

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

Request to Approve Project for Sales and Use Tax Exclusion (STE)¹

**Best Express Foods, Inc.
Application No. 17-SM009**

Tuesday, April 18, 2017

Prepared By: *Alejandro Ruiz, Program Manager*

SUMMARY

Applicant – Best Express Foods, Inc.

Location – Stockton, San Joaquin County

Industry – Advanced Food Production

Project – Advanced Food Production (Advanced Manufacturing)

Value of Qualified Property – \$3,502,976

Estimated Sales and Use Tax Exclusion Amount² – \$294,951

Application Score –

Fiscal Benefits Points:	4,020
<u>Environmental Benefits Points:</u>	<u>60</u>
Net Benefits Score:	4,080

<u>Additional Benefits Points:</u>	<u>108</u>
Total Score:	4,188

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

² This amount is calculated based on the average statewide sales tax rate of 8.42%.

THE APPLICANT

Best Express Foods, Inc. (“BEF” or the “Applicant”) is a California Corporation that produces bakery and Mexican baked products, including taco chips, tortillas, and sweet goods. BEF was formed in 1995 as the successor corporation to one that was formed in 1980.

The major shareholders (10.0% or greater) of Best Express Foods, Inc. are:
Vision Fine Foods, LLC

Vision Fine Foods, LLC is owned by Jesus Mendoza.

The corporate officers of Best Express Foods, Inc. are:

Jesus Mendoza, Chairman and CEO
Joe Hurwich, CFO

THE PROJECT

BEF is requesting a sales and use tax exclusion for the purchase of equipment used to produce fig bars (the “Project”). The Applicant plans to convert the current, manual fig bar production process into a fully automated process. The current process requires that employees manually handle the product at each stage of the process. Employees must move the product from the end of the oven line, remove it from the pans, and place the product onto cooling racks for one hour before finally packaging the product. The Applicant represents that the proposed Project will automate each of these steps by utilizing high-precision baking machinery specifically designed for BEF’s fig bar production process, resulting in a more efficient process that reduces scrap waste and drastically reduces potential food contamination issues. For example, instead of employees manually removing the baked fig bar from the pans and placing the product on cooling racks, a conveyor system will carry the product from the oven to the cooling system before a robotic arm removes the product from the pan and packages it for sale.

The Applicant also states that by acquiring freezers and coolers that exceed Title 24, the Project facility will be able to save in excess of 550,000 kWh per year. Additionally, the BEF represents that they will be able to use the hot gases produced by the freezers defrost process to heat hot water for the facility processes.

BEF states that the proposed Project represents cutting-edge technology for smaller bakeries and is required to remain cost-competitive with bakeries from overseas, which often utilize highly automated processes.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Holding freezer, cooler and ice machine	\$ 900,000
Robotic packaging machine	1,392,298
Fig bar extruding machine	210,000

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Depanning system	344,000
Cooling spider system	222,400
Dry compressor	102,678
Chocolate decorating system	203,000
Shuttle conveyor servo indexing machine	128,600
Total	<u>\$3,502,976</u>

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. At the termination of the master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variance from the costs shown in the Application and in this report may occur prior to the closing due to increased costs of certain components (of the Project) over original estimates, and other reasons. In addition, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation, or for other reasons.

TIMELINE

Initial equipment installation and testing will begin by the end of April 2017. The facility is expected to begin operations by the summer of 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$3,502,976 and the total net benefits are valued at \$890,697 for the Project. The Project received a Total Score of 4,188 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 60 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (4,020 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes and other indirect fiscal benefits of the Applicant which amounts to \$1,185,647 resulting in a Fiscal Benefits score of 4,020 points for the Project.

- B. Environmental Benefits (60 points).** The Project will result in an Environmental Benefits Score of 60 points. The Applicant received points in the following categories:
 - 1. Environmental Sustainability Plan (20 of 20 points).** The Applicant will implement an environmental sustainability for its Project that it represents will result in energy, water, and materials conservation and reduction of waste.

2. **Energy Consumption (20 of 30 points)**. The Applicant represents that its manufacturing process will result in a 20 percent reduction in energy consumption relative to the industry standard manufacturing process.
 3. **Water Use (5 of 30 points)**. The Applicant represents that its manufacturing process will result in a 5 percent reduction in water use relative to the industry standard manufacturing process.
 4. **Solid Waste (15 of 30 points)**. The Applicant represents that its manufacturing process will result in a 15 percent reduction in solid waste produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (108 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 108 additional points.
1. **Permanent Jobs (60 of 75 points)**. The Applicant represents that the Project will support a total of 75 permanent jobs at its Facility. CAEATFA estimates that approximately four of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Permanent Jobs Score of 60 points for the Project.
 2. **Construction Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of three construction jobs at its Facility. CAEATFA estimates that none of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Construction Jobs Score of zero points for the Project.
 3. **Unemployment (48 of 50 points)**. The Applicant's Project is located in San Joaquin County which has an average annual unemployment rate of 11%. This is above 110% of the statewide average annual unemployment rate which was 7.5% in 2014, the dataset used in the application. This results in an Unemployment Score of 48 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant is in the process of securing the building permit for the freezer and operational permits for the production lines.

LEGAL QUESTIONNAIRE

Staff reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The responses did not disclose any information that raises questions concerning the financial viability or legal integrity of this Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,³ the Applicant has paid CAEATFA an Application Fee of \$1,751 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM009 for Best Express Foods Inc.'s purchase of Qualified Property in an amount not to exceed \$3,502,976 anticipated to result in an approximate sales and use tax exclusion value of \$294,951.

³ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH BEST EXPRESS FOODS, INC.**

April 18, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Best Express Foods, Inc.** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized to process Recycled Feedstock, in an Advanced Manufacturing process or for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems (“Qualified Property”) as more particularly described in the staff summary and in the Applicant’s Application to the Authority (collectively, the “Project”); and

WHEREAS, the Applicant has requested the Authority to enter into the Agreement to acquire Project equipment with an estimated cost not to exceed \$3,502,976 over a period of three years; and

WHEREAS, the Applicant believes that this form of financial assistance will enable it to avail itself of the benefits of an exclusion from sales and use taxes relative to the Qualified Property pursuant to California Revenue and Taxation Code Section 6010.8; and

WHEREAS, approval of the terms of the Agreement and authority for the Executive Director, Deputy Executive Director, or Chair of the Authority to execute the necessary documents to effectuate the Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Project constitutes a “project” within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The requested master regulatory agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(a)(6).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(a)(7).

Section 4. The Executive Director, Deputy Executive Director, or Chair of the Authority (the “Authorized Signatories”) are hereby authorized for and on behalf of the Authority to approve any changes to the Project as the Executive Director shall deem appropriate, provided that the amount of the Qualified Property to be purchased may not be increased above the amount approved by the Authority.

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Section 5. The proposed form of the Agreement between the Applicant and the Authority, as filed with the Authority prior to this meeting, is hereby approved. The Authorized Signatories are hereby authorized and directed, for and on behalf and in the name of the Authority, to execute, acknowledge and deliver to the Applicant the Agreement in substantially the form filed with or approved by the Authority, with such insertions, deletions or changes therein as the Authorized Signatory executing the same may require or approve, and with particular information inserted therein in substantial conformance with the staff summary and in the Applicant's Application to the Authority, such approval to be conclusively evidenced by the execution and delivery thereof. The Authority understands and agrees that pursuant to the terms of the Agreement, the obligations of the Applicant may, under some circumstances, be carried out or assumed by a successor or assignee entity, or by an affiliate of the Applicant.

Section 6. Each of the Authorized Signatories, acting alone, is hereby authorized and directed to do any and all ministerial acts, including (without limitation) the execution and delivery of any and all documents and certificates they may deem necessary or advisable in order to consummate the Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall assure CAEATFA that all Qualified Property listed in the semi-annual reports pursuant to the Agreement shall be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Agreement shall only apply to Qualified Property that the Applicant certifies will be installed, maintained and operated at facilities within the State of California.

Section 9. The adoption by the Authority of this Resolution for the Applicant shall not be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to acquire, construct or operate the Project.

Section 10. This Resolution is effective immediately and will remain in full force and effect unless the Regulatory Agreement, as defined in CAEATFA Regulations Section 10035(a), is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty days if necessary.