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Muni Waste Bond Revives Memory of ’90s Recycling Bust: Joe Mysak

- **Bagasse plant in Florida seeks to raise $190 million in debt**
- **Muni landscape is littered with similar deals that went bust**

This is one bagasse story.

I wrote that lead back in September of 1996, which shows that my sense of humor hasn’t changed a whit, as well as how rarely bagasse enters the municipal market lexicon. When it does, investors can sometimes get hurt.

Bagasse — a French word, accent on the second syllable — is what’s left after you extract the juice from sugarcane. The Florida Development Finance Corp. is selling $190 million in unrated solid waste disposal revenue bonds to do just that.

The deal is emblematic of a new generation of plants being financed in the municipal market designed to turn all matter of waste into fuel or building materials or something else. Over the last two years issuers in California, Colorado, Florida, Indiana, Nevada, Oregon, South Carolina, Texas and Washington have sold unrated — often high-yield — debt for such projects.

The limited offering for Southeast Renewable Fuels aims to build a mill that will turn bagasse, “other vegetative waste products’’ and “energy sorghum’’ into pulp for paper, as well as lignin, a chemical used by cement, adhesive and road-building companies.

The Southeast Renewable Fuels facility will be built in Clewiston, Hendry County, on the south bank of Lake Okeechobee and right in the middle of sugarcane plantations. The mill will be ready in 26 months after the bond deal is closed, and is expected to employ 70 people.

Sticky End

The last time bagasse featured in a municipal bond issue seems to have been in 1993 and 1994, when Flo-Sun Inc., one of Florida’s largest sugar companies, borrowed almost $300 million to build two power plants to burn bagasse and, after sugarcane grinding season, wood. This was to produce steam and electricity, to be sold to Florida Power & Light.

The plants never quite achieved efficient operation, went bust, and the bonds defaulted. Bondholders eventually recouped 77 cents on the dollar, according to Richard Lehmann, publisher of the Forbes/Lehmann Distressed Municipal Debt Report.

There are some reassuring statements throughout the latest limited offering memorandum. The Southeast project uses “conventional pulp manufacturing equipment and processes,’’ similar to projects already running in Kenya and India.

There are agreements for biomass feedstock in place, and for the sale of all of the pulp and some of the lignin. All of which is great — and of course we like the idea of turning waste into something useful.

The biggest risk here — as it was in 1990s bagasse, and the latest co-generation and recycling deals — is operational. Can Southeast and all the various engineers and experts produce a successful commercial operation? Because taking one thing and turning it into something else isn't as easy as it may sound. The municipal market's landscape is littered with similar projects that ran out of money and time.

The risk factors section of the offering memorandum flags "start-up problems, the breakdown or failure of equipment or processes, the performance of the Plant below expected levels of output or efficiency,'' and so on. Management is key.

An executive in the salvage business told me a couple of decades ago why a string of bond-financed de-inkers failed. These were mills designed to take waste paper, soak the ink off, and produce new pulp. The technology was fine, this man told me; he was buying the equipment. The management just couldn't get it to work, or get back to market to raise the money needed to buy it more time.

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