

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

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

**HWY33 Pistachios, LLC
Application No. 19-SM028**

June 18, 2019

Prepared By: *Matthew Parsons, Program Analyst*

SUMMARY

Applicant – HWY33 Pistachios, LLC

Location – Cantua Creek, Fresno County

Industry – Pistachio Processing and Production

Project – New Pistachio Production Facility (Advanced Manufacturing)

Value of Qualified Property – \$79,196,100

Estimated Sales and Use Tax Exclusion Amount² – \$6,620,794

Application Score –

Fiscal Benefits Points:	2,352
<u>Environmental Benefits Points:</u>	<u>90</u>
Net Benefits Score:	2,442

<u>Additional Benefits Points:</u>	<u>105</u>
Total Score:	2,547

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

HWY33 Pistachios, LLC (AKA Touchstone Pistachio Company) (“HWY33” or the “Applicant”) is a California limited liability company that was formed in 2018 and is located in Fresno County. HWY33 processes bulk and retail pistachio products.

The major shareholders (10.0% or greater) of HWY33 Pistachios, LLC are:

- Farid Assemi Revocable Trust (50%)
- Farshid and Sonya Assemi Revocable Trust (33.333%)
- Darius Assemi Revocable Trust (16.666%)

The corporate officers of HWY33 Pistachios, LLC are:

- Farid Assemi, Managing Member & Principal
- Mark Sherrell, Chief Operating Officer

THE PROJECT

HWY33 is requesting a sales and use tax exclusion to build a new pistachio processing facility located in Cantua Creek (the “Project”). According to HWY33, it processes, markets, and sells a variety of pistachio products throughout the world including bulk inshell roasted, bulk kernel roasted, and retail roasted pistachios.

HWY33 is planning to construct 160,000 square feet of structures that will house its pistachio processing plant, water treatment, storage, and office space in Fresno County on 158 acres of land. The Applicant states that the new facility will process approximately 70,000,000 pounds of bulk and retail pistachios. According to the Applicant, it acquires its raw materials (raw in-hull pistachios) from California’s Central Valley farmers, and as with most pistachio processors they are hulled, dried, processed, roasted, fumigated, tested, stored, packed, shipped, and transported to customers.

According to HWY33, its new facility will utilize custom industrial dryers as opposed to the traditional drying process which takes place outdoors during only certain months of the year, and/or utilizes older inefficient equipment. The custom dryers will enable the completion of the drying process in a fraction of the time and will use high/low fire cycling and mixing vanes to maintain balanced temperatures. Additionally, the Applicant claims it will use highly precise roasting equipment that uses five stages to evenly heat and roast all of Touchstone’s pistachios at the optimal temperature of approximately 250 degrees Fahrenheit. Its roasters also do not impose mechanical agitation to the pistachios which significantly minimizes product splits and abrasions. For sorting, HWY33 states it will use optical sorting technology that is able to analyze a nut’s shape, size, deformities and color (RGB detection), far better than the human eye, reducing overall product waste.

According to the Applicant, it will focus on the repurposing of water use in the process, by exploring filtering post-hulling effluent water so that it may be partially reused in the production process. The hulling process (removing an inshell pistachio from its hull) can require more than two million gallons of water per day during the peak pistachio processing and harvest season. Filtering post-hulling effluent water is anticipated to reduce water use by 30 to 40 percent

annually compared to previous practices and may also be used for approximately 6,000 acres of nearby crops.

Regarding air pollutants, HWY33 claims that by no longer using third-party processors, which requires transporting the product multiple times throughout the overall process, the trucking distance will be reduced by approximately 70 percent. Lastly, HWY33 states that it will utilize the latest baghouse designs and equipment to reduce dust and other air pollutants that can be hazardous to employees over the long term.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Processing, Sorting, Roasting Equipment	\$ 33,500,000
Building and Infrastructure Materials	23,500,000
Water Treatment Analyzation Equipment	750,000
Robotic Equipment and Forklifts	12,500,000
Tools, Repair, and Component Parts	696,100
X-Ray, 3D Imaging, and Optical Sensing Equipment	6,500,000
Computers, IT, and Electronics Equipment	<u>1,750,000</u>
Total	<u>\$79,196,100</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, site preparation, design, and construction of the facility is expected to be completed by May of 2020. The design, engineering, and installation of the pistachio production machinery and equipment is expected to be completed by August of 2020. According to HWY33, additional upgrades and refinements of the facility will be ongoing and will continue through 2021.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 2,547 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 90 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (2,352 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 \$15,571,185, resulting in a Fiscal Benefits score of 2,352 points for the Project.
- B. **Environmental Benefits (90 points)**. The Project will result in an Environmental Benefits Score of 100. The Applicant received points in the following categories:
 1. **Water Use (30 of 30 points)**. The Applicant represents that the Project will result in a 35% reduction in water use relative to the Applicant’s previous manufacturing process.
 2. **Solid Waste (30 of 30 points)**. The Applicant represents that the Project will result in a 35% reduction in solid waste produced relative to the Applicant’s previous manufacturing process.
 3. **Air Pollutants (30 of 30 points)**. The Applicant represents that the Project will result in a 56% reduction in air pollutants produced relative to the Applicant’s previous manufacturing process.
- C. **Additional Benefits (105 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 105 additional points.
 1. **Production Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 152 production-related jobs at its Facility. CAEATFA estimates that approximately 11 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 30 points for the Project.
 2. **Construction Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of 40 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. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.

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 the pistachio manufacturing process and the repurposing of effluent water back through the production process.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, all necessary permitting will be finalized by Q3 of 2019, including an air permit with San Joaquin Valley Air Pollution Control District, a water permit from the Regional Water Quality Control Board, and a building permit by Fresno County.

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 \$10,000 and will pay CAEATFA an Administrative Fee of up to \$316,784.40.

RECOMMENDATION

Staff recommends approval of Resolution No. 19-SM028 for HWY33 Pistachios, LLC’s purchase of Qualified Property in an amount not to exceed \$79,196,100, anticipated to result in an approximate sales and use tax exclusion value of \$6,620,794.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH HWY33 PISTACHIOS, LLC**

June 18, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **HWY33 Pistachios, LLC** (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 \$79,196,100 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.