Gavin Newsom
Governor

Chris Dombrowski
Acting Director

Scott Dosick
Assistant Deputy Director, California Competes Tax Credit Program

Governor's Office of Business and Economic Development
1325 J Street, 18th Floor
Sacramento, CA 95814
CalCompetes@gobiz.ca.gov
(916) 322-4051

California Competes Tax Credit Program

Committee Meeting

Thursday, April 23, 2020
1:00 p.m.

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

Members of the public were encouraged to submit public comments via eComment through email at CalCompetes@gobiz.ca.gov. GO-Biz requested that public commenters provide their full name, organization (if applicable), and the agenda item number.

MEMBERS:

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

Fiona Ma
State Treasurer

Keely Bosler, *Director*
Department of Finance

Todd Walters, *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 Dombrowski called the meeting of the California Competes Tax Credit Committee (Committee) to order at 01:01 p.m.

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

Chair Dombrowski introduced himself as Acting Director of GO-Biz and Chair of the Committee. Chair Dombrowski reminded members of the public that public comments can be submitted by emailing calcompetes@gobiz.ca.gov and referencing the agenda item number.

B. Approval of Minutes from November 12, 2019, Committee Meeting

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

Before moving for approval, Member Janis complimented the CalCompetes staff for the work on the November minutes and stated that the minutes are a useful tool to remind the Committee and the public what the conversation was and the reasons behind the votes.

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

C. Assistant Deputy Director's Report
Agenda Overview – Agreements with 20 Businesses, Total Tax Credits $74,507,665

CalCompetes Assistant Deputy Director Scott Dosick provided the following updates to the Committee:

Mr. Dosick reminded members of the public who are watching the meeting online, that public comments could be submitted by emailing them to CalCompetes@gobiz.ca.gov. He requested that public comments include the person's name, organization they are representing, and the agenda item being commented on. He explained that CalCompetes staff would monitor the CalCompetes email throughout the meeting and forward emailed comments to the Committee Members.

Mr. Dosick welcomed Todd Walters, appointee of the Senate Rules Committee, as the newest member of the Committee. He expressed appreciation for the work Mr. Walters is doing to protect UFCW Local 135's employees and the public.

Mr. Dosick stated that since the last meeting, an invitation was sent out to all Committee Members who expressed interest to attend a briefing at the Franchise Tax Board covering the books and records review process. He stated that we intended to have a conversation today about the compliance process, including a presentation by FTB; but, explained that the discussion has been postponed to the June meeting in the hopes that the discussion can happen in person, or at least after having one successful virtual Committee Meeting. He reminded the Committee that at GO-Biz's request, the Franchise Tax Board prepared a document that provides details on their role in the compliance process. A copy of this document has been provided to each Committee Member and is posted on the GO-Biz website to ensure that members of the public have the opportunity to review it. Mr. Dosick requested that Committee Members review the document and submit any questions they may have to GO-Biz prior to the June 18th meeting. He stated that representatives of the Franchise Tax Board have indicated their willingness to answer questions between now and the June Committee meeting and can also have the appropriate staff attend the June meeting to answer any questions in person.

Mr. Dosick stated he anticipates updating the Committee in June on GO-Biz's efforts to aid in California's economic recovery. GO-Biz will also keep the Committee informed as to how the COVID-19 pandemic has impacted CalCompetes credit recipients specifically and steps it is taking to identify opportunities to assist these businesses to keep existing and add additional California full-time employees.

Mr. Dosick stated he would be remiss if he did not thank the CalCompetes team. Over the last couple of months, the CalCompetes team has transitioned to working remotely while still ensuring adherence to its timelines and continuing to provide high quality, in-depth analyses. He thanked them for their dedication and professionalism.

Mr. Dosick informed the Committee that there are 32 Agreements recommended for recapture. He explained that CalCompetes awardees sign an Agreement or contract that clearly lays out how much credit they can claim each year if they achieve their employment, wage, and investment milestones. He indicated that most of the Agreements recommended for recapture today are for Agreements whose 5-year terms have expired. In some cases, the businesses achieved some but not all of their milestones – which is why the recommendation is for a partial recapture of the credit. In other cases, the business failed to achieve any of its milestones over the 5-year period and thus the entire credit is recommended for recapture. He further explained that some businesses voluntary request to have their credit recaptured as their business plans have changed; and, as a result, they requested that the Committee recapture the credit to make it available to other businesses. In situations where the credit recipient is in material breach of its agreement, for example, for failure to submit the annual reports required by the Agreement, there is a recommendation that the Committee approve recapturing the entire credit.

Lastly, Mr. Dosick informed the Committee that GO-Biz is recommending 20 tax credit awards today totaling $74.5 million. GO-Biz received over $184 million in credit requests during this application period, with only $75 million in credits available to award. GO-Biz only recommends award of the credit to the most competitive applicants who most clearly demonstrate that award of this credit will be a significant factor in their decision or ability to expand in California and create new, quality, full-time jobs. He explained that the $500,000 in unallocated credits this round will carry over to the application period that began in March. The 20 agreements for the Committee's consideration today represent commitments for a net increase of 3,060 new full-time jobs and over $2 billion in investments in California in exchange for $74.5 million in total recommended tax credits. Each of the businesses recommended for award today has certified in their applications that this credit will be a significant factor in their decision to expand in California.

Chair Dombrowski thanked Mr. Dosick and echoed his comments regarding the CalCompetes team and the work they have done in preparation for the meeting today.

Member Janis also thanked the CalCompetes team. She stated she spent a day in February at the Franchise Tax Board learning about how the credits are monitored and enforced and found that day to be extremely informative and gave her a different perspective on the challenges and opportunities in making sure California is getting what we invest in. She recommended that other members of the Committee also take up that offer once possible. She stated that the efforts made in having a public meeting are important in these times more than ever and requested that the next meeting allow public participation directly by phone or Zoom rather than email to show the public that we are open for business and care about public input. She asked that we work on allowing public comment in real time.

Member Ma asked Mr. Dosick to repeat the statistic on the number of businesses being approved by the Committee compared to how many applied. Mr. Dosick stated there were over $184 million in credit requests from all applicants, with only $75 million in credits available to award.

Ms. Janis stated she wanted the Committee to think about, given the COVID crisis, whether to discuss with the legislature about adapting the criteria to allow companies to use the credit to put people back to work. Ms. Janis mentioned the possibility of allowing companies to apply, including companies that may otherwise go out of business because of the pandemic. She stated that a credit like this could be a key factor in a lot of amazing business who might otherwise go out of business. Ms. Janis said that she wanted to plant the idea with the Committee now and hopefully pursue options in the coming weeks or months.

Chair Dombrowski asked Mr. Dosick for a summary of how the credit works under the current situation. Mr. Dosick stated he could provide some background on the program but also wanted to make sure that the Committee is careful not engage in a substantive discussion of what it could be doing since it was not an agenized item and to be cognizant of the Bagley-Keene Act requirements. Mr. Dosick stated every company that is awarded a credit signs a five-year contract, which clearly lays out what they need to accomplish each year over the five-year period and how much credit they will receive if those milestones are achieved. He explained that the agreements which are being recommended for approval today run from 2020 through 2024 and businesses will have the full five-year agreement to play "catch-up". For example, if a business misses its 2020 milestones, it can earn those credits in 2021, and has through the end of their 2024 tax year to achieve any or all of the milestones. He added that if there is a setback for whatever reason, flexibility lies within the agreement already. He stated that GO-Biz is looking at measures it can take, both in terms of existing CalCompetes awardees and what it can do through this program and other initiatives to put more Californians back to work as quickly as possible. He expressed his appreciation to Ms. Janis for her suggestion.

Chair Dombrowski asked if there were any other questions from members of the Committee. Hearing none, he moved on to Agenda Item D.

D. Discussion and Approval of California Competes Tax Credit Agreements
Total Recommended Tax Credits: $73,860,998
Total Recommended Tax Credits after Adjusting for S-Corporation Law[1]: $74,507,665

Chair Dombrowski proposed removing Agenda Items D-1, D-2, D-3, and D-16 from consent for further discussion. He asked the Committee and the public if there were any questions or

[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)).

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-3, and D-16.

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

Chair Dombrowski 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:	**$14,664,239**
Total Tax Credits Recommended to be Recaptured after Adjusting for S-Corporation Law[2]:	**$15,893,906**

Chair Dombrowski 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 Walters/Janis
Yes: Members Dombrowski, Ma, Miller, Janis, Walters
No: None

D-1. Universal Standard Housing LLC

At the request of Chair Dombrowski, Assistant Deputy Director Dosick elaborated on Item D-1. Mr. Dosick described the company and the proposed agreement to the Committee. Universal Standard Housing LLC (USH) designs, manufactures, and constructs prefabricated modular housing units with a focus on moderate and low-income households.

In exchange for a $17,238,000 California Competes Tax Credit, USH has committed to a net increase of 560 full-time employees and an investment of $100 million. The jobs USH is committing to create are in classifications such as manager, line operator, and designer.

[2] 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)).

Created in 2018, USH currently contracts to a third-party to manufacture the modular housing units; but has indicated that if given the opportunity to expand in California, USH will manufacture its units in-house. USH is proposing to build a modular housing manufacturing facility in either the Inland Empire or Bakersfield, California. USH prefers to be close to the Los Angeles region to help that region with its housing affordability issue. USH indicated in its application that the credit would influence its decision to create this manufacturing facility in California as it is also considering Las Vegas, Nevada for this new facility.

Mr. Dosick stated that USH representatives Drew Orenstein, USH's CEO; Pablo Ucar, President of Manufacturing; and Eduardo Santana, Vice President, External Relations, were available to address any questions the Committee had.

Chair Dombrowski thanked Mr. Dosick and asked the representatives from Universal Standard Housing if they had any opening remarks.

Mr. Orenstein thanked the Committee, Mr. Dosick, and the GO-Biz team for their consideration regarding this tax credit. Mr. Orenstein stated that he was impressed with GO-Biz staff's ability to continue its work despite challenges with COVID. He thanked Chair Dombrowski for meeting him in person a few months ago, which led to him learning about the California Competes Tax Credit program.

Chair Dombrowski thanked the representatives from Universal Standard Housing and asked the Committee if they had any questions.

Member Janis stated she was pleased to see this item because as the state prioritizes its limited funds right now, trying to deal with the affordable housing crisis is crucial. Ms. Janis asked for more specifics on how the business would work, the size of the units, who USH would work with in Los Angeles, whether it is working with identified land, and if it had homebuilders it is working with. Mr. Orenstein stated that USH designs, manufactures, and sources the land for a majority of its deals and that, of land that it has control over, USH's pipeline currently consists of about 3,000+ units in the City of Los Angeles. He added that the units are workforce housing units that are urban infill apartment buildings and not necessarily single-family homes; however, the modules themselves can be combined to form apartment units of any size. He stated that USH is very much price point driven and tries to build the most efficient units it can considering the need and the market. He stated there has been a lot of time and effort put into studying the market and understanding what portion of the market is currently not being supplied at the workforce housing level. He stated USH has a couple thousand units in its pipeline that it hopes to open in California.

Ms. Janis asked if USH owns the land where the units are being built. Mr. Orenstein confirmed that was the case. Ms. Janis asked if the modular units were like shipping containers. Mr. Orenstein stated that shipping containers are refabricated shipping containers whereas these modules are more cost effective and built out of wood, so can be formed to any size. He added that generally speaking the business is constrained by shipping requirements within the state thus tries to stay within 13.5 feet wide per module but can combine those modules on-site to make larger units.

Ms. Janis asked for the definition of workforce housing in terms of rent and whether the units would be available to own or would be rentals. Mr. Orenstein stated that the current business plan revolves around a rental product and that it could be expanded to other forms of ownership. He stated that workforce housing is determined by looking at AMI (Area Median Income) levels within cities and counties. He added that USH aims for the 60% to 120% AMI price point range, in terms of rents and incomes, which are the individuals and communities USH looks to serve. Ms. Janis asked what 60% of AMI translates to. Mr. Orenstein stated that USH tries to supply housing for individuals with income ranging from $40,000 to $100,000. Ms. Janis asked if the income range is based on individual income or household income. Mr. Orenstein stated the range is based on household income.

Ms. Janis asked how many employees USH has in California. Mr. Orenstein stated that USH has 30 current employees and noted that the business is proud that they have continued to expand the company; 25% of the current workforce has not been to the company's office and were onboarded virtually. He stated that USH moved its office offsite about ten days before the stay at home order, though some employees were still on the field working on construction projects. He stated it has been an interesting couple of months and is proud of his team for continuing to push forward on the business plan to provide people with affordable housing. Ms. Janis asked if USH has potential land in Nevada as well as California. Mr. Orenstein stated that USH does not have land but the main drivers for Nevada were its lower hourly wages, cost of industrial land and utilities, and tax implications. He stated that the tax credit will be used to offset the premiums associated with doing business in the State of California. Ms. Janis asked specifically if the lower minimum wage was the reason. Mr. Orenstein stated that USH is not paying minimum wage and stated that hourly wage was a driver in terms of affordability. He added that purchasing power in Las Vegas is higher than purchasing power in California.

Member Walters referenced USH's application materials which state that it is developing a comprehensive benefits plan for its employees. Mr. Walters asked what the current status of the benefits plan is given what is happening with the COVID crisis. Mr. Ucar stated that as a new factory, USH will have to hire and ramp up very quickly, thus the main focus for hiring people is going to be ability to train them. He added that USH is willing to invest 20 to 40 hours of training in the first three to four months. He stated that USH is creating positions called line leaders, and these individuals will be responsible for training between five to seven individuals on the production floor. He stated the goal is to create a self-directed environment where supervisors would be more of a support team and let teams run the operations on their own. He stated that USH wants to provide the right environment for employees to perform—in addition to tools and work areas that will be designed for the majority population in the area. He went on to state that USH is using anthropomorphic data to ensure workstations are designed so that 80% of the population in the area can perform the job duties. He stated that the goal is to make these jobs more accessible to people who, in the past, would not otherwise be in the construction real estate business. Mr. Ucar concluded by stating that this was from the point of view of production and asked Mr. Santana to address the benefits they intend to provide to employees. Mr. Santana stated that USH does provide, and will be providing to the entire team, health benefits as well as a 401(k) plan. He stated that USH understands the importance of ensuring that Californians and all people have access to health insurance and are committed to providing that. Mr. Walters asked if USH had anticipated what costs it would be willing to pay on behalf of the employees. Mr. Orenstein stated the business had not fully quantified that yet, as it is waiting to see how the effects of COVID are going to impact the business, where they end up, whether they receive tax credits in California, and what the benefits program would have to be in California compared to Nevada. Mr. Orenstein concluded by stating that USH cares about its employees having a well-balanced life, that includes benefits they can access outside of a paycheck, and fully intends to put employees' livelihoods at the forefront of their minds when making any decisions about building out the team.

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

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

D-2. Northrop Grumman Innovation Systems, Inc.

At the request of Chair Dombrowski, Assistant Deputy Director Dosick elaborated on Item D-2. Mr. Dosick described the company and the proposed agreement to the Committee. Northrop Grumman Innovation Systems, Inc. and subsidiaries (NGIS) are designers, developers, and manufacturers of advanced military flight, armament, and space systems.

NGIS has certified in its application that absent award of the California Competes Tax Credit (CCTC), its project may occur in another state; and, it may terminate a portion of its employees in California or relocate all or a portion of its employees in California to another state. In exchange for a $15,000,000 California Competes Tax Credit, NGIS has committed to a net increase of 337 full-time employees and an investment of $57 million. The jobs NGIS is committing to create are in classifications such as engineer, clerical, technician, and manager.

NGIS's subsidiaries include: ATK Space Systems, Inc., Orbital Sciences Corporation, ATK Launch Systems, Inc. and Alliant Techsystems Operations LLC. ATK Space Systems, Inc. was previously awarded a $1,000,000 CCTC on April 14, 2016 (this was before it was a Northrop subsidiary), in exchange for its commitment to create 38 new full-time jobs. Additionally, in 2015, Orbital Sciences Corporation and Alliant Techsystems Operations LLC merged, and the renamed company became Orbital ATK, Inc., which was awarded a $2,100,000 CCTC on November 10, 2015, in exchange for creating 90 new full-time jobs. Both credit recipients and all entities involved have achieved all the Milestones for their agreements. The jobs and investments NGIS is committing to as part of this Agreement are above and beyond the prior commitments by its subsidiaries in their prior Agreements. NGIS indicated in its application that the CCTC will lower NGIS's cost structure, allowing it to both maintain existing employees on its current defense projects and successfully bid for future defense contracts that will result in significant investment and hiring in Southern California. NGIS also indicated that the CCTC will level the playing field because other states offer significant financial incentives to lure NGIS and its employees and projects to these other states. NGIS indicated in its application that certain aspects of this project could be performed at either its West Virginia or Arizona locations. It is important to note that although NGIS is a subsidiary of Northrop Grumman Systems Corporation, which was awarded a CCTC on November 12, 2019, NGIS was not part of Northrop Grumman Systems Corporation's prior application or Agreement. This Agreement is for a different project, involves different legal entities, and entirely new jobs and investments. NGIS's focus is separate and distinct from Northrop Grumman Systems Corporation. NGIS specializes in the manufacture of rocket launch components and systems.

Mr. Dosick stated that NGIS representatives Lori Nieto (Corporate Director of Tax), Robert Gray (Senior Tax Counsel), Eric McKee (Corporate Director of Tax), Jeff Windland (Director of Business Management), and Joe Ahn (Corporate Manager of Legislative Affairs) were available to address any questions the Committee had.

Ms. Nieto described the company's history in California. She stated Northrop is the largest aerospace company in the state with 30,000 employees, 15% of those are veterans, and has 32,000 retirees in the State of California. She added that Northrop has 2,000 suppliers throughout the state, and more than half are small businesses owned by women, minorities, veterans and disabled. She stated that on March 19, Governor Newsom signed an executive order to shelter in place but allowed critical businesses to remain open; and that under authority of the executive order, Northrop continues to operate as a Defense Industrial Base considered critical infrastructure. She stated that the health, safety, and wellbeing of their employees is their highest priority. She stated that the business is taking proactive actions to protect the wellbeing of its employees and are frequently communicating with the most current information and guidance to their employees to ensure they are informed. Northrop Grumman has always provided support to the surrounding communities, and this has ranged from supporting local STEM education efforts in schools to foodbanks for those in need. Ms. Nieto stated that Northrop Grumman and its employees are committed to helping in the COVID-19 response. Ms. Nieto concluded by stating her appreciation for the Committee considering Northrop's application.

Chair Dombrowski thanked the representatives from NGIS and asked if the Committee had any questions.

Member Janis asked if Northrop Grumman is the same publicly traded company that owns both entities: NGIS, which is applying now, and NGS, which was considered and approved at the November Committee Meeting. Ms. Nieto confirmed that was correct. Ms. Janis asked the representatives to explain the difference between products and what the business proposing to build with this credit versus the credit that was approved at the November meeting. Mr. Windland, Director of Business Management for NGIS, stated that NGS makes large satellites and airplanes whereas NGIS makes small satellites and small launch vehicles, adding that it is basically the smaller end of their aerospace portfolio.

Ms. Janis asked if these were all for military purposes. Mr. Windland stated they make satellites for scientific purposes that are primarily sold to NASA; and they make space components that are sold to commercial satellite operators for telecommunication services. He stated that there is a large portion that is for military, but there is also a large portion for civil purposes.

Ms. Janis asked if the work that would be done with this credit is also covered by a Department of Defense (DoD) or NASA contract. Mr. Windland confirmed that was correct. Ms. Janis asked if it was a DoD or NASA contract. Mr. Windland stated it was multiple contracts: both NASA, DoD, and some private industry, and explained that the business sells satellite components to companies around the world that would not fall under NASA or the U.S. government.

Ms. Janis mentioned Lockheed's comments from the November Committee Meeting regarding the DoD asking companies to consider building state subsidies and incentives into pricing models. She asked if Northrop has to do the same thing, forcing states to cover some of the costs. Mr. Windland stated that the business is required to disclose its project cost to the government when bidding for contracts. He explained that if the business received an incentive from the state, it would need to disclose that to the government in its price and cost information; the savings from a tax incentive would be reflected in its final price and be reflected as a lower price to the U.S. government.

Mr. Gray stated that Mr. Windland was correct that the federal government encourages businesses to take advantage of everything they can to lower the price. He stated it was in the Federal Acquisition Regulations (FAR), that they take advantage of and consider state taxes in their pricing. He added that the government encourages businesses to cut costs and try to take advantage of everything they can to save the U.S. government money. Ms. Janis asked for the specific section in the FAR where this is referenced. Mr. Gray stated he would look into it and get back to her. Ms. Janis stated she found it disturbing that the administration expects California to make up the difference for the cost of their products and wanted to confirm with Northrop that this was indeed what they are facing.

Ms. Janis' referenced the presentation given by Northrop's representatives at the November meeting. She stated that she had asked if any of the jobs were unionized, and the business replied no, and further stated that Northrop does not want to be unionized and takes active measures to avoid being unionized. Ms. Janis asked if this NGIS division was unionized and what its position is regarding unionization of its employees. Mr. Ahn stated that a majority of its employees and sites in California are not represented by labor organizations. He stated that organized labor groups have tried to encourage employees to join a union organization, but the employees elected not to. He added that, specific to NGIS, a small percentage is represented by a union organization; the Azusa site in Southern California is represented by a union organization.

Ms. Janis asked if the Azusa location is where the employees would be for this credit. Mr. Ahn stated that employees would primarily be at three locations: Northridge, Azusa, and San Diego. Ms. Janis stated that it appeared that Northrop employees have tried to organize on a few occasions and asked whether the business has ever had unfair labor practices filed against it or has dealt with any legal proceedings around unionization. Mr. Ahn stated he would have to get back to Ms. Janis on those specific questions.

Ms. Janis concluded by stating that Mr. Ahn's colleagues took her by surprise because in November the representatives from Northrop indicated that they do not like unions. Mr. Ahn stated once again stated that organizations have reached out to the employees to see if they would be represented by a collective bargaining organization and the employees had elected not to. Mr. Ahn also indicated that approximately 90% of construction for Northrop in California was performed by union members of the building and construction trades.

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

Action Moved/Seconded: Members Miller/Dombrowski
Yes: Members Dombrowski, Ma, Miller, Walters
No: Member Janis

D-3. DesertXpress Enterprises LLC

At the request of Chair Dombrowski, Assistant Deputy Director Dosick elaborated on Item D-3. Mr. Dosick described the company and the proposed agreement to the Committee. DesertXpress Enterprises LLC (DesertXpress) builds and operates high speed passenger rail systems. In exchange for a $10,000,000 California Competes Tax Credit, DesertXpress has committed to a net increase of 320 full-time employees and an investment of over $2,175,000,000. The jobs DesertXpress is committing to create are in classifications such as administrator, attendant, conductor, maintenance, and supervisor.

DesertXpress indicated that it has acquired the rights to develop a high-speed rail system between Southern California and Las Vegas. In addition to construction of its rail infrastructure, it will also need to build a vehicle maintenance facility to service its rail car fleet for the interstate corridor. DesertXpress has indicated that the credit will be a crucial factor in the company's decision to locate its vehicle maintenance facility at the California terminus proposed in either Victorville or Apple Valley instead of Las Vegas, Nevada. It should be added that Victorville and Apple Valley are areas of the state that have continued to have well above average unemployment and poverty figures compared to the statewide average and that was even pre-pandemic.

Mr. Dosick stated that representatives Husein Cumber, Chief Strategy Officer, and Jake Felman, Assistant Vice President of Business Strategy & Development, were available to address any questions the Committee had.

Chair Dombrowski welcomed the representatives from DesertXpress and asked if they had any opening remarks. He added that there is varying familiarity among the Committee Members regarding the project as a whole and asked the representatives to elaborate on the maintenance facility project as well.

Mr. Cumber stated that DesertXpress' initial plan for this project was to locate the vehicle maintenance facility in Nevada. The California Governor's staff and the Treasurer both asked whether there was any way to move the maintenance facility from Nevada to California along with local elected officials in both Apple Valley and Victorville. He stated that vehicle maintenance facilities need to be located on one end of system, which is why it needed to be in either the Las Vegas or Victor Valley area. Mr. Cumber stated that DesertXpress was pointed to the CalCompetes program and had decided to apply to relocate the vehicle maintenance facility. He stated that the credit request was based on a percentage of the delta between building, maintaining, and operating the vehicle maintenance facility in the Las Vegas area versus California. Mr. Cumber concluded by stating his appreciation for the "extremely customer service-oriented" California Competes staff and that he would be happy to answer any questions.

Member Ma stated that the Treasurer's office met with Mr. Cumber a year ago and, as a train fanatic, she was very intrigued by the project. She added that Mr. Cumber invited her and her team to visit Florida and tour the facility being built in the Orlando International Airport. She described her experience riding the train and touring the stations at West Palm Beach and Miami as amazing. Ms. Ma stated that DesertXpress was working with local businesses, employing local residents, and partnering with small diverse minority-owned businesses at that location. She described her experience meeting with many of those small business owners as well as elected officials and community members, stating that many of them expressed a desire to have the train run through their communities. She stated that after her experience, she was determined for DesertXpress to not only come to California, but choose to locate its maintenance facility yard in California, which would support the High Desert region—one of the lower income per capita regions that did not recover after the great recession. Ms. Ma added that this would be a big boost to the region not only in terms of economic development and jobs but would also help California meet its environmental goals by helping take 3 million cars off the road. She expressed her excitement and informed the Committee that on April 14th, the California Debt Limit Allocation Committee (CDLAC), a three-member board of which she is a member, voted unanimously to grant $600 million in bond allocation for this train. She stated that in the IRS code, they can leverage this allocation 4:1, which is special because the federal government wants to incentivize more high-speed train systems. She added that this project also received fund allocations from the Federal Railroad Administration (FRA), so this project is moving forward. Ms. Ma stated the project would be privately financed, not publicly financed like the California High Speed Rail Project. She further stated that the contractor DesertXpress had hired is unionized, and that these jobs would be a real boost to many of the workers who right now are going through a tough time. Ms. Ma concluded by stating that this is a great project for California to engage in.

Member Janis thanked Ms. Ma for her comments. Ms. Janis stated that she lived in Los Angeles (L.A.) and would love to be able to take a train to Las Vegas but was unsure that she would take the time to drive to Victorville or Apple Valley, park her car, and then get on a train. She asked the representatives to elaborate on the business plan and how they would convince L.A. residents to use the train. Mr. Cumber stated it was a great question that they get regularly. He stated he would not only provide the business plan, but also a couple of other things that have happened in the last 48 hours in California. He stated that looking at all the roads that come from the Greater Los Angeles Area, as they converge through the mountain range, they converge into Victor Valley. He stated that the business plan is about giving people the experience necessary to get them to want to leave their car and be able to start their vacation the moment they arrive at the station in Victor Valley. He added that Victor Valley is not the end of its investment in the State of California and that the business has been engaged with the High Desert Corridor (HDC) Joint Powers Authority (JPA), which is looking for a project to connect Victor Valley to Palmdale. He further stated that the California High Speed Rail Authority (CHSRA) released a new business plan for another project section in Southern California, and that Brian Kelly [CEO of CHSRA] and his team view DesertXpress as a major connector into that high speed rail system that will eventually come down to Palmdale, Burbank, and Los Angeles.

Mr. Cumber stated that the Metrolink station is also in Palmdale, and the Deputy Secretary of CalSTA [California State Transportation Authority] called to inform him that they granted Metrolink $105 million to upgrade the Antelope Valley line between Palmdale and L.A. Union Station in order to increase frequency. He stated that as one sees where the state is beginning to invest its infrastructure dollars, he believes it is fair to say that their project is driving a lot of those decisions to build connectivity. He told Ms. Janis he would love to be able to say to her that she will take their train from L.A. Union Station directly to Las Vegas or somewhere in between one day, but the more realistic plan is that as they are investing in Metrolink, and as California High Speed Rail is investing in the Southern part of the state, all of their systems connect to one another, giving customers like her the ability to get from downtown L.A. to Las Vegas using systems that have ensured that they actually interconnect in a way that makes sense for customers like her.

Ms. Janis stated she would still have to park her car in Victorville. Mr. Cumber responded that in that scenario she would take California High Speed Rail from L.A. to Palmdale, get on their system in Palmdale, and come across the High Desert Corridor; or, she can take Metrolink to San Bernardino County and get on their system there as they continue to look at how to tie directly into the Metrolink systems. He stated that their goal is to provide multiple connectivity options for customers.

Ms. Janis stated she thinks that public oversight of things like high speed rail is really important, and if California is going to have a private line, asked whether there will be public oversight over the line itself, its management, ways for the public to give input, and ways to identify problems. Mr. Cumber stated that the FRA has oversight over the project, since it is a federal authority not a state authority, but it is one of the most heavily regulated industries. The FRA governs everything from safety to the fact that they must have positive train control, which he stated is very popular in California after the accident ten-plus years ago. He continued to state that this project is also under the jurisdiction of Surface Transportation Board so there is significant public oversight from that standpoint.

Ms. Janis stated that was not public oversight but was Federal government administrative oversight. She asked what the High Desert Corridor Authority is and if that is a public agency. Mr. Cumber stated the HDC JPA is a public entity created by LA County, San Bernardino County, and some local cities, in which LA Supervisor Barger, San Bernardino Supervisor Lovingood, the Mayor of Palmdale and a couple other Mayors sit on the governing board. Ms. Janis referenced the Treasurer's earlier comment that the business has a Project Labor Agreement (PLA) for construction of the facility and asked if that agreement is with the carpenters and operators. Mr. Cumber clarified that their contractor will have a PLA, not DesertXpress, because they are not doing the construction directly. He stated that people like Robbie Hunter (President of the State Building and Construction Trades Council) are the ones that have been in direct communication with Skanska on that, and in fact last week when the Treasurer mentioned there was a meeting at CDLAC, Robbie showed up in person to express his support. There is even a letter of support included in DesertXpress' application from him.

Ms. Janis acknowledged that she saw the letter of support but stated she also saw a letter from the Carpenters and Operating Engineers. She asked if it was correct that they don't already have a PLA but would ask Skanska to negotiate one. Mr. Cumber stated there are already drafts that have been going back and forth, and they have already met several times on it. Ms. Janis stated that she supports PLAs and thinks they are really about construction careers and putting people to work in career paths because construction jobs are temporary. She stated that the important part is to have local hiring and hiring of people who are historically excluded from those jobs, like women and returning citizens, and asked whether this is being considered. Mr. Cumber stated it definitely is being considered and invited Ms. Janis to visit once the pandemic passes. He stated that the Miami station, for example, it is part of a Community Redevelopment Area (CRA), their headquarters is in that CRA, and their workers are very reflective of the community that they are located in. He continued to say it is one of the reasons both Apple Valley and Victorville are big supporters of this project because they are very committed to hiring locally and these are highly skilled jobs. He stated that regarding training, maintenance employees receive somewhere between 200 to 300 hours of training and are paid while receiving that training.

Ms. Janis asked if it was like an apprenticeship, to which Mr. Cumber agreed. He added that training not only enables employees to grow in the current position but opens new career paths both within the company as well as other rail roads and noted that California has a major railroad presence. He stated the business recognizes that these specialized positions not only require a lot of training, but it requires them to have the ability to have people who don't have the skills today to make sure that they have the skills to be able to join the company.

Ms. Janis asked for specifics on who they are going to buy the trains from and where they will be manufactured. Mr. Cumber stated they are down to two manufacturers that they are negotiating with and expect to make that decision in the next couple of months. Ms. Janis asked if these manufacturers would be covered by Buy America. Mr. Cumber stated that the project is not covered by Buy America but their Florida trains, for example, were built by the Siemens factory in Sacramento. Ms. Janis asked whether they had any bid specifications for where the jobs would be or from where the trains would be purchased. He indicated that they did not.

Ms. Janis asked if the trains would be fully electric or diesel. Mr. Cumber stated they would be fully electric. She asked if the trains in Florida are diesel. He stated they were biodiesel. She asked him to clarify what that meant. He stated they were diesel, but they were a cleaner diesel. She asked if they were DMUs [diesel multiple units]. He stated they are not DMUs, and that they are biodiesel locomotives. Lastly, Ms. Janis asked again if the trains for this project would be fully electric. Mr. Cumber confirmed they would be fully electric and concluded by stating that the reason the Florida trains are not electric is due to speed restrictions there because of grade crossings and explained that for this project, there will be no at-grade crossings which allows them to do a fully electric 200 mph train.

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

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

D-16. Spartan Motors USA, Inc.

At the request of Chair Dombrowski, Assistant Deputy Director Dosick elaborated on Item D-16. Mr. Dosick described the company and the proposed agreement to the Committee. Spartan USA, Inc. (Spartan) designs, engineers, and manufactures specialty vehicles, and truck bodies for fleet vehicles, delivery and service companies, emergency response, and other government services.

In exchange for a $570,998 California Competes Tax Credit, Spartan has committed to a net increase of 88 full-time employees and an investment of $2,150,000 in the State of California. The jobs Spartan is committing to create are in classifications such as vehicle assembler, welder, painter, and finisher.

Spartan indicated that it recently acquired two companies with a presence in Texas, Arizona, and California. Spartan is evaluating whether to continue to operate and grow the California locations or consolidate and expand in Texas and/or Arizona in an effort to reduce costs. Spartan referenced a precedent for this model in that it recently moved a vehicle assembly line from Michigan to Pennsylvania because of lower costs and incentives offered by the state of Pennsylvania. If awarded the credit, Spartan is willing to commit to keeping its existing California employees, adding new California full-time employees, and continue operating its California facilities instead of consolidating in Arizona or Texas.

Mr. Dosick indicated that representatives Kevin Chaffin (corporate counsel), Yulu Zhou (CFO), Lisa Stevens (Corporate HR Director), and Thomas Sisk (Corporate Director of Tax), were available to address any questions the Committee had.

Mr. Chaffin stated that Spartan Motors makes fire engines and upbuilds first response vehicles. He stated he was from California and was proud to apply for this program with the state. He stated that Spartan Motors has 3,000 direct employees over nine states, approximately 6,000 employees total across the country, and that the business wants to expand in California, but it is all based on cost, so it does not make sense for them to do that without the credit.

Member Janis asked Mr. Chaffin to clarify why it does not make sense to expand in California. Mr. Chaffin stated he was from California and joined the company a year ago in Michigan, and that it makes sense to expand in California as they have two companies in California, one in Carson and the other in Montebello. He stated they have a total of 350 employees and are looking to expand; 90% of employees are Spanish speaking, the head of Carson Royal Truck Body, Yulu, is an Asian woman.

Chair Dombrowski asked the representatives to describe their recruitment process. Mr. Chaffin stated that at Royal Truck Body Carson, they have about 100 employees who build trucks and put truck bodies on, and when including electricians and plumbers in Carson, they have about 150 employees; in Montebello they have about 100 employees, and build trucks for Amazon, FedEx, and the post office. He indicated that about 80% of its workforce is Spanish speaking. He stated they are going to grow either in California, Arizona, or Texas and that the question is about where it makes sense to expand. Though he wants the business to grow in California, they have other options.

Ms. Stevens stated she could address the HR perspective and recruiting. She stated that they do look at different diverse groups when posting positions, work with different Hispanic groups and noted that even the agencies they recruit from are diverse agencies. They also work with women's and veteran groups, have college pipelines, and conduct a myriad of diverse recruiting efforts. Mr. Chaffin stated that Spartan Motors is a good company and that there was no question about its commitment to growing in California and hiring a diverse workforce. He stated that between the two California locations, 80% of employees are minorities and women. He stated that the bottom line is that the best person for the job is not determined by race, gender, etc. He stated that if the business receives the tax credit, he is sure they will keep building in California.

Ms. Janis asked if their employees were still working right now and what safety precautions the business had in place to protect them. Mr. Chaffin stated employees were still working at both locations. He stated that they had social distancing, PPE, a daily task force to call people and ask if they are okay, temperatures are taken when employees come in to make sure they are okay, and anyone who is not okay, expresses symptoms, has a temperature reading, or even has a family member who is sick or has a child out of daycare, is accommodated. Ms. Janis asked if anyone has gotten sick. Mr. Chaffin stated that out of 6,000 employees across the country, only one employee in Arizona has become ill, but no one in California.

Ms. Janis asked if any of the 6,000 employees nationwide were unionized. Mr. Chaffin responded that he has not heard of employees trying to unionize and if that were the case, he would be the first to show his support.

Ms. Janis next asked Mr. Chaffin about the move from Michigan to Pennsylvania and asked if the Michigan employees were unionized. He stated they had no unionized employees across the country.

Ms. Janis' last question was regarding the annual wages listed on the agreement. She stated it appeared that the proposed wages were at minimum wage or slightly above. She noted that the minimum annual wage is listed as $31,200, which would be minimum wage at $15 an hour, and the average annual wage is $33,280 which means that almost all of the new employees will earn close to minimum wage; she asked if that was correct. Ms. Stevens stated they do have minimums but also have wage levels. She explained that employees can go from level 1 to level 5, and the business does promote from within. She clarified that the new associates would start at level 1, but the business also has over 100 associates between level 2 and level 5, so employees have the opportunity to increase their wage.

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

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

F. Public Comment

Chair Dombrowski called for comments from the public and Committee. Before adjourning he expressed his gratitude to the CalCompetes staff and all they have done to make this a smooth meeting and thanked members of the Committee for adjusting to the new virtual environment. Member Janis welcomed Chair Dombrowski as the Committee's new Chair and thanked him. Member Ma stated that the Treasurer's office has enjoyed working very closely with GO-Biz creating high-quality jobs in California.

G. Adjournment

Chair Dombrowski adjourned the meeting at 2:37 pm.