LOUISIANA AGRICULTURAL FINANCE AUTHORITY (LAFA)
January 6, 2012
10:00 AM
Veterans Memorial Auditorium
5825 Florida Boulevard
Baton Rouge, LA 70806

CALL TO ORDER

The meeting was called to order by the Chairman, Louisiana Department of Agriculture and Forestry (LDAF) Commissioner Mike Strain at 10:04 a.m.

ROLL CALL

The roll was called by Melanie Tullier.
Present: Commissioner Strain, Ted Gauthier, William Hawkins, Richard Muller, and H. Marcell Parker, Jr.
Absent: Robert Allain, Jerry Hunter, and Linda Zaunbrecher

Mrs. Tullier stated that five members were present and there was a quorum.

Others Present: René Simon, LDAF; Pete Rudesill, LDAF; Rachel Laborde, LDAF; Melanie Tullier, LDAF; Melanie Barnett, LDAF; Yolanda Dupuy, LDAF; Tabitha Gray, LDAF Executive Counsel; Ashley Dupree, LDAF Legal Counsel; Kathy Torregano, Berrigan/Litchfield; Beth Ziegler, Hancock Bank; Mario Cortés, Louisiana Green Fuels; Luis Santacoloma, Louisiana Green Fuels; Boyd Boudreaux, Jeff Davis Bank; Zane Konvicka, Louisiana Legislative Auditors; Charles Wendt, Louisiana Legislative Auditors; Dan Daigle, Louisiana Legislative Auditors; Gary Duty, Louisiana Legislative Auditors; Fabio Aristizabal, Louisiana Green Fuels; Mauricio Santacoloma, Louisiana Green Fuels

PUBLIC COMMENTS

There were no public comments.

PRESENTATION BY DR. MIKE SALASSI OF HIS REVIEW OF THE LOUISIANA GREEN FUELS/LAKE CHARLES CANE PROPOSAL SUBMITTED TO LAFA AT THE NOVEMBER 3, 2011 MEETING

Dr. Mike Salassi, Professor in the Department of Agricultural Economics with the LSU AgCenter, presented to the board his review of the Louisiana Green Fuels/Lake Charles Cane proposal, and answered the board questions.

Please refer to the attached summary for a detailed explanation of his findings.

LOUISIANA GREEN FUELS/LAKE CHARLES CANE REQUEST FOR AN EXTENSION OF THE LOAN PAYMENT TO JEFF DAVIS BANK

Boyd Boudreaux, President of Jeff Davis Bank, came before the board to request a sixty day extension. The topic was deferred to later in the meeting with no objection from the board.

CONSIDERATION OF THE LOUISIANA GREEN FUELS/LAKE CHARLES CANE PROPOSAL SUBMITTED TO LAFA AT THE NOVEMBER 3, 2011 MEETING

Luis Santacoloma and Mario Cortes came before the board on behalf of Louisiana Green Fuels/Lake Charles Cane regarding their proposal submitted to the board at the November 3, 2011 meeting, and to submit an additional proposal to the board.

In the newest proposal, the repayment schedule would be based upon the mills production. A three year grace period was requested, in addition to the development of a formula that will allow payment to be linked to the development of the mill. The payments would range from one million to two million dollars based on the tonnage produced.

A motion was made by Skip Hawkins to move into executive session. It was seconded by Ted Gauthier and approved unanimously. Executive session went into effect at 10:50 a.m.

A motion was made by Skip Hawkins to move out of executive session. It was seconded by Ted Gauthier and approved unanimously.

Commissioner Strain requested that Louisiana Green Fuels/Lake Charles Cane submit a new proposal to the board by March 15, 2012, for a meeting by March 31, 2012, with the length and time of the terms not to be extended beyond forty years, and the interest below 3%. A motion was made by Skip Hawkins, and seconded by Marcell Parker. It was approved unanimously.

LOUISIANA GREEN FUELS/LAKE CHARLES CANE REQUEST FOR AN EXTENSION OF THE LOAN PAYMENT TO JEFF DAVIS BANK

A motion was made by Skip Hawkins giving Commissioner Strain the ability to sign an extension for the loan payment on behalf of the board extending the time frame until March 31, 2012. It was seconded by Ted Gauthier and approved unanimously.

ADJOURNMENT

A motion was made by Mr. Muller to adjourn the meeting. Commissioner Strain adjourned the meeting at 12:05 p.m.

Review of Louisiana Green Fuels Group (LGFG)
Lacassine Syrup Mill Project Proposal

Executive Summary

Louisiana Green Fuels Group (LGFG) is currently operating the sugarcane syrup mill located in Lacassine, Louisiana. Sugarcane produced and harvested in the surrounding area is crushed into syrup at the mill and this syrup is transported to raw sugar mills for further processing into raw sugar. LGFG plans for the facility also include co-generation of electricity as well as construction and operation of an ethanol facility. LGFG is proposing a 92-year loan schedule to purchase the facility from the Louisiana Agricultural Finance Authority (LAFA). LGFG has presented LAFA with a proposal, dated November 2011, which outlines LGFG's business plan for the facility. The purpose of this report is to provide an independent economic review of LGFG's Lacassine business model project proposal and projected financial statements to LAFA.

Major findings of this study are summarized below:

- LGFG proposes to plant 28,500 acres of sugarcane over a four-year period. While currently controlling, through ownership or lease, 12,200 total acres, another 16,300 additional acres would need to be purchased or leased for sugarcane production.

- Assuming that sugarcane production by LGFG would follow recommended production practices of planting cultured disease-free seedcane, a consideration amount of effort should be already underway to develop sufficient seedcane quantities, given the two-year seedcane expansion process typically employed in Louisiana.

- Sugarcane yield history reported by LGFG for the years 2008-2010 show average sugarcane yields of 23.9, 27.0, and 25.1 tons of cane per acre. Sugarcane yields are significantly below the state average, and this is not unexpected. The soils in the Lacassine area are less productive for sugarcane than production areas further east.

- Sugar recovery data reported by LGFG for the years 2008-2010 show average recoveries of 212.8, 201.9, and 215.7 pounds of sugar per ton. Sugar recovery rates at Lacassine are typical and within the range of the average recovery rates achieved by mills across the state.

- Income from sugar syrup production is projected to start in 2014 at a value of $19.3 million, increasing to $27.8 million annually in the out years at a production level of 500,000 tons of sugarcane annually. The assumed raw sugar recovery rate of 210 pounds per ton is certainly within the range of what would be expected currently as well as over the near future term.

- Forecasting raw sugar prices entails a high level of risk and uncertainty, even over the near term given current market conditions. Most analysts would agree that the market price of sugar will decline somewhat from its current levels. What is unknown is how fast would the price decline and to what level. As a result, forecasting raw sugar prices in the near term and most certainly in out years involves a tremendous amount of uncertainty.

- Raw sugar mills currently generate most or all of the electrical power needed for sugarcane processing operations and certainly have the capability to produce excess electrical power which could be sold back to the public electrical utility grid. Avoided costs in Louisiana have historically been relatively low, but has increased recently with the increasing interest in bioenergy. As a result, revenue from selling excess electrical power at the Lacassine facility using an electrical price of $0.06 per kwh seems to be a reasonable forecast.

- Costs of sugarcane feedstock acquisition are forecasted based upon practices which are typical of the sugarcane industry in Louisiana. In the LGFG's projections, sugarcane feedstock cost includes the grower value of sugar, a payment for molasses, and a payment for freight from the farm to the mill. Total payments for sugarcane feedstock in 2014 are projected at $44.09 per ton. These forecasted charges are within the range of what would be expected.

- Labor costs, variable processing costs and administrative expenses are projected to total $3.34 million in 2014 for a processing level of 324,000 tons ($10.33 per ton). Once full production and processing level of 500,000 tons is reached in 2015, these expenses are forecasted to total $6.82 million ($13.65 per ton). Expense projections through 2020 hold these costs constant at their 2015 levels. These variable processing expenses are generally assumed to increase at some inflation rate over time. To assume that these expenses would not increase, but remain constant, over a period of several years is not an appropriate economic assumption and has a direct impact on the accuracy and reliability of net cash flow balances.

- With revenue from sugar syrup and electricity and the only major debt payments projected at $1.0 million per year to LAFA, this sugarcane production facility is basically projected to be a breakeven operation starting in 2017 and going forward. The two most critical factors which will likely impact the financial position of this facility going forward in time will be the realized levels of raw sugar prices and operational expenses. Given the projected values of net cash flow, it would appear that the projected volume of sugarcane to be process at this facility is not sufficient enough to allow the operation to remain economically viable as prices, revenues and expenses vary from projected levels.

- The most likely levels of raw sugar prices over the next three to five years would be somewhere in the range of $0.25 to $0.34 per pound. With sugar prices in this range, ending net cash balances in 2020 could range anywhere between -$11.5 million and $9.1 million. The tremendous uncertainty regarding future raw sugar market prices is probably the single most important factor impacting the projected financial structure of this operation going forward.

- A second critical factor which could have significant impacts on the long-term financial structure of this operation is related to the level of non-feedstock processing costs. Once full processing capacity is achieved in 2015 with 500,000 tons of sugarcane processed, the projected financial statements basically assume that the total value of labor, variable processing and administrative expenses remain constant over the succeeding years. This is probably not a valid assumption, even over a period a short as 3-5 years. With processing cost inflation rates ranging between 1% and 3% per year, ending net cash flow in year 2020 could range between -$1.9 million and -$5.9 million. This result underscores the importance of processing facilities like this to increase volume over time. Increased volumes of sugarcane processed over a period of several years not only reduces fixed cost per ton of sugarcane processed, but also provides a means of negating the impacts of processing cost inflation over time.