Reduce price of sugar land

Palm Beach Post Editorial

Sunday, November 23, 2008

Before the South Florida Water Management District board considers the $1.34 billion proposal to buy U.S. Sugar's land for Everglades restoration, the board must renegotiate the price lower and find out whether the seller even would be U.S. Sugar.

Two developments last week made the proposal less certain. A new estimate placed the value of the land at $930 million, or roughly $400 million less. Also, a Tennessee-based conglomerate attempted a hostile takeover of U.S. Sugar. There still is no contract with U.S. Sugar. Yet the water district board is set to discuss the sale in just 22 days. If you as a taxpayer are worried, you have every reason to be.

The lower estimate is a "fairness opinion," something usually reserved for sales of private companies to other private companies. It's supposed to be an unbiased evaluation of a company's worth, to protect the shareholders of the buyer. In this case, the water district taxpayers are the shareholders. U.S. Sugar Vice President Robert Coker called the $930 million figure "completely irrelevant." In fact, it's very relevant.

Water district board Chairman Eric Buermann pointed out in an interview that the district commissioned the estimate when the
plan was to buy all of U.S. Sugar, including the company's mill, citrus operation and railroad. Buying just a component of a company - land, in this case - can raise the price of that component. And the district does have two appraisals that value the land at $1.3 billion and $1.37 billion.

But that price is inflated because of something U.S. Sugar did. In April - two months before the state's planned buyout of the company was announced - U.S. Sugar persuaded Palm Beach County to approve rock mining on roughly 7,500 acres of U.S. Sugar land. As this newspaper pointed out, mining could interfere with Everglades restoration, since the land is where water to help the Everglades would have to flow. The company was discussing a sale of that land to the state - a deal that would affect Everglades restoration - and did not disclose that information. In 2006, U.S. Sugar had received approval to lease another 5,400 acres for mining.

You can use the two appraisals to see how much those mining rights raised the land's value. The average cost per acre of sugar land in the appraisals is $5,377. The average cost for mining land is $23,750. Multiply that difference of roughly $18,400 by 13,000 acres and you get almost $239 million. The water district doesn't even intend to use all of U.S. Sugar's 182,000 acres - 150,000 of them in sugar and 32,000 in citrus. But those leases could give U.S. Sugar a $239 million windfall, even though the mining companies don't have permission to start work.

Should the public pay that much extra? What would the water district do with the leases? How can rock mining on that 7,500 acres be compatible with Everglades restoration?

Then there's The Lawrence Group, which made the hostile takeover bid for U.S. Sugar and called its proposal "a win for everyone." Lawrence claims that it would maintain sugar production indefinitely, thus avoiding the loss of jobs, and sell to the water district only the land needed for Everglades restoration.

For now, though, the water district is dealing with U.S. Sugar, and the district's problem is that it really needs the land. Early plans for massive underground water storage probably won't work, so successful Everglades restoration will require the state having land on which to store water. "Paying at the high end wouldn't be a deal-breaker for me," said Mr. Buermann, "but I don't want to pay something exorbitant. We need be within the realm of reason." The realm of reason starts at less than $1.34 billion.
Reduce price of sugar land

Find this article at:
http://www.palmbeachpost.com/opinion/content/opinion/epaper/2008/11/23/a12a_usssl123edit_1123.html

Check the box to include the list of links referenced in the article.