about to contribute to a solution for the housing crisis. Ms. Hill stated that the credit will benefit its general, administrative, support, and operations employees. She indicated that Samsara wants to use the credit to hire employees in these types of jobs and to help them upskill and continue their careers. She stated that the credit will help Samsara give jobs to people that may not have had these types of job opportunities in the city instead of moving those positions to Atlanta.

Ms. Janis asked whether Samsara will be providing subsidized housing or other support for the homeless. Ms. Hill indicated that Samsara donates its products to Meals on Wheels, donates extra food and essentials to homeless shelters in San Francisco every day, and encourages employees to participate in a volunteer event once a quarter and to be active in the community.

Chair Mendonca asked if there were other questions from the Committee.

Mr. Agee stated his appreciation for the comments about affordable housing. He further stated that the Treasurer’s office asks similar questions for its incentives, including the Sales Tax Exclusion program for employers who come to the state. Mr. Agee further stated that he would like for employers to be comfortable saying that they do not know how to address certain issues. Mr. Agee stated that his office is interested in partnering with Samsara. Mr. Agee further stated that the Treasurer’s office has looked at California employers that have large footprints in the state but draw workforces from large distances. Mr. Agee stated that improving public sector engagement with



these employers will allow it to better leverage its resources. Mr. Agee indicated that the Treasurer's office welcomes an "I don't know" answer because it creates an opportunity for conversations about tax credits and incentives available, and for businesses to leverage the Treasurer's office knowledge in areas that they are not experts in.

Ms. Hill indicated that although there is a talent pool in major metropolitan areas for software engineers, it is difficult to support the remaining business functions in an area as expensive as San Francisco. She stated that Samsara would welcome a discussion with the Treasurer's office. Mr. Agee stated that his office would be interested in discussing a workforce housing program for Samsara's employees.

Chair Mendonca stated his appreciation for the Treasurer's office's attention to the housing issue and for bringing creativity and partnerships with private sector employers. Chair Mendonca thanked Ms. Hill for her statements about the importance of housing and homelessness and indicated that these discussions, as well as the dedicated time and resources, makes a difference to local planning groups and others.

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-1.

Action Moved/Seconded: Members Finn/Agee
Yes: Members Mendonca, Agee, Finn, Janis
No: None

D-2. FN Logistics, Inc.

At the request of Chair Mendonca, Deputy Director Akin elaborated on Item D-2. Ms. Akin described the company and the proposed agreement to the Committee. FN Logistics, Inc. (FN) is a logistics and distribution company that serves fashion e-retailer, Fashion Nova, Inc.

In exchange for a \$13 million California Competes Tax Credit, FN has committed to creating 3,039 new full-time jobs and make \$113.9 million in investments in California. The jobs that FN is committing to create are in classifications such as: inventory, shipping, and receiving. FN confirmed that the credit would be a significant factor in its decision to build its new distribution facility in a new location to be determined in either Riverside or San Bernardino County, rather than at one of the out-of-state locations also being considered for their new distribution facility.

FN indicated in its application that it is planning to build a new one million square foot facility at a location to be determined and that it was considering California's Inland Empire, Nevada, or New Jersey for this facility. FN explained that locating this facility and adding over 3,000 jobs in Nevada



or New Jersey would save it millions of dollars in labor costs compared to California. FN further noted that Nevada offers job creation and investment incentives that it could benefit from if it locates a facility there and that locating a facility in southern Nevada would allow it to benefit from these programs and save on operating costs while continuing to maintain service to the same markets. FN further stated that locating the facility in New Jersey would save it millions in operating costs and allow FN to better serve its East Coast market.

FN affirmed that award of this credit would sufficiently offset these cost differences such that it would commit to creating these jobs and new distribution facility In California rather than the other states it was also considering.

Ms. Akin indicated that Ryan Kaneshiro, FN's Chief Financial Officer, was available to address any questions. Chair Mendonca thanked Mr. Kaneshiro for attending and asked if here was anything he would like to add. Mr. Kaneshiro thanked the Committee for their time.

Ms. Janis asked if FN currently had 40 employees and planned to add 3,000. Mr. Kaneshiro stated that at the time FN submitted the application it had 40 employees, but that it currently employs approximately 700.

Ms. Janis asked where the employees are located. Mr. Kaneshiro stated the employees are in Santa Fe Springs, California. Ms. Janis asked if there is currently a warehouse there. Mr. Kaneshiro stated FN has a distribution center there.

Ms. Janis asked how big that facility is and if the one million square feet would be added there. Mr. Kaneshiro stated the current distribution center is 420,000 square feet and that, based on current rate of growth and projections, FN expects the need for about one million square feet. Ms. Janis asked if FN has space in that same location for its expansion. Mr. Kaneshiro responded that it is not physically possible to expand on that site and that FN needs a new site.

Ms. Janis asked if FN's clothes are made overseas. Mr. Kaneshiro responded that 80% of FN's vendors are based in the Los Angeles area. This is also why FN would like to stay close to downtown L.A. or near the Los Angeles area. Mr. Kaneshiro further explained that some of those vendors do source clothes from overseas. Ms. Janis asked if FN knows where most of the clothes are made. Mr. Kaneshiro stated that some of the clothes are made in the United States depending on the season and the type of clothing. He indicated that some types of products are made and finished in Los Angeles. Mr. Kaneshiro stated that the raw materials could be sourced from areas like China or Southeast Asia.

Ms. Janis asked if Mr. Kaneshiro is aware of a bill currently under consideration in the California Legislature to mitigate the impacts of diesel pollution in the Inland Empire. Mr. Kaneshiro



responded that he is not aware of the bill. Ms. Janis asked if FN owns its trucks. Mr. Kaneshiro stated that FN owns its own vehicles. Ms. Janis asked what FN uses its trucks for. Mr. Kaneshiro stated that vendors transport product to FN and logistics providers pickup directly from FN's warehouse. He indicated that FN's trucks only move product between warehouses or to a few of its retail stores. Ms. Janis asked if FN has diesel trucks. Mr. Kaneshiro stated that two of its four trucks are diesel.

Ms. Janis asked if FN would be adding 3,000 jobs to its current 700 employees. Mr. Kaneshiro stated that was correct. Ms. Janis asked if the total number of jobs would be 3,740 and if those numbers are reflected in the contract. Ms. Akin clarified that FN had 40 employees in its base year, that it had already added some jobs, and that it has committed to a total of 3,079 jobs by the end of 2023. She indicated that this would be a net increase of 3,039 jobs compared to the base year.

Ms. Janis asked whether California is retroactively paying for jobs that have already been created. Ms. Akin responded that the program is awarding credit for the jobs that will be created at this new distribution facility and not the jobs that have already been created. Ms. Akin noted that this built in growth is a function of how the application process and the agreements work since agreements are based on tax years. She further stated that the program considers growth that has already occurred when making its recommendations. Ms. Janis asked for clarification of the final job count. Ms. Akin stated FN has committed to a total of 3,079 jobs, that there would be an increase of 3,039 compared to the base year, and that the agreement accounts for some of the built-in growth that has already occurred in 2019.

Ms. Janis stated that in the agreement the average salary and minimum salary are \$31,200. She asked if FN has any employees that make more than \$31,000 a year. Mr. Kaneshiro responded that a number of managerial and supervisory positions at the distribution center make higher wages.

Ms. Janis asked why both the average and minimum salaries are \$31,200 in the agreement. Ms. Akin stated that this is partially due to the structure of the tax credit agreements. She stated that this is also because the agreements only include the wages of the new employees in their first year of employment. Ms. Akin further indicated that many times the new employees are hired at the minimum wage but see pay increases over their first and second year of employment as they complete their training and gain experience on the job.

Ms. Janis asked for clarification as to why both the average and minimum salaries are the same. Chair Mendonca stated that this is because the average only includes the wages of the new employees in their first year, not the average of all of FN's employees.



Ms. Janis asked if all of the employees that the state is paying for will make \$31,000. Mr. Kaneshiro stated this is correct. Ms. Akin clarified that the new employees would earn at least \$31,200 in the first year of employment.

Ms. Janis asked whether any of these positions are temporary workers. Mr. Kaneshiro stated that FN does have temporary workers, but they are not included in this agreement. Ms. Janis asked if all of the hires will be full-time, direct employees. Mr. Kaneshiro stated that they will be.

Ms. Janis asked if FN provides any kind of long-term training. Mr. Kaneshiro stated that FN provides training required for employees' roles. He indicated that FN also provides managerial and supervisory training and coaching, and many of FN's employees have moved out of the distribution center and into the customer service, social media, or marketing groups. Mr. Kaneshiro stated that FN provides training for employees to grow within the organization.

Ms. Janis asked about FN's ownership and if it is a publicly traded company. Mr. Kaneshiro stated that FN is not publicly traded and is 100 percent owned by a single individual. Ms. Janis asked where the owner is based. Mr. Kaneshiro stated the owner is based in Los Angeles.

Ms. Janis asked if FN is planning to automate its activities. Mr. Kaneshiro stated that FN already uses automation in its warehouse. Ms. Janis asked if the automation will affect the number of employees added. Mr. Kaneshiro stated that FN factored automation into its growth.

Ms. Janis asked if that is reflected in the agreement and if the program can review the use of automation in future applications. Ms. Akin stated that in order for FN to earn the credit it must achieve its hiring commitments. She indicated that the Franchise Tax Board (FTB) will conduct a books and records review to ensure that FN has accomplished those hiring and investment milestones. She stated that if FN does not achieve its hiring and investment milestones, it would not be entitled to the credit. She further stated that the books and records review is required by statute for California Competes Tax Credit awardees.

Ms. Janis asked if the books and records review is private. Ms. Akin stated that FTB does use sensitive employment data in its review.

Ms. Janis asked that if the agreement only counts new hires, what would keep an employer from hiring employees, firing them, automating that work, and then rehiring employees the next year while earning the full credit. Ms. Akin stated that awardees are required to maintain the employee count for three years after achieving the milestones in order to retain the tax credit. She indicated if an awardee did not maintain its commitments, staff would recommend the Committee recapture the credit. Ms. Akin further stated that the agreement accounts for employment on an annual full-time equivalent basis which accounts for both hiring and terminations during the year and that if a



company were to do that, it would be caught through the annual compliance or books and records review process.

Mr. Agee stated his appreciation for the questions and discussion. He stated that the Treasurer's office has a truck retrofitting program to help with engine conversion to meet environmental requirements. Mr. Agee stated that this and other technology programs his office offers may help provide budgetary relief so that employers can further invest in employees and wages. Mr. Kaneshiro stated his appreciation for the information.

Chair Mendonca asked how FN is able to grow quickly in a mature product category like clothing. Mr. Kaneshiro responded that its rapid growth is due to the power of social media and online marketing. Chair Mendonca stated that he was impressed with the rapid growth and jobs created.

Ms. Janis asked if FN has its own marketing platform or if it markets on Amazon or other similar websites. Mr. Kaneshiro responded that FN does not use Amazon. He stated that FN is on many social media platforms that are country specific. He further stated that FN participates in marketing through the social media outlets that are popular in other countries.

Ms. Janis asked what tagline FN uses to market itself. Mr. Kaneshiro stated that FN provides ultra-fast fashion at a reasonable price. Chair Mendonca requested clarification on the meaning of the tagline. Ms. Janis asked for clarification on what FN offers versus another store such as Amazon or Walmart. Mr. Kaneshiro stated that FN provides similar styles as worn by celebrities at lower price points and that these products can be available on its website within 3 to 14 days. Ms. Janis stated her understanding is that FN markets itself as a fashion company. Mr. Kaneshiro stated that FN is about both fashion and fast availability.

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-2.

Action Moved/Seconded: Members Finn/Agee

Yes: Members Mendonca, Agee, Finn, Janis

No: None

D-6. Hi Tech Honeycomb, Inc.

At the request of Chair Mendonca, Deputy Director Akin elaborated on Item D-6. Ms. Akin described the company and the proposed agreement to the Committee. Hi Tech Honeycomb, Inc. (Honeycomb) is an aerospace component manufacturing company that specializes in turbine engine seals.



In exchange for a \$2,615,497 California Competes Tax Credit, Honeycomb has committed to create 204 new full-time jobs, and make \$5 million in investments in California. The jobs Honeycomb is committing to create are in classifications such as: direct labor and leadership. Honeycomb confirmed that the credit would be a significant factor in its decision expand its manufacturing operations in San Diego, California rather than continuing to explore the possibility of moving some of its manufacturing capacity to Mexico.

Honeycomb indicated in its application that it has hired an outside firm to conduct an in-depth study regarding the cost and feasibility of moving part of its manufacturing operations to Mexico and expanding there instead of at its existing facility in San Diego. Honeycomb explained that its representatives have toured several move-in ready buildings in Mexico and noted that moving production to Mexico would reduce labor costs by 50 to 80 percent. In contrast, Honeycomb predicted a 3 to 4 percent increase in labor costs and a 2 percent decrease in its gross margin over the next five years if it continues to manufacture exclusively in California. Honeycomb affirmed if awarded the credit, it will commit to remaining and growing in California instead of moving a portion of its manufacturing operations to and expanding in Mexico.

Ms. Akin introduced Randy DeMont, Honeycomb's Senior Director of Finance, and stated he is available to address any questions the Committee may have.

Chair Mendonca welcomed the representative from Honeycomb and asked if he had anything to add to Ms. Akin's statement. Mr. DeMont expressed his gratitude for the opportunity to be in front of the Committee. He indicated that attending the meeting had been educational for him, particularly regarding the types of questions from the Committee members.

Member Janis asked if Honeycomb would be adding training. Mr. DeMont stated that Honeycomb does provide internal training and certifications. He described Honeycomb's training program in which it trains its specialists throughout all production types. He stated that these employees are cross-trained so that they can move to different areas to mitigate bottle necks in production. He further indicated that as employees gains skills through this extensive training program, they receive pay raises.

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

Member Finn asked, given all new employees will be hired at minimum wage, what kinds of jobs these would be in the aerospace manufacturing industry.

Mr. DeMont stated that manufacturing involves hand forming, hand cutting, and laser welding. He stated that Honeycomb needs technicians that set up, program, and monitor cutting machines. Mr. DeMont stated that Honeycomb is having a difficult time hiring at minimum wage in the current labor market. He further stated that even though Honeycomb has committed to creating minimum wage jobs, it will need to raise its wages in order to be competitive.



Ms. Finn asked whether Honeycomb intends to continue to hire at minimum wage in five or six years. She asked whether or not Honeycomb will need to hire any high skilled employees.

Mr. DeMont stated that Honeycomb intends to hire at entry level and train them on the premises, which provides opportunities to enter the workforce and receive training and skill building. He indicated that many of its employees have moved to other facilities in other industries because of the training they received at Honeycomb.

Ms. Finn asked if Honeycomb can attract employees in San Diego with the wages as described, given that area has a high cost of living and housing. Mr. DeMont stated that Honeycomb is currently looking at this issue.

Chair Mendonca asked where Honeycomb's growth is coming from as it is doubling the size of its workforce. Mr. DeMont stated that Honeycomb is part of every jet engine manufactured in the aerospace industry. He indicated that much of Honeycomb's growth is internationally driven. He described Honeycomb's difficulty in keeping up with global demand and noted that its order backlog and lead times have grown. Mr. DeMont stated that growth in the aerospace industry drives its growth.

Chair Mendonca asked whether the potential tariffs affect its decision to move to Mexico. Mr. DeMont stated that the company thought about it, but it is a smaller portion of its decision. He stated that gross margin is a much larger concern for Honeycomb since it sells a low-cost product. He described Honeycomb's move to producing more difficult to manufacture products since it provides better margins and that it has seen more business in this product category. He stated that this shift will help Honeycomb retain higher qualified employees. Mr. DeMont stated that this will help improve margins and keep Honeycomb from relocating to Mexico.

Ms. Janis asked why Honeycomb wanted to stay in California because Mexico appears to be much cheaper to do business. Mr. DeMont stated that San Diego is home, and that Honeycomb is tied to the community and the area. He described Honeycomb's desire to give back to the community and contribute opportunities by keeping its jobs in San Diego. Mr. DeMont further stated that the owners care about the employees like family.

Ms. Janis asked why Honeycomb pays its employees low wages, given its growing demand, its desire to treat its workforce like family, and the knowledge that minimum wage is not livable in San Diego. Mr. DeMont responded that Honeycomb needs to increase its margins to be able to pay better wages. He stated that Honeycomb relies on manual labor and that production is very labor intensive. Mr. DeMont further stated that the market determines the prices for these parts and that because Honeycomb is shifting to development of more complex parts, it expects to make better margins and pay higher wages.

Ms. Janis asked whether Honeycomb is unionized. Mr. DeMont stated that it is not unionized.



Ms. Janis asked if Honeycomb would have to transport its product across the border if it moves to Mexico. Mr. DeMont stated that Honeycomb ships products internationally. He stated that production that ships within the United States would likely remain in San Diego and that production serving international markets would move to Mexico.

Ms. Janis asked whether any of Honeycomb's employees are temporary. Mr. DeMont stated that at times Honeycomb brings in contingent employees for 30 days to 90 days, who are then converted to permanent employees.

Ms. Janis asked for the percentages of men and women in Honeycomb's workforce. Mr. DeMont stated that the workforce was approximately 35% women and 65% men.

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-6.

Action Moved/Seconded: Members Agee/Finn

Yes: Members Mendonca, Agee, Finn

No: Member Janis

D-8. Gyrfalcon Technology, Inc.

At the request of Chair Mendonca, Deputy Director Akin elaborated on Item D-8. Ms. Akin described the company and the proposed agreement to the Committee. Gyrfalcon Technology, Inc. (GTI) is an artificial intelligence microprocessor chip developer.

In exchange for a \$1,325,000 California Competes Tax Credit, GTI has committed to create 84 new full-time jobs, and make \$11.2 million in investments in California. The jobs GTI is committing to create are in classifications such as: administration, client support, engineering, production, sales, technician, and executive leadership. GTI confirmed that the credit would be a significant factor in its decision to expand its research, design, and production operations in Milpitas, California rather than pursuing such growth in Asia.

While GTI currently performs a significant amount of research, design, quality control, and production activities in Milpitas, California, GTI noted that it also has facilities, contracted third-party production, and research and development activities in Asia. GTI stated that as it prepares for its next phase of growth, it is deciding whether to concentrate its expansion in California's Bay Area or in Asia. While GTI would prefer to stay in the Silicon Valley, GTI indicated that it must consider the cost savings of pursuing such growth in Asia also. GTI further explained that it already has a significant operational presence in Asia, with over a quarter of its workforce currently located overseas. GTI affirmed if awarded the credit, it will commit to creating these new jobs in California rather than outsourcing, hiring overseas, and/or reducing its headcount in California.



Ms. Akin indicated that Alex Tran, Gyrfalcon's consultant was present and that Gyrfalcon's representatives Mei Chen, Controller, and Michael Seifert, Chief Financial Officer, were available by phone to address any questions from the Committee. Chair Mendonca welcomed the representatives from GTI and asked if they had anything to add to Ms. Akin's statement. Ms. Chen expressed her gratitude for meeting with the Committee.

Chair Mendonca called for questions from Committee members.

Member Janis asked about GTI's ownership and whether it is a publicly-traded company. Ms. Chen stated that GTI is a private, two and a half-year-old company founded by engineers from Silicon Valley. She stated that the founders are immigrants that have been in Silicon Valley for over 30 years.

Ms. Janis asked if GTI had any state ownership. Ms. Chen stated that GTI has no state ownership.

Ms. Janis asked the representatives to describe the use of the artificial intelligence microprocessor chips GTI develops. She asked whether GTI's products will make existing jobs redundant or unnecessary or if its products will create a need for new kinds of jobs.

Mr. Seifert stated that GTI's chip is an improved version of a chip that is already in use today. He described GTI's competitors and stated that these types of chips are used for artificial intelligence applications such as visual search, particularly with social media applications. Mr. Seifert stated that GTI's chip is not intended to reduce jobs, but rather to make these search functions faster and more power efficient. He further described the energy efficiencies of GTI's chips and that power consumption at data centers will be greatly reduced when using these new chips. Mr. Seifert stated that Facebook recently announced it would build a data center in the desert in order to use regenerable solar power to perform these search functions. He further stated that GTI's intention is to reduce power consumption of these types of facilities and that GTI is a green energy conscious company. He stated that GTI does not see itself replacing jobs, but instead hopes to create jobs to produce more chips.

Ms. Janis stated that she had no further questions.

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-8.

Action Moved/Seconded: Members Agee/Janis

Yes: Members Mendonca, Agee, Finn, Janis

No: None



D-10. Motor Vehicle Software Corporation

At the request of Chair Mendonca, Deputy Director Akin elaborated on Item D-10. Ms. Akin described the company and the proposed agreement to the Committee. Motor Vehicle Software Corporation (MVSC) partners with state government agencies and businesses across the United States to develop software for the online filing and processing of vehicle registration, title, smog, insurance, and similar documents.

In exchange for a \$1,150,000 California Competes Tax Credit, MVSC has committed to create 101 new full-time jobs and make \$7 million in investments in California. The jobs MVSC is committing to create are in classifications such as: administration, customer service, auditor, marketing and business development, account manager, software and technology development, and executive. MVSC confirmed that the credit would be a significant factor in its decision expand in California rather than in other states where MVSC also has offices.

MVSC was previously awarded a \$915,000 California Competes Tax Credit on November 16, 2017, in exchange for its commitment to create 100 new full-time jobs and invest \$17.75 million. To date, MVSC has met or exceeded all of its previous employment and investment goals. The net increase of 101 jobs and investments of \$7 million proposed in this agreement are above and beyond the proposed growth from its first agreement. MVSC indicated in its application that it is undergoing another growth phase and that the software development and related jobs it is proposing to create do not have to be in California. MVSC noted that it has a significant operational presence in Illinois, Oregon, and Virginia and that it must consider the wage cost differentials of growing in these less expensive states in order to remain competitive with its primarily out-of-state competitors. MVSC affirmed that award of the credit would sufficiently offset these wage cost differentials such that it would commit to creating these new jobs in California rather than at its out-of-state office locations.

Ms. Akin indicated that MVSC representatives Kelly Kimball, Executive Chairman, Jonathan Golub, Vice President, and Alex Tran, Consultant, were available to address any questions the Committee had.

Chair Mendonca welcomed the representatives from MVSC and asked if they had anything to add to Ms. Akin's statement. Mr. Kimball thanked the Committee for considering MVSC for a second time and that the first award benefitted MVSC and its employees. Mr. Kimball described MVSC as a progressive, employee-centered company that is doing everything it can to remain in California. He stated that MVSC has expanded since the previous award in Petaluma, Natomas, and Agoura Hills. Mr. Kimball described MVSC's training program and stated that it trained 6,000 people in California, mostly employees but some members of the public, in the motor vehicle registration industry to reduce the waiting lines at the Department of Motor Vehicles (DMV). He further described MVSC's internal training programs which includes online training, seminars, and public speakers. Mr. Kimball stated that MVSC also provides a tuition assistance and reimbursement program that can



pay full tuition for those employees who want to attend college, including education unrelated to the employee's job at MVSC. He further stated that MVSC provides a match on college debt up to \$150 a month. Mr. Kimball indicated that the first tax credit award allowed MVSC to provide college tuition and student debt reimbursements.

Member Finn asked if MVSC only develops software or if MVSC staff are involved in vehicle registration transactions as well. Mr. Kimball stated that in response to California's mandate for electronic vehicle registration, MVSC developed software to help clerks and dealerships digitally register. Mr. Kimball further stated that despite MVSC being smaller than its competitors, it is able to compete for market share because of the additional services it provides. He stated that the software allows the dealerships to meet the state mandate, while it also enables the employees to do their jobs in a more efficient manner. Mr. Kimball clarified that MVSC is not replacing existing employees.

Member Janis asked whether MVSC has a contract with California DMV. Mr. Kimball stated that it does.

Ms. Janis asked if the state is contracting out work to MVSC that would traditionally be done by state employees. Mr. Kimball stated it is a public-private partnership in which MVSC performs a large portion of the new vehicle registration that used to be done by the DMV. Mr. Kimball stated that there has been no reduction of staff at the DMV, only an increase in efficiency and increase in jobs in the private sector.

Ms. Janis asked for clarification on the base year and number of created jobs since this is MVSC's second award. Ms. Akin stated that the last page of the agreement presents the modified milestone chart for both agreements. She indicated that MVSC committed to a net increase of 100 in its original agreement. She stated that MVSC has committed to an additional 101 employees for its second agreement. Ms. Akin further stated that MVSC has committed to a total of 201 new employees between the two agreements. Ms. Janis asked if the total number of employees would be 358. Ms. Akin stated that was correct.

Ms. Janis asked if all of the new positions would be paid minimum wage. Mr. Kimball stated that MVSC awards wages based upon the its ability to attract employees. He stated that in California it is difficult to hire at minimum wage because it is not a livable wage. He stated that MVSC is not currently bringing on employees at minimum wage. Mr. Golub stated that MVSC's average salary is \$51,000 a year. Mr. Kimball stated that MVSC is trying to attract people from outside of California to work in the state and it would be difficult to do that hiring at minimum wage.

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-10.



Action Moved/Seconded: Members Agee/Finn

Yes: Members Mendonca, Agee, Finn, Janis

No: None

D-11. Bombardier Mass Transit Corporation

At the request of Chair Mendonca, Deputy Director Akin elaborated on Item D-11. Ms. Akin described the company and the proposed agreement to the Committee. Bombardier Mass Transit Corporation (Bombardier) manufactures, maintains, and repairs train cars including metro, light rail, high-speed rail, and monorail cars. Bombardier also manufactures train components, such as, seats, under frame equipment, and bogies (the four- or six-wheel trucks used to provide support, traction, and braking for train cars).

In exchange for a \$1 million California Competes Tax Credit, Bombardier has committed to create 115 new full-time jobs, and make \$6 million in investments in California. The jobs Bombardier is committing to create are in classifications such as: administrative professional, manufacturing and assembling, procurement and logistics, quality control, and manager. Bombardier confirmed that the credit would be a significant factor in its decision to build a new West Coast manufacturing facility in Pittsburg, California.

Bombardier indicated in its application that it is considering moving part of its manufacturing operation from New York to California. Bombardier noted that while moving to California would allow it to be closer to its West Coast customers, it faces several challenges with the potential relocation to California. Bombardier noted that these challenges include: higher operating costs, higher payroll costs, and the duplicative overhead costs and manufacturing equipment it will incur by operating in both California and New York. Bombardier affirmed that if awarded the credit it would commit to relocating a portion of its manufacturing operations and workforce to Pittsburg, California.

Ms. Akin indicated that Robert Carr, General Manager of Bombardier's Pittsburg facility and Leshia Blakely, Bombardier's LAX Project Commercial Manager were present. She stated that Debra Lees, Bombardier's Human Resources Manager and Gina Trombley, Bombardier's Head of Strategic Development were available by phone to address any questions the Committee had.

Chair Mendonca welcomed the representatives from Bombardier and asked if they had anything to add to Ms. Akin's statement. Mr. Carr stated that he had no comments. Chair Mendonca called for questions from the Committee.

Member Agee stated his appreciation for Bombardier's description of its practices to promote a diverse and inclusive workforce.



Member Janis asked whether Bombardier's 339 current employees were already working in a facility in Plattsburg or Pittsburg, California or if those employees are located in New York. Mr. Carr stated that Bombardier has no employees in Pittsburg, California. Ms. Janis asked if the 339 employees reported in the base year were California employees. Ms. Akin stated that even though the agreement describes the expansion planned in Pittsburg, California, the base year employee count and job growth numbers include positions California-wide. She stated that the 339 employees are in California. Mr. Carr stated that was correct.

Ms. Janis asked where those employees are currently located. Mr. Carr stated that they are located in Los Angeles, Sacramento, and San Francisco Airport.

Ms. Janis asked if those employees manufacture anything. Mr. Carr stated that they do not and that most of them are service providers or maintenance workers.

Ms. Janis asked if Bombardier is planning to build and operate a facility that will manufacture seats, bogies, and fully assemble rail cars as well as employ 115 workers. Mr. Carr stated that the bogies come preassembled, and the cars come preassembled to a level 1 specification. He indicated that Level 2 and 3 will be completed in Pittsburg, which involves assembling interiors and underground equipment as well as testing and quality assurance.

Ms. Janis asked if a facility has already been identified. Mr. Carr stated that one has been identified. Ms. Janis asked if Bombardier has a contract for it. Mr. Carr stated that the lease has been signed.

Ms. Janis asked if the facility is near the AnsaldoBreda facility. Mr. Carr stated that its facility is located in the same building. Ms. Janis asked if Bombardier will be co-locating with AnsaldoBreda. Mr. Carr stated that Bombardier will until AnsaldoBreda finishes its current contract at the facility. Ms. Janis asked if Bombardier will be purchasing or taking over that factory. Mr. Carr stated that Bombardier will take over the facility in stages.

Ms. Janis asked if AnsaldoBreda is currently building cars for Honolulu. Mr. Carr stated that was correct. Ms. Janis asked when that contract expires. Mr. Carr stated that the infrastructure in Honolulu is not built and it is still developing the stations, laying track, and building weigh sites. Mr. Carr further stated that the contract could take between 18 months and 2 years to complete.

Ms. Janis asked if the total 115 new employees were projected for expansion at that facility. Mr. Carr stated that Bombardier is getting other contracts and that more people may be hired at that facility.

Ms. Janis stated that she knows Bombardier is not unionized at its Plattsburg facility, but she saw a letter of support from the IBEW in the Committee materials. She asked if Bombardier plans to be unionized at its new facility.



Mr. Carr stated that it is working with the union and has an upcoming meeting. He indicated that Bombardier had a previous meeting with the union and that the matter is still in discussion.

Ms. Janis stated that the current workers at AnsaldoBreda are unionized and represented by IBEW. Mr. Carr responded that it has 14 currently unionized employees. Ms. Janis asked if there are only 14 employees at the facility. Ms. Lees stated that 14 to 20 employees at the facility are currently represented by the union and that according to the documents Bombardier can access, there are at least 14 union employees. She indicated that the facility has temporary employees as well.

Ms. Janis asked if the temporary employees are not unionized. Ms. Lees stated that they are not.

Ms. Janis asked if Bombardier would consider taking on the existing 14 employees. Mr. Carr stated that it is considering this and will be looking at experience in the transit industry to make that decision after identifying opportunities and engaging with employees. Ms. Lees stated that while it cannot make that decision for the employees, Bombardier has a great relationship with IBEW across the United States in many facilities. She stated that IBEW represents its employees at the San Francisco Airport and that Bombardier wants to create a positive relationship at the new facility in order to leverage the skills the employees that are currently there.

Member Janis stated that she appreciated the response because there have been several attempts to organize the facility in Plattsburg that were not successful. She stated that a pro-union attitude in the State of California would be welcomed. She then asked if Bombardier would move existing employees in New York to California. Mr. Carr indicated that it may move some high skilled positions from New York to California.

Ms. Janis asked if Bombardier is planning to close the Plattsburg plant. Mr. Carr responded that the Plattsburg plant has a backlog and has new contracts coming in. He stated that Bombardier has no intention to close it.

Chair Mendonca asked if there were any more questions or comments from the Committee or the public. Hearing none, he requested a motion for approval of Agenda Item D-11.

Action Moved/Seconded: Members Finn/Agee

Yes: Members Mendonca, Agee, Finn, Janis

No: None

F. Public Comment

Chair Mendonca called for comments from the public and Committee. There were no public comments.



Member Janis stated she recently wrote an article about the challenges of automation in California and the importance of using investment to systematically address job loss and creation. She asked that the Committee consider this in the future. She stated that the program should ask applicants questions about automation and artificial intelligence. She stated that asking these questions would make clear that applicants are not eliminating jobs and that adding these questions would help the Committee not inadvertently undermine jobs in California.

Ms. Akin stated that the program could be more aware of those concerns going forward. She further stated that if questions on automation were to become a more formal evaluation factor for the credit, the program would need to ensure such added questions and evaluation criteria are consistent with existing statutory framework and regulations. Ms. Akin stated that if these questions are only included to inform the Committee's discussion, it is something the program could likely add.

Member Agee stated his appreciation that the tax credit program is helping employers identify other less expensive areas in California before they look outside the state. He further stated that the Treasurer's office has been concerned with workforce development and asking how to proactively collaborate with local jurisdictions and educational institutions. He indicated that his office is trying to connect education to emerging technologies to support market expansion. He further stated that proactive collaboration between emerging employers and community colleges will help transition the workforce when new technology is developed.

Chair Mendonca stated that the Governor recently establish the Future of Work Commission. Chair Mendonca indicated that the Commission will look at these issues, focusing on the longer timeframe of the effects of emerging technologies on the workforce. He stated that the Commission will also focus on workforce skill development and how California can ensure a continued dynamic, innovative economy that provides everyone an opportunity to participate. Chair Mendonca stated that post-secondary education and workforce systems need to be more tightly involved in the evolution of where work will be needed in California in the future. He further stated that this has generated interest across the state and that people want to participate in this conversation. Chair Mendonca stated that commissioners will be appointed shortly and that the Commission will likely commence this summer. He indicated that the Committee's work can inform this new Commission's work and that findings will be shared with this Committee.

Ms. Janis asked Chair Mendonca if he will be on the Commission. Chair Mendonca stated that he is co-staffing it with the California Secretary of Labor, Julie Su, and California Senior Adviser of Higher Education, Lande Ajose.

Member Janis indicated that the new Commission could help inform this program's investments in job creation, particularly in automation technologies. She stated the importance of using tax money to shape the future of workers. She indicated that this could be a key component of what the Commission looks at and asked for its findings to help this Committee.



Chair Mendonca stated that Committee Members are invited to participate in the Commission's commentary.

Chair Mendonca asked if the Committee or public had any further comments.

G. Adjournment

Chair Mendonca adjourned the meeting at 11:37 a.m.

The numerical order of items on this agenda is for convenience of reference. Items may be taken out of order upon the request of the California Competes Tax Credit Committee Chair or Committee Members. This notice and agenda can be obtained at: www.business.ca.gov/CalCompetes.aspx. For additional information regarding this notice and agenda, please contact Scott Dosick, Assistant Deputy Director, at 916-322-0676 or scott.dosick@gobiz.ca.gov. The Governor's Office of Business and Economic Development complies with the Americans with Disabilities Act by ensuring that the facilities are accessible to persons with disabilities, and by providing this notice and agenda and related information in alternative formats when requested. If you need further assistance, including disability-related modifications or accommodations, you may contact Scott Dosick no later than five calendar days before the meeting.