

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

*Request to Approve Project for Sales and Use Tax Exclusion (STE)<sup>1</sup>*

**Best Express Foods, Inc.  
Application No. 18-SM003**

**Tuesday, February 20, 2018**

Prepared By: *Xee Moua, Program Analyst*

**SUMMARY**

**Applicant** – Best Express Foods, Inc.

**Location** – Stockton, San Joaquin County

**Industry** – Advanced Food Production

**Project** – Expansion of an Existing Advanced Food Production Facility (Advanced Manufacturing)

**Value of Qualified Property** – \$4,293,330

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$358,992

**Application Score** –

Fiscal Benefits Points:	4,921
<u>Environmental Benefits Points:</u>	<u>70</u>
<b>Net Benefits Score:</b>	<b>4,991</b>
<u>Additional Benefits Points:</u>	<u>70</u>
<b>Total Score:</b>	<b>5,061</b>

**Staff Recommendation** – Approval

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

<sup>2</sup> This amount is calculated based on the average statewide sales tax rate of 8.36%.

**THE APPLICANT**

Best Express Foods, Inc. (“BEF” or the “Applicant”) is a California corporation formed in 1995 with operations in Stockton and Hayward. BEF produces primarily organic products in both bakery and Mexican foods, including taco chips, tortillas, and sweet goods.

On April 18, 2017, the CAEATFA Board granted BEF an STE award for the purchase of up to \$3,502,976 in Qualified Property for an estimated STE value of \$294,951 to convert its manual aussie bite and fig bar production process into a fully automated process in Stockton.

The major shareholders (10.0% or greater) of Best Express Foods, Inc. are:  
Vision Fine Foods, LLC (100%)

Vision Fine Foods, LLC is owned by Jesus Mendoza

The corporate officers of Best Express Foods, Inc. are:  
Jesus Mendoza, President and Chief Executive Officer  
Joe Hurwich, Chief Financial Officer

**THE PROJECT**

Best Express Foods, Inc. is requesting a sales and use tax exclusion to expand its food manufacturing facility located in Stockton (the “Project”). According to BEF, the Project involves undertaking two major upgrades. The first will incorporate advanced equipment to the “front end” and “back end” of the previously approved Application. For example, BEF represents that it will replace its raw ingredient feeder with a smartfeeder and flour silos, which will allow ingredients to be more accurately measured, and will enable the facility to accept bulk delivery of raw ingredients, eliminating solid waste from ingredient bags. The Applicant will also add a new tray oil unit that will distribute oil much more precisely into pan cavities, and a centrifugal aspiration unit and decanter duo that will be able to recover excess oil, thereby reducing the monthly pan oil usage by 5,000 pounds, according to the Applicant. Furthermore, BEF represents that older “rack” style ovens will be replaced with a tunnel oven system that will minimize product rejects due to built-in sensors capable of adjusting time and temperature for over and under baked goods.

The second part of the Project will consolidate the various equipment needed to create BEF’s taco chips. According to the Applicant, the micro-processor controlled taco chip line, which includes high pressure steam boilers, horizontal oil storage tanks, and a masa generator will conserve water and oil usage. For example, the Applicant represents that the oil piping system will reduce up to 8% of the 80,000 pounds of vegetable oil previously used each month, and eliminate the Applicant’s need to purge the entire system of 12,000 pounds of oil six times a year and transporting it to solid waste dumps.

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Masa Production System	\$ 820,000
Horizontal Oil Storage Tanks	282,000
Steam Boilers	177,140
Conveyors	471,390
Flour Silos	500,000
Depanner	226,000
Automated Tray Former/ Box Folder	208,000
Tunnel Oven	1,080,000
Metal Detector	61,100
Product Wrapper and Labeling System	332,700
SmartFeeder Dough Performer	135,000
<b>Total</b>	<b><u>\$4,293,330</u></b>

*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**

As reported by the Applicant, equipment will be installed for testing in March or April 2018 and the expansion is expected to be completed late 2018 or 2019.

**PROJECT EVALUATION**

**NET BENEFITS**

The Project received a Total Score of 5,061 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 70 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (4,921 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 \$1,766,397 resulting in a Fiscal Benefits score of 4,921 points for the Project.

**B. Environmental Benefits (70 points).** The Project will result in an Environmental Benefits Score of 70. 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 it represents will result in reducing solid waste, natural gas and electricity usage, and water usage.
- 2. Energy Consumption (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 30% reduction in energy consumption relative to the industry standard manufacturing process.
- 3. Solid Waste (20 of 30 points).** The Applicant represents that its manufacturing process will result in a 20% reduction in solid waste produced relative to the industry standard manufacturing process.

**C. Additional Benefits (70 points).** Applicants may earn additional points for their Total Score. The Applicant submitted information and received 70 additional points.

- 1. Permanent Jobs (45 of 75 points).** The Applicant represents that the Project will support a total of 32 permanent 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 Permanent Jobs Score of 45 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. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
- 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 producing organic products and testing new recipes for new and current consumable items.

## **STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

According to the Applicant, all building, installation and operational permits have been secured and are in good standing with the City of Stockton.

**CAEATFA FEES**

In accordance with CAEATFA Regulations,<sup>3</sup> the Applicant has paid CAEATFA an Application Fee of \$2,146.67 and will pay CAEATFA an Administrative Fee up to \$17,173.32.

**RECOMMENDATION**

Staff recommends approval of Resolution No. 18-SM003 for Best Express Foods, Inc.’s purchase of Qualified Property in an amount not to exceed \$4,293,330 anticipated to result in an approximate Sales and Use Tax Exclusion value of \$358,992.

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<sup>3</sup> 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.**

Tuesday, February 20, 2018

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 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 \$4,293,330 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.**  
**Resolution No. 18-SM003**  
**Application No. 18-SM003**

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.