EVERGLADES TRUST

January 27, 2009

Dear Governor Crist and Chairman Buermann:

Recently, the Everglades Foundation commissioned a report by renowned Florida economist Henry Fishkind, PhD, providing a detailed, documented and independent analysis of the proposed purchase of more than 182,000 acres of property currently owned by the United States Sugar Corporation (USSC). This historic purchase will be a giant leap toward permanent restoration of America's Everglades, will help protect South Florida's water supply and safeguard one of the most beautiful and delicate ecosystems in all the world.

While nearly all Floridians will agree the Everglades system is worth protecting – now and in the future – there are some prudent questions about whether the proposed purchase price is fair and whether the lease-back fees are adequate. Dr. Fishkind's study, which I have attached, answers those questions and, hopefully, puts to rest any lingering doubts about taking advantage of this once-in-a-lifetime opportunity.

Among Dr. Fishkind's findings:

- The purchase price of $1.34 billion is reasonable based upon the independent appraisals and other documentation, including the "fairness opinion."

- The annual lease-back rate of $50 per acre is comparable to existing leases of the state-owned Talisman tract by Florida Crystals Corporation ($59.10 per acre/year) and the Hilliard Brothers lease of property from Hendry County ($50.50 per acre/year).

- Though the Hilliard Brothers lease is on a five-year, renewable basis, and Florida Crystals' is a year-to-year lease*, together they are little more than a tenth the size of the USSC purchase. In addition, neither of them is subject to the same level of best management practices (BMP) requirements that USSC land will be. These requirements amount to additional restrictions increasing the operating costs for USSC. Taken together, these factors mitigate any difference in value based on lease periods. (*Dr. Fishkind takes into account that this lease is cancelable and that Florida Crystals could conceivably lose a crop.)

- The sale and the lease were negotiated as a package. If the lease rate were set higher, it would increase the overall value of the property, and thus the price, proportionately.

- Nothing in Dr. Fishkind's report addresses any of the environmental or economic benefits accruing to the people of Florida because of the purchase.

I hope you will read and share Dr. Fishkind's findings, and continue advocating for the future of America's Everglades.

For many, what is at issue here is price. But all of us know that what is at stake is priceless.

Thank you,

Thom Rumberger

Thom Rumberger, Chairman
The Everglades Trust

Cc: FL Senate Members, FL House Members
SFWMD Governing Board Members

FISHKIND & ASSOCIATES

January 26, 2008

Mr. Thom Rumberger, Esquire
Rumberger, Kirk, et al.
215 South Monroe Street
Tallahassee, Florida 32301

RE: Propriety of Sale/Lease-Back Provisions in the $1.34 Billion Purchase of +/- 182,474 Acres of Property from U.S. Sugar Corporation

Dear Mr. Rumberger:

At your request I have examined the matter captioned above. I based my opinion upon interviews of industry representatives and executives of U.S. Sugar Corporation along with review of the following documents.

- South Florida Water Management District (December 2008), "Reviving the River of Grass Purchase Contract and Lease Agreement"
- South Florida Water Management District (December 2008), "Due Diligence: Appraisals and Assessments"
- South Florida Water Management District (December 2008), "Environmental Benefits and Public Involvement"
- Ray Palmer, South Florida Water Management District (November 7, 2008), "Review of Appraisal Report by Larry Sewell MAI, on US Sugar Corp Land"
- Ray Palmer, South Florida Water Management District (November 7, 2008), "Review of Appraisal Report by Walter Banting MAI, on US Sugar Corp Land"
- E. Larry Sewell, MAI (October 25, 2008), "Complete Appraisal Presented in Summary Report Format of Lands Owned by the United States Sugar Corporation and The Southern Gardens Groves Corporation Located in Palm Beach, Hendry, Glades, and Gilchrist Counties Florida"
- E. Larry Sewell, MAI (December 8, 2008), "Leased Fee Evaluation 182,500 +/- Acres USSC Lands and Lands Owned by SGGC as of December 8, 2008"
- Anderson & Carr, Inc. (November 1, 2008), "Appraisal of Real Estate and Other Assets of the United States Sugar Corporation Palm Beach, Hendry, Glades, and Gilchrist Counties Florida"

- Anderson & Carr, Inc. (December 9, 2008), “Addendum to Appraisal of Real Estate of the United States Sugar Corporation Palm Beach, Hendry, Glades, and Gilchrist Counties Florida”
- Executed Agreement for Sale and Purchase among the United States Sugar Corporation, SBG Farms, Inc., Southern Gardens Groves Corporation and the South Florida Water Management District, as executed by United States Sugar Corporation, December 23, 2008
- Sale and Purchase Schedules
- Sale and Purchase Exhibits
- Lease Agreement (Exhibit 19e)
- Duff & Phelps, LLC, Letter of November 13, 2008 (“fairness opinion”)
- Duff and Phelps, LLC, Presentation to SFWMD Governing Board December 2, 2008
- Shaw Environmental, Inc. (November 21, 2008), “Evaluation Reports”

Terms of the Lease

U.S. Sugar Corporation (“USSC”) will lease all of the 182,474 acres for agricultural operations only for a term of seven years. The lease provides for a lease rate of $50 per acre per year for six years with no payment in year seven. The lease expires on June 30, 2016. The lease allows for the release of 10,000 acres of property to the South Florida Water Management District (“District”) at any time after the first year with additional releases of up to 3,000 acres if transfers are to a local government. The lease is on a triple net basis thereby requiring USSC to pay all expenses including taxes and to maintain the properties. Importantly, the lease also requires USSC to utilize best management practices (“BMP”) as developed by URS Corporation. BMP requires elevated levels of oversight of farm practices, additional monitoring, additional BMP and restrictions on the use of pesticides and fertilizers.

Economic Evaluation of the Lease Rate

An economic analysis of the lease considers the market rate to lease agricultural lands, size of the property to be leased, terms and conditions of the lease, productivity of the property to be leased, and other relevant economic considerations. As noted above, the lease provides for lease of the entire 182,474 acres for $50 per acre per year for six years of the seven year lease period. The 182,474 acres are not uniform. Table 1 provides a breakdown of the lands. While most of the property is used for cane production, a significant amount is in citrus production and over 6,000 acres are categorized as transitional uses including rock mining and industrial uses that support the agricultural operations. As will be discussed below, these various uses have different rental rates in the marketplace.

Table 1. Categories of Leased Land

Category	*Acreage*
SGGC Citrus Groves	32,603
Transitional Lands*	6,474
USSC Lands -- sugar cane	156,162
	==========
Total	182,474

Source: Larry Sewell, MAI (December 8, 2008), "Leased Fee Evaluation 182,500 +/- Acres USSC Lands and Lands Owned by SGGC as of December 8, 2008" *Note, the quarry land is planted cane except for approximately 200 acres per year which will be mined in the future.

The size of the property to be leased is extraordinary. We have not identified any comparably sized lease, nor did the appraisers. The exceptional size of the property greatly complicates the economic analysis of the lease. If the land were offered for lease on an all or nothing basis, there would likely not be a taker in today's marketplace.

Current market leases for productive sugar cane lands range from $50 per acre per year to as high as $450 per acre per year. The wide variation in lease rates is a function of the following considerations:

- Size of the property to be leased
- Productivity of the land
- Location relative to infrastructure and mills

The most comparable leases to the subject are: (1) Florida Crystals Corporation ("Crystals") leased the state-purchased Talisman Sugar at a current rate of $59.10 per acre per year for approximately 20,000 acres and (2) Hilliard Brothers leased approximately 1,459 acres from Hendry County for $50.50 per acre per year. The Crystals lease is on a net productive acre basis, not a gross acreage basis as the subject is. By contrast, the Crystals lease is a year-to-year lease which is cancelable on short notice without compensation for the crop compared to a term lease for the subject. Mitigating this difference in the lease terms is the subject lease allows for a release of 10,000 acres from the lease. The Hilliard lease is on a gross acreage basis over successive 5-year terms. A final consideration is that neither of these comparables is subject to the enhanced BMP required of USSC in its lease. The BMP requirements reduce the value of the leased land by increasing operating costs. In this context the lease rate of $50 per acre per year consistent with market norms.

Economic Evaluation of the Lease

There are two analyses of the lease provided by the two appraisers for the property, Mr. Sewell and Mr. Banting. Their analyses of the lease are very similar. Each determined that the appropriate market lease rate for the productive cane property was $200 per acre per year and for other land $50 per acre per year. The discount rates were 5% and each appraiser was instructed to assume no appreciation in land value over the course of the lease term. Table 2 summarizes the evaluations of the lease by the appraisers.

Table 2. Summary of Values for the Lease

Category	*Sewell*	*Banting*
Value Fee Simple	$1,370,000,000	$1,300,000,000
Value of Leased Fee	$1,095,000,000	$1,000,000,000
	=============	=============
Value of Lease	$275,000,000	$300,000,000
Discount Rates		
For Income	5.00%	5.00%
For Reversion	4.00%	5.00%
Increase in Land Value	0.00%	0.00%

Both appraisers valued the property on a fee simple basis, without the lease, at about $1.3 billion. In addition, both estimated the value of the lease to USSC at about $300 million, thereby reducing the value of the fee simple property by this same amount. Banting puts it this way, "This implies a loss in value of $300 million. This amount is largely attributable to the below market lease rate of $50.00 per acre per year for the sugar cane portion of the subject tract."[1] The appraisers asked the wrong question, it is not a matter of lease or no lease. Furthermore, as noted below the assertion that the lease rate of $50.00 per acre per year is below market is simply incorrect.

From an economic perspective there are a number of factors that the appraisers failed to accurately account for. The most important is the extraordinary size of the property to be leased. The appraisers did not adjust their lease prices to reflect the enormous scale of the lease. It is highly unlikely that all 156,162 acres could be leased at $200 per acre per year for the sugar cane land and $50 per acre per year for the remainder. Second, the appraisers were unaware of what I consider to be the two most comparable leases as indicated above. The best market comparables are $50 per acre per year not $200 per acre per year for sugar cane land.

[1] Anderson & Carr (December 9, 2008), Op. Cit., page 1

Third, the appraisers did not account for the fact that the lease was negotiated as a part of the overall transaction, not in isolation. Therefore, the lease must be evaluated in the context of the overall transaction whereby the District will acquire the property for $1.34 billion. For example, If the appraisers are correct and the $50 per acre per year lease represents a subsidy of $300 million to USSC, then without the estimated subsidy the purchase price would have been higher by $300 million. The point is that the transaction was negotiated including the lease.

Fourth, the appraisers were instructed to assume that the leased property would not increase in value over the seven years of the lease term. In other words, at the termination of the lease when the land would be returned to the District, the value would be the same as it is today. Since the appraisers used a 5% discount rate over a seven year lease-term, the result was to decrease the present value of the property by 5% per year. The reduction in value calculated in this manner more than offsets the lease income produced, thereby resulting in the estimated value loss of $300 million. If instead the appreciate rate was 3.5%, there would be no loss in value calculated the way the appraisers have approached the issue.

More importantly, although the entire approach taken by the appraisers in determining the value of the lease is correct from a standard appraisal perspective, it is not appropriate from an economic perspective in the context of this transaction. The reality of the transaction is that the District cannot fully use the entire property upon its acquisition. Thus, the District would be faced with either: (a) retaining full use of the property along with its significant annual maintenance costs or (b) leasing the property not being used. As a practical matter, the property was bound to be leased to USSC or to other entities regardless. Thus, to treat the lease as if it were an impediment to its economic utility to the District is not factually accurate.

Assuming for the sake of discussion that the appraisers are correct, that the lease rate of $50 per acre per year for cane land is too low, the proper analysis would have been to compare the effect of the lower lease rate to the $200 per acre per year rate that the appraisers' believe is accurate. Instead, the appraisers compared the value of the property as leased compared to a no lease alternative. To complete my analysis Table 3 presents the economic effect of leasing the cane land at $50 per acre per year compared to $200 per acre per year. A 5% discount rate is used as per the appraisers. Under these assumptions the economic subsidy provided by the $50 lease rate for the sugar cane property has a value of $142 million. At $200 per acre per year the lease would have a present value of $192,028,034 compared to $49,548,652 at $50 per acre per year. The difference is the $142 million supposed subsidy.

In light of all of these considerations, it is my professional opinion that the lease rate of $50 per acre per year for 182,474 acres for six years of the seven year term is reasonable from an economic perspective. Given the scale of the property involved the lease is at or above prevailing market norms for this type of property.

Table 3. Economic Analysis of the Lease Based on the Appraiser's Analyses

Category	*Annual No Takedown*	*Present Value*
Cane Acreage Leased	156,162	156,162
Lease per Contract	$50.00	$50.00
Citrus Acreage Leased	32,603	32,603
Lease per Contract	$50.00	$50.00
Other Acres Leased	6,474	6,474
Lease per Contract	$50.00	$50.00
Term in Years	6	6
	========	========
Value of Lease	$9,761,950	$49,548,652
Cane Acreage Leased	156,162	156,162
Lease per Market	$200.00	$200.00
Citrus Acreage Leased	32,603	32,603
Lease per Market	$50.00	$50.00
Other Acres Leased	6,474	6,474
Lease per Market	$50.00	$50.00
Term in Years	7	7
	========	========
Value of Lease	$33,186,250	$192,028,034
	============	============
Subsidy	$23,424,300	$142,479,382

The analysis provided above is based upon the best information available at this time. This includes the references cited above along with our interviews of market participants. If additional relevant information becomes available subsequently, I will update you as soon as practicable. Should you have any questions on this opinion, please let me know.

Sincerely,

Henry H. Fishkind, Ph.D

Digitally signed by Henry H. Fishkind, Ph.D
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Henry H. Fishkind, Ph.D.
President