

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

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

**Best Express Foods, Inc.
Application No. 20-SM001**

Tuesday, January 21, 2020

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 – \$5,568,292

Estimated Sales and Use Tax Exclusion Amount² – \$465,509

Application Score –

Fiscal Benefits Points:	5,825
<u>Environmental Benefits Points:</u>	<u>30</u>
Net Benefits Score:	5,855
 <u>Additional Benefits Points:</u>	 <u>130</u>
Total Score:	5,985

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

Best Express Foods, Inc. (“BEF” or the “Applicant”) is a California corporation wholly owned by Vision Fine Foods, Inc. Formed in 1995, BEF currently has two facilities in Stockton that produce 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 Applicant completed the project in January 2019.

On February 20, 2018, the CAEATFA Board granted BEF a second STE award for the purchase of up to \$4,293,330 in Qualified Property for an estimated STE value of \$358,992 to expand its food manufacturing facility located in Stockton. As of July 2019, the Applicant has reported \$2,443,439 in Qualified Property purchases (57% of the total Qualified Property Amount Approved).

Vision Fine Foods, LLC received an income tax credit under the California Compete Tax Credit Program administered by the Governor’s Office of Business and Economic Development on April 14, 2016.

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

BEF is requesting a sales and use tax exclusion to expand its existing food manufacturing facilities located in Stockton (the “Project”). The expansion will include three major activities: 1) implementation of a new 600 square ft. walk-in cooler, 2) installation of a solar panel system to generate power for manufacturing activities as allowed under the Program, and 3) installation of additional production equipment to the front-end and back-end of its current machineries. BEF states such changes will increase the production of its paleo bars, sunrise energy bars, aussie bites, marshmallows, clusters, raisin bread, and cinnamon rolls.

According to the Applicant, the walk-in cooler is a computer chip and microprocessor controlled system that is equipped with fan motors to help with evaporation and lower the load and conserve energy. BEF states the walk-in cooler also has sensors that can detect changes in humidity, temperature, and open or closed doors, and has an overall net refrigeration run time

savings of about 50%. Furthermore, BEF represents that the installation of solar panels will reduce approximately 45% of its electricity expenses, or about 680,000 kWh per year. Added to the front and back of production are equipment used to help reduce product waste, create higher quality products, increase production efficiency, and reduce natural gas consumption. For example, compared to BEF's current operations of making aussie bites and other bar products in tubs, BEF's new system will have a tray separating machine called a denester to help maintain speedy packaging placement to increase output, and can individually wrap products with better sanitation practices due to reduced human management. While packaging labor has decreased, the increase in production has enabled the Applicant to open a second shift to support lost and new jobs. Other equipment such as a new zero down time labeling machine will have the capability to detect when labels are damaged or misaligned using electric eyes, and an additional cooling tunnel for ensuring products are cooled at correct temperatures to reduce waste.



Figure 1: Robotic System for Individually Wrapped Products

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Robotic Packaging Machine & System	\$ 965,000
Conveyors for Robotic System	150,000
Robotic Packaging Machine	268,649
Package Weigher	\$53,790
X-Ray Machine	116,499
Labelling Machine	45,945
Mixer, Blender, & Column Dumper	102,260
Fire Suppression Equipment	40,000
Cooling Tunnel	150,000

Agenda Item – 4.A.1
Resolution No. 20-SM001
Application No. 20-SM001

Muffin Pans	200,000
Automated Production Line	1,085,000
Flour Silo	212,500
Oil Silo	500,000
Walk-In Cooler	100,000
Depanner	230,000
Pan Washers	230,000
Marshmallow Manufacturing Depositor	318,649
Solar Panels	800,000
Total	<u>\$5,568,282</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 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 states that the initial installation of equipment and testing will begin Q1 2020, with the expectation of being operational by late 2022.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 5,985 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 30 points, which exceeds the 20-point threshold.

- A. Fiscal Benefits (5,825 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 \$2,711,411, resulting in a Fiscal Benefits score of 5,825 points for the Project.
- B. Environmental Benefits (30 points).** The Project will result in an Environmental Benefits Score of 30. The Applicant received points in the following categories:
 - 1. Energy Consumption (30 of 30 points).** The Applicant represents that the Project will result in a 50 percent reduction in energy consumption compared to the Applicant's previous manufacturing process.

- C. **Additional Benefits (130 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 130 additional points.
1. **Production Jobs (55 of 75 points)**. The Applicant represents that the Project will support a total of 58 production-related jobs at its Facility. CAEATFA estimates that approximately four of these jobs will be attributable to a marginal increase in jobs created due to the approved STE, resulting in a Production Jobs score of 55 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. 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 San Joaquin County which has an average annual unemployment rate of 7.6%. 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 production of organic products and testing new recipes for new and current consumable items.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

BEF states it has been issued a building permit and secured permits needed to operate and install the equipment from the County of Stockton. Such permits include operational permits for the production line and an air quality permit.

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 \$2,784.15 and will pay CAEATFA an Administrative Fee of up to \$22,273.17.

RECOMMENDATION

Staff recommends approval of Resolution No. 20-SM001 for BEF's purchase of Qualified Property in an amount not to exceed \$5,568,292, anticipated to result in an approximate sales and use tax exclusion value of \$465,509.

³ 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.**

January 21, 2019

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 \$5,568,292 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.1
Resolution No. 20-SM001
Application No. 20-SM001

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.