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Muni Bond-Backed Fiberboard Plant Seeks Bankruptcy Restructuring.

California company says the road to converting rice-farming waste into a wood substitute 'has not been smooth'

A Northern California plant for converting rice-farming waste into a wood substitute filed for bankruptcy protection after work stoppages and cost overruns triggered a roughly \$344 million municipal-bond default.

CalPlant I LLC said the road to converting rice-farming waste into fiberboard from a new plant in Willows, Calif., "has not been smooth" and sought protection from creditors in the U.S. Bankruptcy Court in Wilmington, Del., on Tuesday to look for a potential buyer.

If no buyer emerges, CalPlant expects to hammer out a debt restructuring with senior bondholders, some of which have agreed to supply \$30.1 million to finance the chapter 11 process through the purchase of new taxable bonds, according to court papers.

CalPlant Executive Chairman Jeffrey Wagner said the company began bringing its facility online in March 2020, shortly before the Covid-19 pandemic erupted in the U.S. The usual challenges associated with a startup were compounded by rolling out new technology during a global pandemic, he said.

Construction problems also plagued the operation, located about 85 miles north of Sacramento, Mr. Wagner said. It is among the first to make fiberboard from rice straw, a waste product of rice farming. The Sacramento Valley produces roughly a fifth of the nation's rice, the company said.

The plant has been making the fiberboard since late 2020 but isn't yet fully operational. Most of CalPlant's debt was taken on to build and operate the plant and was issued by the California Pollution Control Financing Authority in the form of tax-exempt "green" bonds.

CalPlant has been in default on some of its debt, and forbearance agreements will expire Oct. 13.

Franklin Resources Inc.'s California High Yield Municipal Fund was among the original investors, and the asset manager still had CalPlant bonds in the portfolio as of May 31, according to a July regulatory filing.

Massachusetts Financial Services Co. also was holding the bonds at below par as of July 31, said a regulatory filing made last month.

After the plant opening was delayed by the pandemic, CalPlant defaulted on an interest payment in July 2020. Bondholders agreed to hold off on collecting debt payments.

Equity owners of the business include plywood maker Columbia Forest Products Inc., Teachers Insurance and Annuity Association of America and machinery manufacturer Siempelkamp, which

also provided the engineering and design of the plant's production process.

CalPlant and Siempelkamp are disputing amounts they believe they owe each other, court documents show. Siempelkamp employees had to leave the plant and return to Germany due to the pandemic last year and couldn't return to the U.S. for several months.

CalPlant is represented in the bankruptcy by law firms Morris James LLP and Morrison & Foerster LLP. Paladin Management Group will provide restructuring advice. The cases have been consolidated under number 21-11302 and assigned to Judge John Dorsey in the U.S. Bankruptcy Court in Wilmington, Del.

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By Becky Yerak

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