DEPARTMENT OF AGRICULTURE AND FORESTRY
LOUISIANA AGRICULTURAL FINANCE AUTHORITY

LACASSINE SYRUP MILL
STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES
INFORMATIONAL AUDIT
ISSUED JULY 9, 2014

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

July 9, 2014

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley,
Speaker of the House of Representatives

Dear Senator Alario and Representative Kleckley:

We performed an informational audit of the Lacassine Syrup Mill (mill) project, constructed by the Louisiana Agricultural Finance Authority (authority) from 2004 to 2006, which ultimately resulted in losses to the authority and to Louisiana taxpayers. Our objective was to update our April 25, 2012, compliance audit and to provide information on the mill's final disposition.

Our procedures consisted primarily of inquiries, review of our investigative report, and review of information obtained from our audits of the authority for the fiscal years 2005 through 2013. The scope of our audit was significantly less than an examination conducted in accordance with *Government Auditing Standards*.

The accompanying report provides information relating to our evaluation of this mill. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to the management and staff of the authority and the Louisiana Department of Agriculture and Forestry for their assistance.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

CGEW:EFS:THC:ch

LAFA-LACASSINE 2014

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Louisiana Agricultural Finance Authority
Lacassine Syrup Mill

July 2014

Audit Control # 80140083

Executive Summary

The Louisiana Agricultural Finance Authority (authority), under the direction of former Commissioner of Agriculture and Forestry, Bob Odom, constructed a syrup mill in Lacassine, Louisiana during 2004 through 2006, funded primarily from revenue bonds totaling $45 million issued by the authority in March 2004. The mill was leased to the Lake Charles Cane-Lacassine Mill, LLC (LLC) in June 2006 for $60 million plus annual interest of 3%, and then sold to the LLC five months later under a promissory note and under the same terms of the lease. The LLC planned to construct an ethanol plant at the mill site. However, the mill only operated for approximately one month during the 2007 and 2008 harvest seasons and did not generate any net operating revenues. The mill has been idle since 2008 and the planned ethanol plant was never built.

In March 2012, the authority, under the direction of Commissioner Mike Strain, the current Commissioner of Agriculture and Forestry, sought to minimize its losses as a result of this failed venture by the prior administration. The authority declared the LLC in default on the promissory note and along with Hancock Bank and Jeff Davis Bank, the authority declared the LLC in default on its respective loans. The authority took possession of the mill in September 2012 and eventually sold the mill in October 2013. We estimate that the authority spent $76,737,843 on the mill and received $5,650,000 through the sale, resulting in a loss to the state of $71,087,843 (see Exhibit 1).

We provided authority management with a draft of this report for review and response prior to its release. Authority management considered our report in the context of our Investigative Audit Services report dated April 25, 2012, and determined the authority's response included in that report would not substantively change; therefore, authority management has chosen not to update its response for this report.

Exhibit 1 Estimated Minimum Costs Associated with the Lacassine Syrup Mill		
	Amount	**Totals**
March 2, 2004 bonds:		
Bond principal	$45,000,000	
Interest paid through June 30, 2013	16,406,958	
Estimate of remaining interest as of June 30, 2013	235,047	
Total bonds		$61,642,005
Additional mill costs:		
Louisiana Department of Agriculture and Forestry (LDAF) employee payroll expenses	6,383,410	
Authority paid construction expenses	383,299	
LDAF paid expenses	6,769,543	
Less LLC reimbursements to LDAF for expenses	(6,119,543)	
Total additional mill costs		7,416,709
Guaranteed loans:		
Hancock Bank:		
Principal	3,500,000	
Accrued interest	240,205	
March 23, 2012, interest payment	127,500	
Jeff Davis Bank:		
Principal	2,705,000	
Accrued interest	122,500	
Additional costs for the December 14, 2012, bonds:		
Principal in excess of the June 30, 2012, balances	137,295	
Estimated interest over the life of the bonds	846,629	
Total costs associated with guaranteed loans		7,679,129
Less sale of mill structure and equipment:		
Sales price	(7,000,000)	
Commission paid - 25%	1,750,000	
Net proceeds from the sale of the mill		(5,250,000)
Less LLC interest payments		(400,000)
Total estimated minimum costs		$71,087,843

This report describes the events leading to the mill's development, its construction and financing, lease and sale to the LLC, the LLC's default, and the authority's repossession of the mill assets and ultimate sale of the mill for disassembly (see Exhibit 2 for timeline of the events).

Exhibit 2
Lacassine Syrup Mill History

1996
Southwest Louisiana Farmers form the Lake Charles Cane Cooperative, Inc. to promote sugarcane.

1998
The authority, under Commissioner of Agriculture Bob Odom, with a $6 million legislative capital appropriation builds a loading facility at the Port of Lake Charles to transport sugarcane from Lake Charles to Baldwin, LA.

2003
Loading facility is moved to Lacassine, LA to shorten the operating cycle and reduce costs. A new rail spur is constructed at a cost of $8.5 million.

September 10, 2003
Authority board approves plans to develop a syrup mill in Lacassine, to include financing its development and construction.

February 16, 2004
Lake Charles Cane Cooperative, Inc. creates the Lake Charles Cane-Lacassine Mill, LLC (LLC).

March 2, 2004
Authority issues $45 million in revenue bonds for the construction of the Lacassine Mill.

June 29, 2006
Authority leases the mill and certain equipment to LLC for $60 million plus annual interest of 3%.
No initial cash payment was required.

June 29, 2006
State Market Commission (SMC) guarantees a $7 million loan between the LLC and Hancock Bank (Hancock)
Loan is secured with a $7 million mortgage on the mill signed by Commissioner Odom.

August 11, 2006
Authority enters into an agreement with the LLC and Cementos Andinos S.A. (Columbian company) where by Cementos acquired an 80% interest in the LLC with no exchange of cash.

November 2, 2006
LLC exercises an option to purchase the mill for $60 million plus accrued interest from June 29, 2006, under terms identical to the original lease with a promissory note.
No cash payment was required at the time of sale.
First payment totaling $100,000 due December 31, 2007.

November 3, 2006
Authority guarantees a $4 million loan between the LLC and Jeff Davis Bank (Jeff Davis).

June 29, 2006 through June 30, 2010
LLC is current on loan payments to Hancock but receives seven loan extensions on the Jeff Davis loan.
Hancock principal balance is $4,200,000.
Jeff Davis principal balance is $2,840,000.

January 14, 2008
Commissioner of Agriculture Mike Strain, DVM, is sworn into office.

June 30, 2011
Eleven loan extensions on the Jeff Davis loan have been requested and granted by the bank with authority approval.

March 23, 2012
Authority pays late interest totaling $127,500 on Hancock (default would have resulted in possible seizure of the mill under the mortgage) and declares LLC in default on promissory note and guaranteed loans.

June 30, 2012
Outstanding promissory note principal and interest balance totals $69,337,812.

June 30, 2012
Guaranteed loans - outstanding principal and interest:
Hancock totals $3,740,205.
Jeff Davis totals $2,827,500.

June 30, 2012
Authority records financial statement losses totaling $67,355,936 for defaults (losses reduced by $8,549,581 fair value of the mill at default).

September 11, 2012
Authority takes possession of the mill assets from the LLC.

December 14, 2012
Authority issues bonds totaling $6,705,000 to pay outstanding loan balances.

October 31, 2013
Authority sells the mill assets for disassembly for $7,000,000 and receives $5,250,000 net of commissions.

Events Leading Up to the Mill

The Louisiana Agricultural Finance Authority (authority) is a component unit of the State of Louisiana created under the provisions of Louisiana Revised Statutes (R.S.) 3:261-284, within the Department of Agriculture and Forestry (LDAF), State of Louisiana, and is domiciled in East Baton Rouge Parish. The authority was established to issue bonds to provide financing for agricultural loans through the purchase or guarantee of existing loans or negotiation of new loans and to supervise and use public employees, equipment, and material in carrying out public work. The authority consists of nine members, one of whom is the LDAF commissioner and eight members appointed by the governor, and has no employees - LDAF employees perform the administrative and accounting functions of the authority.

In 1996, in response to falling market prices for rice and soybean crops, a group of farmers in southwest Louisiana formed the Lake Charles Cane Cooperative, Inc. (co-op) to promote sugarcane as an alternative crop in the region. The co-op provided agricultural services such as planting, harvesting, and transportation to its members. By 2001, approximately 15,500 acres of sugarcane were in cultivation in the southwest part of the state including Calcasieu, Cameron, and Jefferson Davis parishes.

Because there were no existing sugar mills in the area, the yearly sugarcane crop was transported eastward to other sugar mills in Louisiana by truck, a distance of approximately 100 miles, which reduced the quality of the harvested crop and increased farmers' costs.

In 1998, then Commissioner of Agriculture and Forestry, Bob Odom, through the authority, addressed the farmers' concerns with a project to transport the raw sugarcane by rail from Lake Charles to Baldwin, Louisiana. Baldwin was selected as a convenient transshipment point to local sugar mills. The State of Louisiana funded the project with a $6 million legislative capital appropriation. The authority built a loading facility at the Port of Lake Charles in Calcasieu Parish and purchased flat rail cars and open box containers to transport the sugarcane.

In 2003, the loading facility was moved to Lacassine, Louisiana (Jefferson Davis Parish) to shorten the operating cycle and reduce costs. The authority drew $2.5 million from a line of credit account with Hibernia National Bank (Hibernia) to fund construction of a new rail spur in Lacassine to accommodate the "cane train." The authority gave Hibernia two notes totaling $2.5 million. The cost of the facility totaled $8.5 million, consisting of the $6 million capital appropriation and $2.5 million line of credit. Subsequently, the state-funded rail transportation system failed; however, the authority currently uses the rail spur for other commercial projects, including oil transportation.

The authority's February 2003 board minutes document its plans to build an ethanol/co-generation facility in Lacassine to provide a market for local sugarcane farmers while alleviating logistical transportation problems. However, the authority's board did not pursue the project because the estimated $160 million project was cost prohibitive.

Syrup Mill History, Construction, and Financing

INCEPTION OF THE LACASSINE SYRUP MILL (MILL)

At its September 10, 2003, board meeting, the authority's board approved plans to develop a syrup mill in Lacassine, Louisiana, which included financing the development and construction of a syrup mill by issuing revenue bonds and leasing the mill to the Lake Charles Cane Cooperative, Inc. (co-op) to manage the syrup mill.

The authority's intent was to ship syrup produced at the mill from sugarcane by rail eastward to be processed into sugar at other sugar mills in Louisiana. The authority projected the mill would reduce transportation costs by 75% and reduce road congestion caused by truck delivery of sugar cane to the mills.

The authority was the general contractor for the construction of the mill and used state (LDAF) employees to provide labor at the mill and contracted with Arkel Sugar, Inc., for design, engineering, and other services on the project.

The mill was designed to be a new state-of-the-art facility capable of processing 5,000 tons of sugarcane per day with the ability to upgrade capacity to 10,000 tons per day. The design included advanced diffuser extraction technology allowing more efficient extraction of syrup compared to existing mills in the state, and the mill would include a fully computerized instrumentation package to enhance processing performance and reduce man-hour requirements. In addition, the mill's design included a co-generation facility to produce and sell surplus electrical power.

PROJECT FEASIBILITY

In our Investigative Audit Services report dated April 25, 2012, we reported there was no formal, comprehensive, and independent study performed to support the economic or financial feasibility of the mill project. In addition, neither the Louisiana State Bond Commission nor Hancock Bank (the trustee bank) was able to provide us with a written feasibility study on the mill, and the official statement for the $45 million bond issue stated, "No independent feasibility study has been conducted with respect to the Project [Lacassine syrup mill]."

Though the authority's records did not include a formal, comprehensive, and independent feasibility study, the records did include several draft cash flow statements prepared by an accounting firm. A cash flows statement faxed to the authority on September 11, 2003, seven days before the State Bond Commission's approval, showed the mill project with negative net cash flows for the initial three years of operation and positive cash flows thereafter based upon reaching a projected processing level of 500,000 tons per year of sugarcane.

Our review of the cash flows statement revealed that it (1) did not consider potential revenue from sales of excess electricity, (2) assumed a $41 million project cost, and (3) assumed steadily increasing levels of sugarcane production. During the mill construction, sugarcane production declined and remained below the levels assumed in the cash flows analysis.

MILL CONSTRUCTION

On February 16, 2004, the Lake Charles Cane Cooperative, Inc., created the Lake Charles Cane-Lacassine Mill, LLC (LLC) to operate the mill upon its completion.

Mill construction began in May 2004, and the authority planned to complete the mill in time for the 2005 sugarcane harvest. However, the mill was not commissioned until March 2006. The project manager stated the delays in the mill's completion were related to hurricanes Katrina and Rita, delays in shipping for key components, a lower level of prefabrication than expected on key components, and a lack of contract workers during the initial construction stage. Though the mill was commissioned in March 2006, it did not operate at full capacity because of various technical problems.

During the commissioning process, mill management worked with employees of M.A. Patout and Son, LTD (a Louisiana sugar mill company) and Arkel Sugar, Inc., to make the mill operational despite the technical difficulties. Although the mill was operational and was supposed to process up to 5,000 tons of sugarcane per day, its actual processing capacity was between 2,000 and 2,500 tons per day.

The project manager stated the initial $45 million in bond proceeds was not sufficient to complete the mill's construction and that he did not believe the initial cost estimates, before changes, were accurate. Additional costs were incurred from higher than estimated material costs, design changes requiring more materials (e.g., concrete), and modifications and upgrades necessary for the mill's reliable operation.

As stated previously, the authority used LDAF employees for mill construction. During our audits of the authority's financial statements for the fiscal years ended June 30, 2005, and June 30, 2006, we determined the authority did not track the LDAF employee direct labor and travel costs associated with the construction.

Additional construction and related costs funded by the authority and LDAF identified by Investigative Audit Services totaled $7,416,709 as follows:

Exhibit 3
Additional Mill Construction and Payroll Costs

	Amount
LDAF payroll costs for its employees working	
on the mill's construction	$6,383,410
Construction costs paid by:	
Authority	383,299
LDAF	650,000
Total	**$7,416,709**

The authority provided its John Deere 7420 Hi-Crop tractors and five John Deere 3510 and 3510T sugarcane harvesters to assist in increasing sugarcane production. The equipment cost approximately $2,200,358 and was subsequently purchased by the LLC.

FINANCING

On September 18, 2003, the State Bond Commission approved the issuance of $45 million in variable rate revenue bonds to finance the development and construction of the mill. The Lacassine bonds issued on March 2, 2004, were secured by net operating revenues of the syrup mill and State of Louisiana slot machine revenues allocated by law to the authority (funds are appropriated annually to LDAF, and the authority may receive up to $12 million annually in slot machine revenue from the appropriated funds). All bond payments were made from the authority's slot machine revenues and from its self-generated funds.

The amortization schedule for the Lacassine bond payments follows:

Exhibit 4
Lacassine Bond Amortization Schedule

	Original			Actual[1]		
Year ending June 30,	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2004					$35,938	$35,938
2005		$785,000	$785,000		1,581,959	1,581,959
2006[2]		1,447,808	1,447,808		1,935,740	1,935,740
2007	$3,900,000	1,447,808	5,347,808		3,292,793	3,292,793
2008	4,020,000	1,322,331	5,342,331		3,447,289	3,447,289
2009	4,150,000	1,192,993	5,342,993		3,515,014	3,515,014
2010[3]	4,280,000	1,059,473	5,339,473	$15,000,000	1,022,303	16,022,303
2011	4,415,000	921,771	5,336,771	6,860,000	694,920	7,554,920
2012	4,550,000	779,725	5,329,725	6,975,000	514,998	7,489,998
2013	4,695,000	633,335	5,328,335	7,155,000	366,004	7,521,004
2014	4,845,000	482,281	5,327,281	7,385,000	199,914	7,584,914
2015	4,995,000	326,400	5,321,400	1,625,000	35,133	1,660,133
2016	5,150,000	165,694	5,315,694			
Totals	**$45,000,000**	**$10,564,619**	**$55,564,619**	**$45,000,000**	**$16,642,005**	**$61,642,005**

[1]Actual payments for principal and interest are for the fiscal years 2005 through 2013 and were determined from audit documentation for those years. Payments for fiscal years 2014 and 2015 have yet to be made; however, because the bonds were converted to a fixed rate in fiscal year 2009, the interest payments are not expected to vary significantly from the amortization schedule.
[2]Reflects the effects of the interest rate swaps between the authority and two banks from March 2006 through September 2009.
[3]Reflects a state appropriation to the authority to reduce the outstanding Lacassine bond principal.

On February 27, 2004, the authority entered into an interest rate swap agreement with Hibernia National Bank (Hibernia) to reduce the impact of changes in interest rates on the Lacassine Bonds. The Hibernia agreement terminated on March 1, 2006, and the authority entered into a new agreement with Regions Bank (formerly AmSouth Bank), effective July 18, 2006, through September 15, 2009.

As shown in Exhibit 4, the authority paid approximately $6 million more interest than the original amortization schedule anticipated, primarily as a result of the effects of declining interest rates on interest rate swap agreements. Interest rate swaps are financial instruments designed as a hedge against changes in interest rates when variable rate debt is issued.

Because of concern about the authority's ability to meet its 2010 obligation on the bonds (at the time the authority was not generating sufficient cash to meet all its operating needs and debt service requirements), Commissioner Mike Strain, DVM, approached the Louisiana Legislature and requested assistance with the Lacassine bond payment for fiscal 2010. The Legislature gave the authority a $15 million one-time appropriation to reduce the Lacassine bond principal.

Sale of the Syrup Mill to and Loan Guarantees for the Lake Charles Cane-Lacassine Mill, LLC (LLC)

On June 29, 2006, the authority entered into a lease-purchase agreement with Lake Charles Cane-Lacassine Mill, LLC (lessee), for the Lacassine Syrup Plant, located in Lacassine, Louisiana. The LLC leased the mill and certain equipment for $60 million plus annual interest of 3%. Included in the agreement was an operating lease for land on which the mill was constructed. The term of the lease agreement was from June 29, 2006, to December 31, 2051. On the same day, the State Market Commission (SMC - transferred to the authority under Act 24 of the 2009 Regular Legislative Session) guaranteed a $7,000,000 loan between the LLC and Hancock Bank. The loan guarantee was secured with a $7,000,000 mortgage on the mill.

The authority granted the LLC an option to purchase the mill at any time during the term of the agreement. If the option was exercised on or before December 31, 2010, the purchase price would be $60 million plus 3% interest per annum from the effective date of the agreement through the purchase date, less lease payments received by the authority from the LLC. If the option was exercised after December 31, 2010, the purchase price would have been the fair market value of the mill, the equipment, and the operating lease of the land for a term of not more than 44 years beyond the term of the original lease, less lease payments received by the authority from the LLC.

The initial lease details follow:

Exhibit 5
June 29, 2006 Lease Details

	Amount
Lease principal:	
Syrup mill facility	$58,200,000
Equipment	1,800,000
Total principal	60,000,000
Lease interest:	
Syrup mill facility	50,371,816
Equipment	1,557,891
Total interest	51,929,707
Total lease	**$111,929,707**

The payment (amortization) schedule for the lease payments follows:

Exhibit 6 Lease Payment (Amortization) Schedule	
Year ending June 30,	Lease Receivable
2007	NONE
2008	$100,000
2009	100,000
2010	100,000
2011	100,000
2012-2016	13,941,213
2017-2021	13,941,214
2022-2026	13,941,215
2027-2031	13,941,213
2032-2036	13,941,214
2037-2041	13,941,214
2042-2046	13,941,213
2047-2051	13,941,211
Total	**$111,929,707**

As shown in Exhibit 6, the first lease payment was due from the LLC in fiscal 2008, and the first four payments were $100,000 each. The LLC only made the first four $100,000 payments.

On August 11, 2006, the authority entered into an agreement with the LLC and Cementos Andinos S.A., (Cementos - a Colombian company owned by the Santacoloma family) whereby Cementos acquired an 80% controlling interest in the LLC. No cash was exchanged under this agreement. The agreement also required Cementos to construct an ethanol plant at the mill site. Cementos terminated the agreement with M.A. Patout and Son, LTD, and installed its own management team.

On November 2, 2006, the LLC exercised its option to purchase the mill and equipment as outlined in the June 29, 2006, lease agreement between the authority and the LLC. The authority financed the purchase with a promissory note. The terms for the purchase were identical to the terms for the initial lease.

In addition, on November 3, 2006, the day after the promissory note between the authority and the LLC was signed, the authority guaranteed a $4,000,000 loan between the LLC and Jeff Davis Bank.

The LLC incurred the additional $11 million in debt ($7 million from Hancock Bank and $4 million from Jeff Davis Bank) to fund its operating costs when it leased and subsequently purchased the mill.

In our April 25, 2012, Investigative Audit Services report, we noted the authority paid an estimated $6,119,543 for mill construction costs in addition to the $45 million in bond proceeds. The authority billed the LLC for these costs, and the LLC paid the authority in six checks from proceeds of the two bank loans. Our report disclosed that four of the six LLC checks were co-signed by Commissioner Odom who was a signatory on the LLC's operating account. Based on interviews with LDAF management, Commissioner Odom was a signatory on this account so he could review LLC expenditures and ensure the funds paid from the guaranteed loans were spent for legitimate mill expenses.

The authority and the LLC amended the land portion of the lease agreement to include a 55-year second term. Initially, the LLC was to pay the same user fee to be assessed to all tenants and/or occupants within the industrial park. Beginning in the second term, land lease payments were to be $500 per acre per annum with an increase to $2,500 per acre per annum following any year the syrup plant was idle more than one-half the sugarcane harvest season for reasons under the LLC's control.

The Louisiana Attorney General (AG) issued AG Opinion 08-0258 on March 26, 2009, and AG Opinion 09-0120 on September 22, 2009, for the SMC and the authority, respectively. The opinions state that the SMC and the authority must obtain Louisiana State Bond Commission (Bond Commission) approval before guaranteeing any loans. The loan guarantees above were not approved by the Bond Commission. However, based on the outcome of other litigation that went before the Louisiana Supreme Court, the failure to receive approval from the Bond Commission did not relieve the authority from its obligations under loan guarantees.

LLC Default

At its March 23, 2012, meeting, the authority declared the LLC in default on the promissory note because the LLC failed to make its December 31, 2011, principal and interest payment for $671,627 and $2,276,520, respectively. In addition, the authority, along with Hancock Bank and Jeff Davis Bank, declared the LLC in default on their respective loans.

To prevent Hancock Bank from declaring a default that could have resulted in a seizure of the mill's assets under the loan guarantee (secured by a mortgage on the mill), the authority paid interest totaling $127,500 to Hancock Bank on March 23, 2012.

A summary of the outstanding principal and interest balances as of June 30, 2012, on the promissory note and the bank loans follows:

Exhibit 7
Lake Charles Cane-Lacassine Mill, LLC Default Summary

	Outstanding Balances, June 30, 2012		
Loan	**Principal**	**Interest**	**Total**
Promissory note for purchase of the mill	$60,000,000	$9,337,812	$69,337,812
Guaranteed bank loans:			
Hancock Bank	3,500,000	240,205	3,740,205
Jeff Davis Bank	2,705,000	122,500	2,827,500
Total guaranteed bank loans	6,205,000	362,705	6,567,705
Totals	**$66,205,000**	**$9,700,517**	**$75,905,517**

A timeline of the events associated with the loan guarantees follows:

Exhibit 8
Timeline of Lake Charles Cane-Lacassine Mill, LLC
Loan Guarantee Activity

State Market Commission (SMC)
$7,000,000 Hancock Bank
Loan Guarantee

June 29, 2006
$7,000,000 Loan Guarantee

$7,000,000 Act of Mortgage of the mill
Signed by then LDAF Commissioner, Bob Odom

June 29, 2006
SMC Collateral Assignment of Mortgage to Hancock Bank

Signed by then LDAF Commissioner, Bob Odom

June 30, 2010
Principal outstanding on the loan totaled $4,200,000.

March 23, 2012
The authority paid late interest totaling $127,500 (default would have resulted in possible seizure of the mill under the mortgage).

March 23, 2012
LLC is declared in default on the loan.

June 30, 2012
Principal and interest outstanding on the loan subsequent to default totaled $3,500,000 and $240,205, respectively.

Authority
$4,000,000 Jeff Davis Bank
Loan Guarantee

November 3, 2006
$4,000,000 Loan Guarantee

Signed by then LDAF Commissioner, Bob Odom

May 7, 2009
$800,000 payment extension
$400,000 payment made, balance of $400,000 to be paid with the 11/30/09 payment due

Signed by LDAF Commissioner, Mike Strain, DVM

November 4, 2009
$1,200,000 payment extension granted until 12/31/09

Signed by Commissioner Strain

June 30, 2010
Principal outstanding on the loan totaled $2,840,000. (Seven loan extensions were granted through 06/30/10.)

June 30, 2011
Eleven loan extensions have been requested and granted by the bank with authority approval.

March 23, 2012
LLC is declared in default on the loan.

June 30, 2012
Principal and interest outstanding on the loan subsequent to default totaled $2,705,000 and $122,500, respectively.

All loan extension requests were brought before the authority's board for review before they were approved. Because the loans were guaranteed through the authority, Commissioner Mike Strain, DVM, and the board were actively involved with efforts to keep the LLC out of default.

On September 11, 2012, the authority took possession of the mill's assets, and on September 26, 2012, the authority granted Commissioner Strain the authority to issue bonds to purchase the outstanding balances on the loans pursuant to the SMC and authority guarantees on those loans. On December 14, 2012, the authority issued revenue bonds totaling $6,705,000 (including costs associated with bond issuance) to pay the outstanding principal and interest on the Hancock Bank and Jeff Davis Bank loans.

Subsequent Sale of the Syrup Mill

On September 11, 2012, the authority took possession of the mill assets, and the authority and the LLC obtained fair market value estimates as of that date. However, the estimates varied widely--the authority's initial estimate totaled $6,437,730 while the LLC's estimate totaled $60,000,000. Because the difference was significant, a referee appraisal was obtained and issued on January 15, 2013. The referee's estimate of the fair market value totaled $8,549,581.

Because the mill was idle and had essentially remained so since it was sold under the capital lease and promissory note and because sugarcane production was not sufficient to support the mill, the authority made the decision to sell the mill to reduce further decay and losses on the property. The authority issued a request for proposal seeking companies with experience in marketing identical or similar facilities, and at its April 3, 2013 meeting, the board selected Louisiana Chemical Equipment Co., LLC (Louisiana Chemical) to market the mill for disassembly and sell as components and scrap. Prospective buyers had the option to operate the mill in place if they had sufficient financial capacity.

Louisiana Chemical was to receive 25% of the proceeds from the sale, payable by the buyer as and when the buyer made payment to the authority for the remaining 75% of the proceeds. Louisiana Chemical's commission would have increased to 35% if the mill were to have been sold in components.

On October 31, 2013, the authority sold the assets of the mill for disassembly to Ethanol Company S.A. for $7,000,000. The authority received $5,250,000 net of commissions totaling $1,750,000.

APPENDIX A: SCOPE AND METHODOLOGY

This report provides historical information that we obtained and reviewed relating to the development, financing, operations, initial sale, default, and ultimate sale of the Lacassine Syrup Mill. This audit was not performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

On April 25, 2012, the Legislative Auditor's Investigative Audit Services issued a report on the authority and the Lacassine Syrup Mill's history through March 23, 2012. We have incorporated information from that report in this update.

In addition, our procedures included:

- reviewing the Legislative Auditor's Financial Audit Services audit reports and supporting documentation for the fiscal years ended June 30, 2006-2013;
- interviewing current authority employees; and
- examining selected authority documents and records.