

# Reviving THE river of grass



December 2008

## just the FACTs

This fact sheet is provided as a reference to encourage a greater understanding of the various issues related to managing water in South Florida.

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## Reviving the River of Grass Due Diligence: Appraisals and Assessments

*In December 2008, the Governing Board of the South Florida Water Management District will consider a proposed purchase agreement with the United States Sugar Corporation regarding the acquisition of more than 180,000 acres of land located south of Lake Okeechobee. This historic transaction would provide water managers with the unprecedented opportunity to store and treat water on a scale never before envisioned for the benefit of America's Everglades, Lake Okeechobee and the St. Lucie and Caloosahatchee rivers and estuaries.*

### Summary of the Due Diligence

- On June 30, 2008, the Governing Board authorized staff to initiate extensive due diligence for the proposed purchase of the assets of the U.S. Sugar Corporation for Everglades restoration.
- Conducted by highly qualified specialists, due diligence included four independent appraisals, land surveys and title work, engineering assessments of all assets, an environmental assessment of approximately 187,000 acres of land and an independent fairness opinion.
- The due diligence provides the District's Governing Board with comprehensive and extensive data, analysis and information for deliberating an acquisition of considerable scope.

### Land Appraisals

- Anderson & Carr, Inc., along with Sewell, Valentich, Tillis and Associates, were retained to conduct independent appraisals. The appraisers have been designated Members of the Appraisal Institute for more than 25 years.
- More than 1,000 pages of real estate appraisal reports were submitted, providing a complete analysis of the land involved in the acquisition.
- Appraisal reports met all appraisal requirements of the Florida Statutes and the Uniform Standards of Professional Appraisal Practices, and were also reviewed by the District and the Florida Department of Environmental Protection.
- Conducted independently, the land appraisal reports described the property, analyzed market data and comparable sales, reviewed soil surveys and studied land use potential and income. These data were used to conclude a Fair Market Value based on highest and best use.
- Key details from the real estate appraisal reports include:
  - Land holdings of almost 182,000 acres in Palm Beach, Hendry and Glades counties
  - Nearly 150,000 acres of sugarcane land
  - Approximately 32,000 acres of citrus groves



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### **Land Appraisals** *(continued)*

- Land holdings were appraised at \$1.3 billion and \$1.37 billion, including:
  - \$4,500 to \$7,500/acre for sugarcane land
  - \$14,500 to \$32,000/acre for transition land (residential/commercial)
  - \$20,000 to \$27,500/acre for mining acreage
  - \$4,937 to \$9,009/acre for citrus groves
- Values of the two appraisal reports were within 5.4 percent, which is considered a reasonable range for independent appraisals.
- Agricultural land values are generally not impacted by the same fluctuations as housing and commercial markets.

### **Environmental Assessment**

- Ten firms, led by Professional Service Industries, Inc., were hired to conduct an Environmental Due Diligence Investigation for 292 square miles of property under consideration for acquisition.
- The assessment was conducted with and according to ecological risk assessment protocols approved by the U.S. Fish and Wildlife Service and Florida Department of Environmental Protection. An ecological risk evaluation provides the data needed to determine the viability of utilizing the property for a water resource and restoration project.
- As is typical in a District land acquisition, remediation to commercial standards would be the responsibility of the seller (U.S. Sugar); remediation to ecological standards would be the responsibility of the purchaser (District). Typically more stringent than commercial clean-up standards, ecological standards are the benchmarks that would need to be achieved for an environmental restoration project.
- The investigation included:
  - Assessment of 193 remote point sources of potential pollution (e.g., fuel storage areas, pump stations)
  - Assessment of 187,000 acres of land
  - Collection of more than 500 water samples and 12,500 soil samples
- A voluminous environmental assessment report was compiled using data from soil, sediment and water samples, extensive aerial and ground reconnaissance, review of historical and company records and technical assistance from state and federal experts.
- Key details from the report include:
  - Pollutant concentrations are below commercial criteria across approximately 178,350 acres (95 percent), and no corrective action would be required by U.S. Sugar.
  - Pollutant concentrations exceed the commercial standards across approximately 7,750 acres (5 percent), and U.S. Sugar would be required to conduct corrective action. The total cost to correct these issues is estimated at \$16.5 million. A 1.3 multiplier would be added to the corrective costs if the District assumes control over remediation, which is the preferred option. U.S. Sugar's costs would then total approximately \$21.45 million.
  - Approximately 94,500 acres (52 percent) were determined to pose no significant ecological risk. The District would need to remediate property to ecological standards only on property that exceeds ecological benchmarks and is identified for an environmental project. The District's remediation costs for achieving ecological standards would depend on the location of the restoration project, which has not yet been determined or designed.

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### **Environmental Assessment** *(continued)*

- The presumptive remedy for achieving ecological benchmarks in the agricultural areas is soil inversion, which is estimated to cost \$1,471/acre. Other remedial approaches, such as excavation and on-site reuse, are estimated at \$15,000/acre.

### **Engineering Assessment**

- Led by Shaw Engineering, Inc., an engineering assessment was performed to ascertain the condition of the agricultural lands, infrastructure and facilities on those lands.
- The assessment documented water control structures, levees and other infrastructure.
- Key details from the engineering assessment include:
  - **Pumping facilities:** 365 pumping facilities; 51 percent appear to be in good to fair condition (based on a representative sample).
  - **Levees:** 12 major impoundment levees spanning 333 miles; 25 percent are good condition; 67 percent are in fair condition, requiring minor repairs & maintenance.
  - **Canals:** Approximately 1,132 miles of major canals; 70 percent are in good to fair condition; 29 percent require minor maintenance such as cleaning.
- The overall condition of the assets was fairly typical of a South Florida agricultural operation with assets generally meeting their intended use.

### **Fairness Opinion**

- Typically rendered by an investment bank in association with corporate mergers and acquisitions, a “fairness opinion” is an independent report on the value of the acquisition with regard to price. It is one component of the due diligence.
- A fairness opinion is designed to guide the purchase of an ongoing business. It is not an appraisal and does not provide a conclusion about the value of the acquisition relative to its public purpose.
- The New York-based Duff & Phelps Corporation has provided the District’s Governing Board members with a one-page letter and will present its opinion on December 2.
- In its letter, Duff & Phelps valued a land and asset transaction as fair at a purchase price at or below \$1.3 billion including: \$200 to \$240 million for the sugar and rail operations; \$140 to \$160 million for the citrus operation; and \$930 million for the land. Independent draft appraisal reports for a land and asset transaction provided values of \$1.725 and \$1.923 billion.