

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

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

**The Almond Company
Application No. 18-SM021**

Tuesday, August 21, 2018

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – The Almond Company

Location – Madera and Chowchilla, Madera County

Industry – Advanced Food Production

Project – Upgrade and Expansion of an Existing Almond Production Facility (Advanced Manufacturing)

Value of Qualified Property – \$3,750,000

Estimated Sales and Use Tax Exclusion Amount² – \$313,500

Application Score –

Fiscal Benefits Points:	4,621
<u>Environmental Benefits Points:</u>	<u>24</u>
Net Benefits Score:	4,645
<u>Additional Benefits Points:</u>	<u>145</u>
Total Score:	4,790

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

The Almond Company (“Almond Company” or the “Applicant”), a California corporation with operations in Madera and Chowchilla, was established in 1997 to produce almonds suitable for consumption. Almond Company produces primarily almond products, such as whole, sliced and blanched almond kernels, but also supplies almond meat byproducts to local farmers for livestock feed and other uses.

The major shareholders (10.0% or greater) of The Almond Company are:
F. Russell Harris (100%)

The corporate officers of The Almond Company are:
Jim Kopshever, Chief Executive Officer
Eddie Verdugo, Chief Financial Officer
Scott Easton, Chief Operating Officer

THE PROJECT

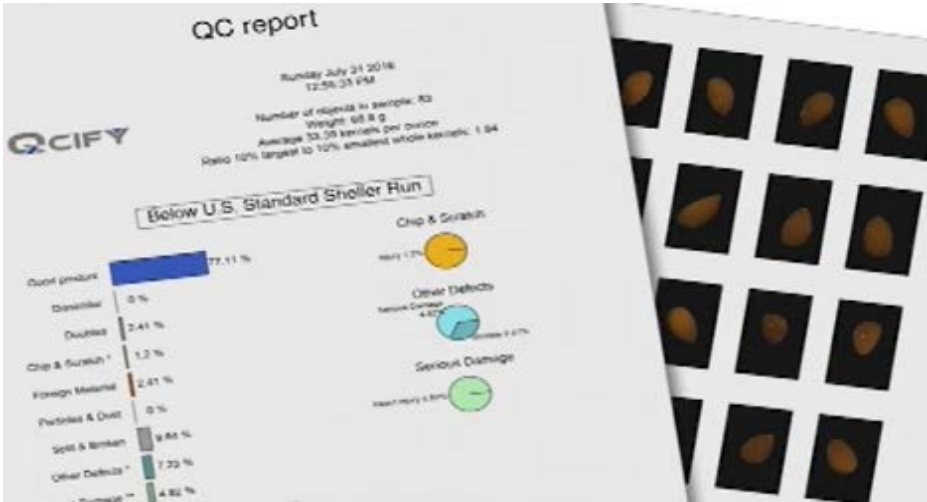
The Almond Company is requesting a sales and use tax exclusion to upgrade and expand its existing almond production operations located in Madera and Chowchilla (the “Project”). According to the Applicant, it has adopted a vertically integrated business model capable of processing, as well as hulling and shelling almonds, while its competitors typically perform only one of these actions. In hulling and shelling to extract the kernel, the Applicant states it intends to maintain a “meat separation rate” of 97% to 98%, which is represented to exceed average competitors in the industry. According to the Applicant, the Project will utilize high-precision tools to process and measure the almonds down to the millimeter to meet the requirement specifications of its customers. The equipment will also have the ability to organize them into varying grades and sizes up to 75% faster compared to previous practices. Its technology is programmed with re-sorting and reversing functions to extensively distinguish between usable and defective products and designed to fulfill special requests made by customers. Furthermore, Almond Company states it will be able to make calculated business plans as its system stores and analyzes data related to the quality of its products and manufacturing process. The Project will utilize advanced 3D imaging equipment for quality control and inspection.

From an environmental standpoint, the Applicant represents it employs a sustainable process void of solid waste, which includes supplying empty hulls and shells to local farmers to produce livestock feed, and recycling the nutrient rich dirt that cannot be extracted from initial raw materials back to the almond fields. Lastly, the Project will utilize long-life broadband LEDs to help minimize maintenance and electricity costs, and incorporate transporting automation such as smart robotic systems to decrease forklift costs.

Figure 1: Almond Sorting



Figure 2: 3D Reports



ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Grading, Sorting, Sizing, and Processing Equipment	\$1,400,000
Hulling and Shelling Equipment	775,000
Quality Control and X-Ray Equipment	475,000
Vibratory Conveyors and Robotics Logistics Equipment	750,000
Repair and Replacement Component Parts and Equipment	350,000
Total	<u>\$3,750,000</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

According to the Applicant, 90% of its Qualified Property will be installed in September 2018 and operations will follow quickly thereafter. The Almond Company states that the remaining Qualified Property will be purchased and installed before the end of 2019, which is when the ramp-up period is anticipated to occur.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 4,790 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 24 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (4,621 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 \$1,448,619 resulting in a Fiscal Benefits score of 4,621 points for the Project.
- B. **Environmental Benefits (24 points)**. The Project will result in an Environmental Benefits Score of 24. The Applicant received points in the following categories:
 1. **Energy Consumption (12 of 30 points)**. The Applicant represents that the Project will result in a 12 percent reduction in energy consumption compared to the Applicant's previous manufacturing process.
 2. **Air Pollutants (12 of 30 points)**. The Applicant represents that the Project will result in a 12 percent reduction in air pollutants produced relative to the Applicant's previous manufacturing process.
- C. **Additional Benefits (145 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 145 additional points.

1. **Production Jobs (40 of 75 points)**. The Applicant represents that the Project will support a total of 15 production-related jobs at its Facility. CAEATFA estimates that approximately one 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 40 points for the Project.
2. **Construction Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 10 construction jobs at its Facility. CAEATFA estimates that approximately one 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. **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 almond manufacturing.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

As stated by the Applicant, all permits required for its operation have been secured, including building, installation, and operational permits.

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 \$1,875 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM021 for The Almond Company's purchase of Qualified Property in an amount not to exceed \$3,750,000 anticipated to result in an approximate sales and use tax exclusion value of \$313,500.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH THE ALMOND COMPANY**

Tuesday, August 21, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **The Almond Company** (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 \$3,750,000 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.

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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.