

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

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

**Advance International, Inc.
Application No. 17-SM021**

Tuesday, June 20, 2017

Prepared By: *Katrina Connolly, Blue Sky Consulting with Ellen Hildebrand, Analyst*

SUMMARY

Applicant – Advance International, Inc.

Location – Livermore, Alameda

Industry – Advanced Food Production

Project – Advanced Protein Concentrate Production (Advanced Manufacturing)

Value of Qualified Property – \$2,283,000

Estimated Sales and Use Tax Exclusion Amount² – \$192,229

Application Score –

Fiscal Benefits Points:	4,602
<u>Environmental Benefits Points:</u>	<u>80</u>
Net Benefits Score:	4,682

<u>Additional Benefits Points:</u>	<u>170</u>
Total Score:	4,852

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

Advance International, Inc. (“Advance International” or the “Applicant”) is a corporation that developed a new process to manufacture protein powder, omega-3 oil, and distilled water from fish. The Applicant’s facility is located in Livermore, California, and the Applicant has been in business for 10 years.

The major shareholders (10.0% or greater) of Advance International, Inc. are:

Mazi Ghorbani - CEO & Founder (80.31%)

The corporate officers of Advance International, Inc. are:

Mazi Ghorbani - CEO & Founder
Arman Ghorbani – VP & Secretary
Leighton Smith - CFO

THE PROJECT

Advance International is developing a facility to employ a patented process that produces protein powder, omega-3 oil, and double-distilled water from manufacturing fish (the “Project”). According to the Applicant, the process uses advanced materials to create an automated control system by applying a computer device to each piece of equipment that tracks the fish, records the rate of processing, and identifies opportunities for improving efficiency. The manufacturing process will utilize highly precise and advanced equipment to implement a novel method of protein, oil, and water extraction with uniquely configured equipment. The Applicant maintains that their workforce will have high-impact, high-value roles that contribute to the efficiency of the process and the viability of the system.

The Applicant notes several ways in which the Project improves the industry standard for manufacturing protein. One, the Applicant’s patented process can produce more protein powder per month in less space than standard protein manufacturing systems. According to the Applicant, the Project will produce up to 150 metric tons of protein powder per month in 2,000 square feet of space whereas the average protein manufacturer produces 70 metric tons per month in 5,000 square feet of space. Two, the Applicant represents standard protein manufacturing processes as requiring heavy water and energy usage and acid or alkaline treatments whereas the Project utilizes no water or chemical inputs and less energy.

The Project will manufacture a protein powder that, according to the Applicant, is virtually odorless and flavorless, highly stable with a five-year shelf-life, 98% digestible, nutritionally complete, sustainably sourced, and free of harmful and nonbiodegradable additives. This product can be used as food, nutraceutical, supplement, cosmetic, and more. Additionally, the Project will manufacture a cold-pressed, pharmaceutical grade omega-3 oil.

Though the patented process can recover protein, oil, and water from any animal tissue such as beef, pork, and poultry, the Applicant will use only oceanic fish deemed sustainable by the marine stewardship council.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Tanks	\$ 270,000
Primary Processing Equipment	1,017,000
Secondary Processing Equipment	723,000
Pumps/Pipes/Connection	110,000
Supporting equipment	163,000
Total	<u>\$2,283,000</u>

Note: The Qualified Property purchases reported in the Application and shown above 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

Advance International expects to purchase equipment in June and July 2017, begin refurbishment and installation in August and September 2017, and fine-tune in October 2017. The Applicant expects to be in full production by December 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$2,283,000 and the total net benefits are valued at \$692,324 for the Project. The Project received a Total Score of 4,852 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 80 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (4,602 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 \$884,553 resulting in a Fiscal Benefits score of 4,602 points for the Project.

- B. Environmental Benefits (80 points).** Project will result in an Environmental Benefits Score of 80 points. The Applicant received points in the following categories:

1. **Environmental Sustainability Plan (20 of 20 points)**. The Applicant will implement an environmental sustainability plan for its Project that consistently tracks and takes measures to reduce all inputs including energy usage.
 2. **Energy Consumption (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 61% reduction in energy consumption relative to the industry standard manufacturing process.
 3. **Water Use (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 100% reduction in water use relative to the industry standard manufacturing process.
- C. **Additional Benefits (170 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 170 additional points.
1. **Permanent Jobs (60 of 75 points)**. The Applicant represents that the Project will support a total of 48 permanent jobs at its Facility. CAEATFA estimates that approximately three 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 (60 of 75 points)**. The Applicant represents that the Project will support a total of 50 construction jobs at its Facility. CAEATFA estimates that approximately three 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 60 points for the Project.
 3. **Research and Development Facilities (25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to the advanced fish protein manufacturing process.
 4. **Workforce Partnerships (25 points)**. The Applicant has a partnership with the University of California for the purpose of assisting in the training of potential future workers.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that they have received full planning approval from the city of Livermore. The facility is an existing FDA-grade food manufacturing facility (was previously a bakery and a cookie maker), and the Project meets all the proper zoning requirements. Other engineering, etc. permits are in the process of being obtained.

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 \$ 1,142 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM021 for Advance International, Inc. purchase of Qualified Property in an amount not to exceed \$2,283,000 anticipated to result in an approximate sales and use tax exclusion value of \$192,229.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH ADVANCE INTERNATIONAL, INC.**

June 20, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Advance International, Inc.** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized 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 \$2,283,000 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.

Agenda Item – 4.A.2
Resolution No. 17-SM021
Application No. 17-SM021

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.