

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Best Express Foods, Inc.
Application No. 22-SM003**

Tuesday, June 21, 2022

Prepared By: *Stefani Wilde, 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	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$6,795,730	\$577,637

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$4,096,277	7,091
Estimated Environmental Benefits	N/A	27
Additional Benefits	N/A	137
Total	\$4,096,277	7,255
Estimated Quantifiable Net Benefit	\$3,518,640	

Competitive Criteria Score – 82

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the STE Program’s statutes and regulations.

² This amount is calculated based on the average statewide sales tax rate of 8.5%.

³ Applications that earn a Total Score of at least 1,000 points and an Environmental Benefits Score of over 20 points may be recommended for approval. (California Code of Regulations Title 4, Division 13, Section 10033(c)(6).)

THE APPLICANT

Best Express Foods, Inc. (the “Applicant”) is a California corporation wholly owned by Vision Fine Foods, Inc. Formed in 1995, the Applicant 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 the Applicant 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 the Applicant 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. The Applicant completed the project in July 2020.

On January 21, 2020, the CAEATFA Board granted the Applicant a third STE award for the purchase of up to \$5,568,292 in Qualified Property for an estimated STE value of \$465,509 to expand its existing food manufacturing facilities located in Stockton. As of January 2022, the Applicant has reported \$3,954,311 in Qualified Property purchases (71% of the total Qualified Property amount approved)

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 existing food manufacturing facilities located in Stockton (the “Project”). The expansion will include two major activities: 1) a larger production line that will automate its waffle production process, and 2) a large tunnel oven used to bake its Aussie Bites product.

The Applicant states the larger production line will replace its current 50-year-old equipment. Due to the use of micro processors and nano technology, the Applicant anticipates a 20% decrease in electrical use and a 60% reduction in natural gas consumption. According to the Applicant, the larger production line will increase production, as it is approximately five times faster than its older counterpart.

The Applicant states the new tunnel oven will replace its 20-year-old oven. The new technology is expected to reduce natural gas consumption by 60%. The new oven uses more efficient

technology which allows the user to control the entire baking process with a computer, rather than by hand, greatly reducing the likelihood of human error, and producing a much improved and consistent product.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Automated waffle line	\$1,350,000
Exit conveyor	\$52,000
Wrapper, printer & infeed conveyors	\$300,680
Automatic tray de-nester & robot	\$416,355
Cooling conveyor addition and variable frequency drive control panel	\$180,000
Mixer	\$162,400
Universal robot system	\$153,000
Automated liquifier	\$211,000
Depositor	\$158,940
De-panner	\$215,000
Butter block melter	\$121,355
Muffin pans	\$130,000
Intermediate silo	\$60,000
Sheet pan washer	\$48,000
Tunnel oven	\$3,000,000
Depositor	\$237,000
Total	<u>\$6,795,730</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 Regulatory Agreement, a finalized Project equipment list will be prepared detailing the value of the Project equipment actually acquired, and the estimated 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, those costs may vary after closing due to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in statute or regulation, or for other reasons.

TIMELINE

The Applicant states that the pandemic has impacted delivery and installation times, however it anticipates installation of most equipment by June 2022 and placed in service by late 2023. The Project is anticipated to be complete by the fourth quarter of 2024.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states it has received all required permits, including operational permits and air quality permits from the City of Stockton and San Joaquin County.

COMPETITIVE CRITERIA SCORE

The Applicant received 82 Competitive Criteria points as follows:

1. **Environmental Benefits (0 of 100 points)**. The Application does not have a Recycled Resource Extraction Project or Project that produces an Advanced Transportation Technology or an Alternative Source product, component, or system. Therefore, no points are awarded.
2. **Unemployment (12 of 50 points)**. The Applicant’s Project is located in San Joaquin County, which has an average annual unemployment rate of 8.8%.⁴ When compared to the statewide average annual unemployment rate of 7.89%, the Project location earned the Applicant 12 points.
3. **Job Creation (55 of 75 points)**. The Applicant anticipates the Project will support a total of 68 production-related jobs at its Facility. CAEATFA estimates that approximately 4.7 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 55 points.
4. **California Headquarters (15 of 15 points)**. The Applicant has a California Corporate Headquarters, and, therefore, 15 points are awarded.
5. **Natural Disaster Relief (0 of 50 points)**. The Project is not to rebuild or relocate the Applicant’s Facility due to a fire, flood, storm, or earthquake identified in a state of emergency proclaimed by the Governor within two years of the time of application, and, therefore, zero points are awarded.
6. **Eligibility for Manufacturing and Research and Development Equipment Exemption (0 of 50 points)**. The Applicant is eligible to use one or more of the exemptions established pursuant to Section 6377.1 of the Revenue and Taxation Code, and, therefore, zero points are awarded.
7. **Emerging Strategic Industry (0 of 75 points)**. The Project’s industry is not in an Emerging Strategic Industry, and, therefore, zero points are awarded.

⁴ Unemployment rates are based on data available in December 2021.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 7,255 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 27 points, which exceeds the 20-point threshold.

- A. Fiscal Benefits (7,091 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant’s sales and use taxes, personal income taxes paid by the firm’s employees, firm taxes on profits, property taxes, and other indirect fiscal benefits of the Applicant. The total fiscal benefits amount to \$4,096,277, resulting in a Fiscal Benefits score of 7,091.
- B. Environmental Benefits (27 points).** The Project earned an Environmental Benefits Score of 27. The Applicant received points in the following categories:

 - 1. Environmental Sustainability Plan (5 of 5 points).** The Applicant has an environmental sustainability plan that it states prioritizes recycling where possible for all waste, including food waste.
 - 2. Energy Consumption (6 of 30 points).** The Applicant anticipates that the Project will result in a 6% percent reduction in energy consumption compared to the Applicant’s previous manufacturing process through the use of computer-controlled equipment and more efficient equipment.
 - 3. Water Use (5 of 30 points).** The Applicant anticipates the Project will result in a 5% reduction in water use relative to the Applicant’s previous manufacturing process by reducing the amount of water needed to clean equipment.
 - 4. Solid Waste (5 of 30 points).** The Applicant anticipates the Project will result in a 5% reduction in solid waste produced relative to the Applicant’s previous manufacturing process by utilizing automated equipment which reduces waste, both in product and excess packaging.
 - 5. Hazardous Waste (6 of 30 points).** The Applicant anticipates the Project will result in a 6% reduction in the hazardous waste produced relative to the Applicant’s previous manufacturing process by using more efficient burners, which reduces the amount of carbon dioxide expelled.
- C. Additional Benefits (137 points).** Applicants may earn additional points for their Total Score. The Applicant received 137 additional points.

 - 1. Production Jobs (55 of 75 points).** The Applicant anticipates the Project will support a total of 68 production-related jobs at its Facility. CAEATFA

estimates that approximately 4.7 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 55 points.

2. **Construction Jobs (20 of 75 points)**. The Applicant anticipates the Project will support a total of 7 construction jobs at its Facility. CAEATFA estimates that approximately 0.48 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 20 points.
3. **Unemployment (12 of 50 points)**. The Applicant’s Project is located in San Joaquin County, which has an average annual unemployment rate of 8.8%. When compared to the statewide average annual unemployment rate of 7.89%, the Project location earned the Applicant 12 points.
4. **Research and Development Facilities (25 of 25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to advanced food production
5. **Benefits and Fringe Benefits (25 of 25 points)**. The Applicant states it provides medical, health, dental, vision, bonuses, transportation subsidies, education reimbursement, employee discounts and paid leave to its employees, earning the Applicant 25 points.

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,⁵ the Applicant has paid CAEATFA an Application Fee of \$3,397.87 and will pay CAEATFA an Administrative Fee of up to \$27,182.92.

RECOMMENDATION

Staff recommends the approval of Resolution No. 22-SM003-01 for Best Express Food, Inc.’s purchase of qualifying tangible personal property in an amount not to exceed \$6,795,730 anticipated to result in an approximate STE value of \$577,637.

⁵ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH BEST EXPRESS FOODS, INC.**

June 21, 2022

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Best Express Foods, Inc.** (the “Applicant”) for financial assistance under the Sales and Use Tax Exclusion Program, as established in Public Resources Code Section 26011.8; and

WHEREAS, the Applicant qualifies as a Participating Party under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8; and

WHEREAS, the Applicant’s qualifying tangible personal property meets the requirements of a Project under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8 (the “Project”); and

WHEREAS, after the Authority approves an Application, the Authority enters into a Regulatory Agreement, as described in Authority Regulations Section 10035(a), with the Applicant for the Project; and

WHEREAS, the Applicant has stated the Project has an estimated cost not to exceed \$6,795,730 over a period of three (3) years; and

WHEREAS, the Applicant asserts 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 Project pursuant to Revenue and Taxation Code Section 6010.8; and

WHEREAS, the approval of the terms of the Regulatory Agreement and authority for the Executive Director or Chair of the Authority to execute the necessary documents to effectuate the Regulatory Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Regulatory Agreement includes a Project within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The 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 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 Authorized Signatories deem appropriate, provided that the amount of the

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qualifying tangible personal property to be purchased for the Project may not be increased above the amount approved by the Authority.

Section 5. The proposed form of the Regulatory Agreement between the Applicant and the Authority, as filed with the Authority prior to this public meeting, is hereby approved. For, on behalf and in the name of the Authority, the Authorized Signatories are hereby authorized and directed to execute, acknowledge, and deliver to the Applicant the Regulatory Agreement in substantially the form filed with or approved by the Authority.

The Regulatory Agreement may contain insertions, deletions or changes as the Authorized Signatories executing the Regulatory Agreement may require or approve, including particular information inserted in substantial conformance with the staff summary and in the Application to the Authority. The approval of the Regulatory Agreement will be conclusively evidenced by the execution and delivery of the final Regulatory Agreement.

The Authority understands and agrees that, pursuant to the terms of the Regulatory Agreement, the obligations of the Applicant, under some circumstances, may 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 to consummate the Regulatory Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall ensure that all of the qualifying tangible personal property acquired as part of the Project that is listed in the semi-annual reports provided to the Authority pursuant to the Regulatory Agreement will be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Regulatory Agreement shall only apply to qualifying tangible personal property acquired as part of the Project that the Applicant certifies will be installed, maintained and operated at facilities physically located within the State of California.

Section 9. Neither the adoption by the Authority of this Resolution for the Applicant nor the Regulatory Agreement may be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project and may not be referred to 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 is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty (30) days if necessary.