

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

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

**IF Copack LLC, dba Initiative Foods
Application No. 18-SM002**

Tuesday, January 16, 2018

Prepared By: *Melanie Holman, Program Analyst*

SUMMARY

Applicant – IF Copack LLC, dba Initiative Foods

Location – Sanger, Fresno County

Industry – Advanced Food Production

Project – Renovation and Expansion of Existing Advanced Food Production Facility (Advanced Manufacturing)

Value of Qualified Property – \$17,115,645

Estimated Sales and Use Tax Exclusion Amount² – \$1,430,868

Application Score –

Fiscal Benefits Points:	2,283
<u>Environmental Benefits Points:</u>	<u>140</u>
Net Benefits Score:	2,423

<u>Additional Benefits Points:</u>	<u>200</u>
Total Score:	2,623

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 8.36%.

THE APPLICANT

IF Copack LLC, dba Initiative Foods (“IF Copack” or the “Applicant”), a California limited liability company, manufactures organic, natural, and premium baby foods. The company was founded in 2002 and has grown to become the United States’ third largest baby food manufacturer. In 2016, a fire destroyed the Applicant’s Sanger, California facility, prompting the need to acquire a new production facility.

The major shareholders (10.0% or greater) of IF Copack LLC, dba Initiative Foods are:

- JWY Enterprises (55%)
- Central Valley Fund (45%)

The Board of Directors of IF Copack LLC, dba Initiative Foods are:

- David Price, Board Member – Independent
- James Allred, Board Member – Central Valley Fund Capital Partners, Associate
- Jose Blanco, Board Member – Central Valley Fund Capital Partners, Managing Partner
- John Ypma, Chairman and Officer – IF Copack
- Jeff Jankovic, Chief Financial Officer – IF Copack

THE PROJECT

IF Copack is requesting a sales and use tax exclusion to upgrade and expand an existing manufacturing facility in Sanger, California after a fire destroyed the Applicant’s previous facility (the “Project”). Despite the loss of property, the Applicant represents that it has been able to retain its customer base through the use of co-packing facilities. The Applicant has purchased a 34,000 square foot facility and plans to make a 28,000 square foot expansion to house the installation of over \$17,000,000 in new advanced manufacturing equipment. IF Copack represents that the new manufacturing system has been carefully researched and curated to include advanced, intelligent, and efficient equipment that improves upon the industry standard with 20% decreases in energy consumption and water use, 25% decreases in solid waste generation and the emission of air pollutants, and a 75% decrease in hazardous waste generation. For example, the Applicant represents that its new, state-of-the-art refrigeration system does not use the industry standard ammonia refrigerant, contributing to the reduction of hazardous waste generated onsite. IF Copack has also represented that as a food production facility it has adopted new protocols and procedures to ensure a clean workplace with minimal use of hazardous materials. The new equipment is also advanced with new computer systems that will monitor energy usage and alert when energy usage targets are exceeded, according to the Applicant.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Futura Robotica Storage and Finished Case Packing System	\$ 2,696,399
Navatta Batching and Thermal Processing Line	8,656,480
Stephan Mixer	80,000
Axon Shrink Sleeve Applicator	201,460
Del Overcap - ASRL	155,000
Coding And Labeling Equipment	90,000
Boilers, Chillers, Compressed Air and Utility Support Equipment	1,375,000
Laboratory Analysis Equipment	105,000
Screens and Inline Magnets	30,500
Baby Food Filling Units	2,716,124
Cold Storage Walls and Ceilings (IMP)	186,617
Urethane Floors	230,000
Material Lift For Mezzanine	25,000
Industrial Refrigeration System	68,065
Baby Food Cereal Packing Line	400,000
Conveyance Lines	<u>100,000</u>
Total	<u>\$17,115,645</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

The Applicant's Project will begin with the renovation and equipping of the new facility in the first quarter of 2018. Additional square footage is expected to be added to the pre-existing space beginning in the second quarter of 2018 with all equipment expected to be installed and placed in service no later than June 2019.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 2,623 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 140 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (2,283 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 \$3,266,279 resulting in a Fiscal Benefits score of 2,283 points for the Project.
- B. **Environmental Benefits (140 points)**. The Project will result in an Environmental Benefits Score of 140 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 reductions in usage of water, energy, various types of solid and hazardous waste as well as ongoing emissions.
 2. **Energy Consumption (20 of 30 points)**. The Applicant represents that its manufacturing process will result in a 20% reduction in energy consumption relative to the industry standard manufacturing process.
 3. **Water Use (20 of 30 points)**. The Applicant represents that its manufacturing process will result in a 20% reduction in water use relative to the industry standard manufacturing process.
 4. **Solid Waste (25 of 30 points)**. The Applicant represents that its manufacturing process will result in a 25% reduction in solid waste produced relative to the industry standard manufacturing process.
 5. **Hazardous Waste (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 75% reduction in hazardous waste produced relative to the industry standard manufacturing process.
 6. **Air Pollutants (25 of 30 points)**. The Applicant represents that its manufacturing process will result in a 25% reduction in air pollutants produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (200 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 200 additional points.
1. **Permanent Jobs (45 of 75 points)**. The Applicant represents that the Project will support a total of 93 permanent jobs at its Facility. CAEATFA estimates that approximately nine 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 45 points for the Project.

2. **Construction Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 20 construction jobs at its Facility. CAEATFA estimates that approximately two 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 30 points for the Project.
3. **Unemployment (50 of 50 points)**. The Applicant's Project is located in Fresno County which has an average annual unemployment rate of 9%. This is above 110% of the statewide average annual unemployment rate which was 5.1% in 2017, the dataset used in the application. This results in an Unemployment Score of 50 points for this Project.
4. **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 finding increasingly innovative ways to produce baby food.
5. **Workforce Partnerships (25 points)**. The Applicant has a partnership with Fresno Workforce Development Board and Reedley Community College for the purpose of training the workers at the Facility and for the purposes of assisting in the training of potential future workers.
6. **Industry Cluster (25 points)**. The industry associated with this Application has been identified by the San Joaquin Valley Regional Industry Clusters Initiative (California Partnership for the San Joaquin Valley), California Central Valley Economic Development Coalition and the County of Fresno Comprehensive Economic Development Strategy as a strategic industry cluster.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that only local construction and building permissions from the City of Sanger will be needed as the existing site has all the necessary clearances for renovation and expansion. The Applicant represents the ongoing submissions of building plans will be processed within a 30-day time line upon submission.

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 \$8,557 and will pay CAEATFA an Administrative Fee up to \$68,462.

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM002 for IF Copack LLC, DBA “Initiative Food’s” purchase of Qualified Property in an amount not to exceed \$17,115,645 anticipated to result in an approximate sales and use tax exclusion value of \$1,430,867.

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

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH IF COPACK LLC, DBA INITIATIVE FOODS

January 16, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **IF Copack LLC, dba Initiative Foods** (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 \$17,115,645 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.