



**PHIL BRYANT**  
**STATE AUDITOR**

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Performance Audit Division

**A LIMITED REVIEW  
OF THE  
MISSISSIPPI BEEF  
PROCESSOR'S  
CULL COW PROJECT**

**COMPREHENSIVE  
REPORT  
PART I  
JANUARY 31, 2005**



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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**PHIL BRYANT**  
AUDITOR

January 31, 2005

The Honorable Haley Barbour  
Governor, State of Mississippi  
P.O. Box 139  
Jackson, MS 39205

The Honorable Amy Tuck  
Lt. Governor, State of Mississippi  
New Capitol Building  
Jackson, MS 39205

The Honorable Billy McCoy  
Speaker of the House  
New Capitol Building  
Jackson, MS 39205

Dear Governor, Lt. Governor and Speaker:

I am pleased to present the following Performance Review of the Mississippi Beef Processors project. Due to the tremendous amount of information that is being processed and analyzed, this report is not comprehensive of all related subject matter. While this may appear to be a final report, it may very well be just the door opening on the rest of the story as more information is researched and verified.

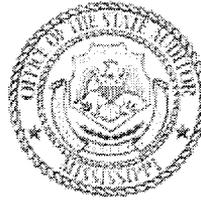
This report attempts to create a synopsis of facts and events tying this project to decisions made by the Land, Water and Timber Resources Board, the Legislature, the Department of Agriculture and Commerce and the MS Development Authority. It presents initial findings and recommendations designed to help understand what happened and ways to prevent similar situations in the future. It is not an attempt to lay blame, but rather to present facts and information that can be used to make better decisions in the future.

Beginning as far back as December 1999, there is a clear record of progression toward the place Mississippi stands today with regard to the Mississippi Beef Processors cull cow slaughter project. While the Office of the State Auditor was not asked to begin monitoring this project until 2003, we have been able, through our bond monitoring program, to research and gather information that will provide clarification and facts related to this project. It is important to note this Performance Audit deliberately excludes any information that may be relative to a criminal investigation. The Federal Bureau of Investigation and the Office of the State Auditor have established a joint task force to carefully review any evidence which indicates a violation of state or federal law has occurred.

I hope this report will be helpful as you strive to understand and react to the complex project known as Mississippi Beef Processors.

Sincerely,  
  
Phil Bryant  
State Auditor

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STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

*A Limited Review of the Mississippi Beef Processor's  
Cull Cow Project*

*Executive Summary*

Since late October 2004, the media and the public have become aware of what some have known since 1999 or even before. A beef processing facility has very little margin for profit. This includes a "state of the art" facility. If even one thing goes wrong, looming disaster can become reality. In the case of the Mississippi Beef Processors (MBP) project, many things went wrong. The questions this report seeks to answer are what happened and how did the State of Mississippi reach the point of no return that left its taxpayers with more than a \$54 million bill.

Members of the Mississippi Legislature and the Commissioner of Agriculture and Commerce sought to fund agribusiness ventures in Mississippi with the same degree of commitment as business and industry was funded. The creation of the Land, Water and Timber Resources Board was a bold move toward balancing agriculture with industry. While this was a laudable goal, the difference seems to have been the standards to which many of these agriculture related projects were held. Mississippi Beef Processors, one of its first and certainly its most speculative venture, was believed to be an opportunity for capturing the cull cattle processing market across the southeast, while providing jobs in the agribusiness industry in Mississippi.

Touted by legislators as the "Nissan for Agriculture" or the "Country Nissan," the project was supposed to bring more than 400 jobs to a high unemployment and rural area. Unfortunately, the current unemployment rate appears to be higher than ever in Yalobusha County. Also, there is no assurance that the State will be able to recover its investment even if the facility is sold to another investor. Obviously, if the project had been successful, this report would have a very different tone. However, as is the case with all failed projects, it is time to determine what went wrong and how to prevent the same thing from happening in the future.

Problems initially occurred when warnings of the volatility of the cull cow processing market were overlooked or minimized. A Mississippi State internal

memorandum (December, 1999) clearly stated "industry trends would not support building a beef slaughter facility in Mississippi." A second report by Mississippi State from 2001 lists the problems of market volatility. It also provided several other important qualifiers before agreeing that a plant could succeed under certain conditions.

In 2003, almost two years after Mississippi Beef Processors was underway, the Office of the State Auditor (OSA) was requested to begin monitoring the project. Throughout project monitoring, the Auditor raised concerns and noted problems, as did the Mississippi Development Authority and the Land, Water and Timber Resource Board. Unfortunately, the project was so advanced by this time that a sense of urgency developed to get the project finished. There was no way to remove the State from the project without suffering a tremendous loss.

Consultants, identified as experts in the field of beef processing were brought in at a cost \$3.5 million. Every effort was made, including the return of \$1.5 million in collateral to Mississippi Beef Processors, before eventual failure occurred in October, 2004.

The Auditor's Office has identified several key dates where the project could have been stopped. On July 30, 2001, the Land, Water and Timber Resources Board voted unanimously to provide a \$5 million grant to Richard Hall to build a beef processing plant. But they overlooked or ignored research and prior discussions by noted experts who made it clear that this project would be marginal at best. Then, on March 31, 2002, because of Richard Hall's inability to secure personal financing, the legislature authorized the Mississippi Development Authority (MDA), to guarantee loans through the Emerging Crops Fund for a beef processing plant in an amount not to exceed \$21 million (SB 2858). They authorized the issuance of the \$21 million in bonds through HB 1834, in the same month.

In March 2003, the legislature increased the guaranty to \$35 million (HB 1493). This was due to Mississippi Beef's glaring miscalculation on costs

associated with building and operating the facility, as well as, substantial cost overruns. Additionally, Richard Hall was not required to have any significant personal investment. Based on our research and analysis, the Office of the State Auditor believes that March 31, 2002 was the most critical date. It was also the best chance the legislature had to stop this "train-wreck" as one legislator called the MBP project. Without the legislation passed on that day, no funds would have been expended.

Although he had recently returned to Tennessee after closing one processing facility in Grenada (1998), Richard Hall claims to have been sought out by the State as part of this effort. It does appear that Mississippi Agriculture and Commerce Commissioner Lester Spell introduced Mr. Hall into the process and he believed Hall was imminently capable of overseeing the construction and operation of a beef processing plant in Mississippi.

All three former Executive Directors of the Mississippi Development Authority now say they were uneasy with the project. According to a confidential memo prepared by former Executive Director of the Mississippi Development Authority Bob Rohrlack, numerous members of the Mississippi Development Authority staff questioned the project management and potential for success. Rohrlack stated in his memo that "the MDA staff expressed concern about the project." Richard Hall was not able to produce the standard background information required by MDA. When they (MDA) asked for more information, "legislators or Dr. Spell accused MDA staff of trying to kill this project." Rohrlack has said that MDA has been accused of being unsupportive of agriculture, although in just over a decade, MDA's Agribusiness Division program has provided over \$128 million to 1,700 individuals and businesses in low interest agriculture related loans.

According to Rohrlack's memo, MDA tried on several occasions to put stop payments on the project in an attempt to obtain all the standard requirements to administer grant funds. However, payments continued without such requirements by Hall.

Members of the Mississippi Legislature and the Commissioner of Agriculture apparently interpreted MDA's concern as an unwillingness to fully support agribusiness. After its creation, such projects were placed under the authority of the Land, Water and Timber Board. However, it appears the level of oversight under the Board was much different than seen at MDA. The legislature had once before attempted to consolidate agribusiness efforts in this state by creating the Mississippi Agribusiness Council. Unfortunately, due to a lack of monitoring and internal controls, the executive director of that organization committed fraud and pled guilty to embezzlement in 2003. The Agribusiness Council was disbanded and the former executive director sentenced.

Ultimately, Mississippi has an opportunity to ensure that what happened with Mississippi Beef Processors does not happen again. Strong changes

need to be made to general law. These would include requirements that apply without exception, such as credit reviews of the individuals and/or businesses involved, financial records, required private investment, requiring the granting or loaning entity to have strong standardized contracts with deliverables and deadlines tied to payments. It makes all the difference to be able to distinguish between a highly speculative and risky venture versus one that has a proven track record of success. Utilizing the proper authorities to achieve this only raises Mississippi's opportunities for success.

The Mississippi Development Authority has been charged with the responsibility and given the resources to assure accountability of the funds authorized by the legislature. They have the expertise and willingness to handle all types of economic development, be it agricultural or industrial in nature. The State should allow MDA to utilize the talent and resources in their agency to protect or enhance the assets of the state.

The citizens of Mississippi expect our response to be deliberate and swift to ensure total accountability, as well as capture any opportunities we may have to salvage this situation.

The Office of the State Auditor, the State Attorney General, Mississippi Development Authority and, to its credit, the Mississippi Land, Water and Timber Board are working together to minimize the loss to Mississippi taxpayers. The results of these efforts, along with a financial computation of the State's losses and future legislative efforts to prevent similar events from occurring will be included in subsequent audit reports.

The Office of the State Auditor will continue its criminal investigation with the assistance of the Federal Bureau of Investigations, U. S. Attorney and Mississippi Attorney General. The public must know without a doubt if any laws were broken. No effort will be spared to complete this probe.

No rush to judgment or assumption will be made by this agency. Just as certainly, no political power or motivation will be allowed to affect the outcome of our investigation or performance review. This is a conclusion that will be assured to the taxpayers of this state.

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## Introduction: Decision and Outcome

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### *In the Beginning*

Back in 1999, before the Mississippi Land, Water and Timber Resources Act was passed, back before there was a Mississippi Land, Water and Timber Resources Board that provided grants and loans to agricultural businesses, an internal memo was written by two Mississippi State University Cooperative Extension Service staff to then department head of Agricultural Economics, Dr. John Lee. This memo evaluated the feasibility of bringing a cull cow slaughter plant to Mississippi. In February 2000, it was transmitted by fax to Mr. Fred Heindl, then Director of the now defunct Mississippi Agribusiness Council. According to Dr. John Lee, former head of the MSU Agriculture Economics Department, Mr. Heindl and the Agribusiness Council made the initial request for this information in 1999. It was provided to him to share with other interested parties.<sup>1</sup> Interestingly, this was not the first time that the Agribusiness Council had conducted research on opening beef processing facilities in Mississippi.<sup>2</sup> This memo was very clear in defining just what a bad idea a beef processing facility would be for Mississippi. This memo is attached in the appendix.

Pessimism about the success of such a project is clear from the first page of this memo:

Given the slaughter situation in Mississippi and conversations with Dr. Bob Rogers from Animal and Dairy Sciences, it is evident to us that it is not logical to reason that a new slaughter facility will alleviate the problem of low prices received by producers for cull cows.<sup>3</sup>

This statement not only sets the stage for the project, but provides insight into the original question: "How can the State assist cattle growers with the problem of low prices received for their cull cows?" The memo goes on to say "market access is the major disadvantage...a new firm will be at a competitive disadvantage in entering a low margin, concentrated market."<sup>3</sup> This memo also shows that a study committee had already been formed to look at this issue and had come up with numerous alternatives that did not include a slaughter facility. Finally, perhaps the most striking comment in the memo leaves no doubt in the mind about the opportunity for success: "Current industry trends do not support building a new beef slaughter facility in Mississippi."<sup>3</sup>

The stage was set, or so it seemed. Mississippi would find better ways to assist its cattle producers in getting better prices and the State would bypass building a new facility here in Mississippi. Unfortunately, this was not to be the case. The State of Mississippi under the direction of the State Legislature, the Land, Water and Timber Resources Board and the Mississippi Development authority, began an effort to totally fund and construct a beef processing plant in Oakland, MS. As was predicted, the venture was not successful. As this report is being written, the State is now looking for ways to minimize the damage this failed project has caused to economic development endeavors, to agriculture, and to citizens' faith in the State to be good shepherds of taxpayers' dollars.

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<sup>1</sup> Lee, Dr. John. Phone interview. 24 Jan. 2005

<sup>2</sup> Agribusiness Council working papers, invoices, memos, and other documentation show that they were interested in bringing a beef processing facility into Mississippi. One reference to such a project came in June 1997 in a packet of information put together by Fred Heindl for Senator Billy Thames and Representative Steve Holland, both co-chairs of the Agribusiness Council. The section labeled "current work in progress" lists development of further processing for beef as the first item. Further, a May 2000 invoice showed the Agribusiness Council paid for research from a private contractor to "develop information on the establishment of a beef processing facility in Mississippi." Agribusiness Council's goals include research on agriculture issues and recommendation of legislation with financial packaging (1999-2003 Five-Year Strategic Plan).

<sup>3</sup> Culver, Virgil and Ken Hood. Memo to Dr. John Lee. 16 Dec, 1999. 9 pages



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## Key Events

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One question that has been asked over and over is “could this have been prevented?” The easy answer is “yes.” There were numerous red flags raised prior to any money having been authorized. Besides studies, there were individuals who expressed concerns, not to mention the lack of financial commitment by the project principal. When could the State have put the brakes on this project? The first time this project could have been stopped was July 30, 2001 when the Land, Water and Timber Board voted unanimously to provide a \$5 million grant to Richard Hall even though he did not have the personal investment that was part of his application (\$2 million).

On March 31, 2002 the State Legislature had the opportunity to stop this project from going any further. This was THE moment where the tide changed. It was the step that changed a bad financial decision by a State board (with only one elected official as a voting member) into a financial disaster by a legislative vote. With the unanimous passage by both houses of a simple twelve (12) page bill whose long title was almost identical to the single paragraph that was added to the open code section, SB 2858 gave the beef processing project \$21 million:

*Title: An act to amend section 69-2-13, Mississippi code of 1972, to authorize the Mississippi Development Authority to draw \$21,000,000.00 from the Emerging Crops Fund to provide loans and loan guaranties to or on behalf of any agribusiness enterprise engaged in beef processing for the purpose of encouraging the extension of conventional financing and the issuance of letters of credit to such agribusiness enterprises by private institutions...<sup>4</sup>*

In addition, on that same day, the Senate unanimously adopted HB 1834. The House only had six “no” votes<sup>5</sup> on this bill that authorized the issuance of the \$21 million in bonds needed to fund the beef processing plant.

The final key turning point where the state could have stopped before the project got any more expensive was March 30, 2003 when the legislature passed HB 1493 which raised the limit on the now 100% guaranteed loan to Mississippi Beef Processors from \$21 million to \$35 million.<sup>6</sup>

Before all of these decisions were made, there were numerous signs that the project was not on a road to success. Had the warning signs been heeded by the legislative leadership and communicated to others, today the State might not be facing a \$54+ million debacle. In fact, had SB 2858 and HB 1834, not become law, no state funds would have been obligated unless Hall had been able to find other personal financing.

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<sup>4</sup> B. Minor. Senate bill 2858, 2002 regular session. March 31, 2002.

<sup>5</sup> Nay votes: Representatives Tom Cameron, Bill Denny, Tommy Horne, Michael Janus, Andrew Ketchings, Keith Montgomery voted against HB 1834 on March 31, 2002.

<sup>6</sup> Nay votes: Representatives Tommy Horne, Michael Janus, Andrew Ketchings, Chester Masterson, Keith Montgomery, and Carmel Wells-Smith voted no on HB 1493 conference report on March 30, 2003.



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## Background on Beef Processing in Mississippi

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### *Concept versus Reality for Beef Processors*

Understanding the laudable goals of the Mississippi Beef Processors project is relevant to the subsequent discussion of current problems. As Speaker McCoy stated:

It was evident that that was a real opportunity to take full advantage of one of our farm commodities...It seemed to be a practical way to give employment and value-added to one of our farm products—livestock.<sup>7</sup>

Richard Hall himself sold the project by stating in his business plan:

The void that makes the need for Mississippi Beef Processors in the southeast region of the United States is the fact that all processors within a five hundred mile radius have closed. There is a known demand for this facility from a producer's standpoint and the manufacturers' standpoint.<sup>8</sup>

The beef processing plant was projected to have a capacity to process at least 1,000 head of cattle, weighing approximately 1,000 lbs. each per day and, according to estimates, would create over 400 new jobs. While this may begin to sound like a recipe for success, beef processing plants must operate as efficiently as possible to succeed in an industry where profitability margins are slim. As Extension Economist Clement Ward, of Oklahoma State University warned, "Care must be taken not to mislead cattlemen that such a plant is unquestionably feasible, based solely on cow numbers."<sup>9</sup> Supporters of the program believed experience in the industry and an existing market would prove beneficial to the viability of the company.

Another expected positive impact to help increase the profitability of the company was that this facility would be more efficient and state of the art than older facilities. In fact, Richard Hall cited outdated equipment as his reason to shut down Pioneer Beef in Grenada, MS in 1998.<sup>10</sup> He also noted that new federal regulations<sup>11</sup> have forced most beef processors in the area (which had been small operations) out of business. Proponents believed, due to the sheer volume of beef that would be produced in such a plant, it might be possible to prepare partially cooked products, ready-to-serve products, or compete for contracts such as those for the federal school lunch program.

While the concept of creating a value added facility that would not only employ more than 400 people but would assist Mississippi Cattle producers in raising profitability seems outstanding, the reality of success in this industry is harsh. As many reports we have seen state, "margins in this industry are thin."<sup>12</sup> Generally industry standards show that for a solid company with \$25 million or more in sales/year, a net profit before tax (NPBT) of 2.5% should be expected. The 2001 Mississippi State model showed a -1.77% NPBT for their first year. The information from across the nation from the last five years solidifies the concept that the cull cow market is hard to get into, highly volatile, and with very little profit.

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<sup>7</sup> Lindsay, Arnold (2005, January 9). Plant's beginnings argued. *The Clarion Ledger*.

<sup>8</sup> Hall, Richard N., Jr. (2001, May 4). Business plan for Mississippi Beef Processors. 16 pages.

<sup>9</sup> Cope, Lori (2002, April 11). Cow slaughter, processing plant proposed. *Country World* [Online serial]. Available <http://www.countryworldnew.com/editorial/ETX/2002/ET0411slaughter.htm>

<sup>10</sup> Lindsay, Arnold (2004, November 10). Meat processor asks for more money. *The Clarion Ledger*.

<sup>11</sup> MS Land, Water and Timber Resources Board Meeting (2001, July 30). Meeting minutes.

<sup>12</sup> Mississippi State University. Economic evaluation of proposed cow slaughter facility". January 2001.



## *Issues and Challenges: Is Such a Venture Feasible?*

In order to determine the potential for success of a beef processing plant in the southeastern United States, legislators and other interested parties should have either conducted or reviewed existing benchmark studies in a more thorough manner. Also, in conducting or reviewing research, care should have been taken to closely examine trends in the industry and how it has already impacted Mississippi. There have been several feasibility studies conducted on the business of cull cows—none of which were overwhelmingly optimistic about the chances of success. These studies show the risks and profitability of operating a beef processing plant. The Office of the State Auditor has taken a handful of these reports to present results of such studies conducted.

### *MSU Agricultural Economics Memo dated December 2, 1999*<sup>13</sup>

Additional research by the audit team revealed an earlier and seemingly forgotten study had been completed for the Agricultural Economics Division of Mississippi State University. The report was dated December 2, 1999 and was prepared in reference to a “Cull Cow Slaughter” project. It had been submitted to Dr. John Lee, then head of the department. The report was forwarded to Mr. Fred Heindl, former director of the Mississippi Agribusiness Council. In 2003 Mr. Heindl pled guilty to an unrelated embezzlement charge and the Mississippi Agribusiness Council was disbanded.

The 1999 memo provides very specific information on market alternatives and meatpacking industry trends. The most striking statement in the report notes:

Current industry trends do not support building a new beef slaughter facility in Mississippi. A more reasonable solution would be to investigate better coordination of cull cow inventories and market them directly to the existing facility in Memphis.

### *Economic Evaluation of Proposed Cow Slaughter Facility -MSU*<sup>14</sup>

The study conducted warns that “Since new plant construction of cattle-slaughter and meat-processing facilities has been minimal in recent years, it is recommended that the project principal rely on a consulting firm with specific experience in this industry to provide final engineered drawings and process flow layouts.” Furthermore, it states that the “Margins in this industry are extremely thin.” Expertise and experience are critical in live animal purchasing, management of a slaughter facility, and marketing of finished product.” It goes on to show that the cow slaughter situation in Mississippi has declined “significantly” in the past several years, as shown in the table below. The rapid decline in slaughter numbers in the state is directly related to the closure of two federally inspected plants, one in 1992 and the other in early 1998.

<sup>13</sup> Culver, Virgil and Ken Hood. Memo to Dr. John Lee. 16 Dec, 1999. 9 pages

<sup>14</sup> Mississippi State University Division of Agriculture, Forestry, and Veterinary Medicine. Economic evaluation of a proposed cow slaughter facility. January 2001.



<b>Cattle Slaughtered in USDA Inspected Facilities in MS</b>	
<u>Year</u>	<u>Cattle</u>
1991	109,053
1992	88,796
1993	55,221
1994	51,356
1995	52,435
1996	55,155
1997	46,783
1998	15,146
1999	171
2000	82

Source: "Economic Evaluation of Proposed Cow Slaughter Facility" – MSU

While the report seems to have several statements that can be viewed as supportive of the concept, such as, "a financial analysis based on USDA data, personal observation and input from knowledgeable individuals, shows the project to be financially viable given sound management and favorable market conditions" (emphasis added), readers should be aware of many such qualifications found throughout the report. It is important to note that the report also cites variables which should give the reader great concern. For example, the conclusion notes, "Margins in this industry are extremely thin." The report goes on to say, "A few cents increase in live weight prices has dramatic impact on profitability." Comments such as these should raise caution flags. This project was no "sure thing."

Although the report may seem to send some mixed messages, the authors try to qualify their statements with probabilities. The MSU report left much of the interpretation of the conclusions to the readers. Proponents of the project could draw statements of support from the report, especially by disregarding all of the caveats the authors used. Opponents could just as easily cite variables and market analysis that warn of potential failure.

Marketing Cull Cows: Understanding What Determines Value, Texas Cooperative Extension Service<sup>15</sup>

According to a study conducted by Dr. Ron Gill of the Texas Cooperative Extension Service, Marketing Cull Cows: Understanding What Determines Value, there are four factors important to the decision to sell cows when culled versus feeding them and selling at a later time:

1. Seasonality of cull cow prices;
2. Price differences between cull cow slaughter grades and percentages of cull cows in each grade;
3. Cost of feeding cull cows; and
4. Age, frame, and body condition of cows to be fed.

Looking at the list, it should be apparent that three of the four factors have nothing to do with the animals themselves, but rather market related issues. This suggests that in order to maintain a constant supply of cull cows meeting certain criteria, a processor would have to overcome significant changes in

<sup>15</sup> Texas Cooperative Extension Service. Marketing cull cows: Understanding what determines value. August, 1998.



the prices of feed, seasonal price of changes in the supply of cattle with certain specific weight, muscle, and fat characteristics. These external market factors which are outside both the producer's and processor's control, can apparently interact with one another to create even greater price volatility for animals to be processed. This may impact on the processor's profitability by raising the cost per head, but also by impacting the availability of a sufficient number of cows possessing the required characteristics to fully justify the fixed processing costs.

### Other Articles:

There are other indications that in a best case scenario a beef processing plant is not a good choice. For example, an article published by Country World, a rural newspaper publication in Texas, noted in 2002 that Oklahoma was conducting a feasibility study to construct a new cull cow plant. Mr. Gary Bledsoe, a marketing consultant for the Oklahoma Department of Agriculture states, "I'm not standing here saying we are going to build. We're going to conduct a complete feasibility study, as well as we can, to determine if the numbers are there."<sup>16</sup> In 2002, Oklahoma was looking at a new facility that would have had overlapping markets with Mississippi. Their feasibility study said much the same as the MSU study done a year earlier. However, a year after they began trying to get funding for the Oklahoma project, they were still \$10 million short of the \$12.5 million they were seeking.<sup>17</sup> A successful beef processing facility must have the necessary operating capital and then balance all of the market forces very carefully to even have a chance at success.

### Availability of Cull Cows Down

When beef prices are up, cull cows are more scarce, so it is harder to buy them. Additionally, their prices will be higher as well. According to the article "Availability of Cull Cows Down," published by the Clarion Ledger on December 1, 2004, experts warn of decreasing numbers of availability of cull cows. "The availability of the cull cow just is not here," says Darrell Denney, operator of Meridian Order Buyers. Bill Gary, president of Commodity Information Systems in Oklahoma City, a marketing research group that studies agricultural trends, agreed that cull cow processing is down. He goes on to say that "right now we have the fewest cows going to cow processing than we've had in 20, 30 years, maybe 40 years. I'd hate to be a cow processor right now. According to a national inventory, cattle numbers have dropped from 35 million head of grazing cattle in 1996 to less than 33 million this year. Some growers say that this is possibly the worst time to get into this market while total number are at an all time low. This trend isn't expected to change in the next several years.

Patrick Sullivan of the MS Department of Agriculture believes that, based on data he has seen, there are more than enough cull cattle to supply the plant. According to U.S. Department of Agriculture data, Mississippi has about 1.02 million head of cattle, its smallest size since 1989. The \$650 average value per head of cattle is also higher than it has been in 15 years. With beef prices up, cull cow availability is likely to be lower.

<sup>16</sup> Cope, Lori. (11 April 2002). Cow slaughter, processing plant proposed. Country World [Online serial]. Available <http://www.countryworldnew.com/editorial/ETX/2002/ET0411slaughter.htm>

<sup>17</sup> Cope, Lori. (6 March 2003). Funding for new slaughter/processing plant continues. Country World [Online serial]. Available <http://www.countryworld.com/Editorial/ETX/2003/et0306slaughter.htm>



In 2000, when the Land, Water and Timber Resource Board announced its intent to study the feasibility of the plant, there were 1.07 million head of cattle in the state.

Denney said that, in addition to the smaller herds, much of the state's lands have been converted to other uses. Lands across the state where cattle once roamed now have subdivisions, private hunting clubs or are planted in pine trees.

Apparently, these findings were either unknown or dismissed by proponents of Mississippi Beef Processors during the initial formulation of the concept in the fall of 2000.



## Performance of Mississippi Beef Processors, L.L.C.

### *The Initial Goal*

As stated in Mr. Hall's business plan, the initial concept goal of Mississippi Beef Processors "is to provide the purchaser of meat products with the cleanest, safest and most wholesome product available. This will be achieved by the company's HACCP program and state of the art equipment and handling systems and procedures."<sup>18</sup>

### *The Genesis of Mississippi Beef Processors*

Cattle producers have witnessed a continuing series of closures of federally inspected beef processing plants over the past decade. The most recent closing (besides the Hall family business Pioneer Beef in Grenada), a facility in Montgomery, Alabama, renewed concerns among Mississippi cattle producers regarding the competitiveness of Mississippi beef and the availability of nearby processing plants. These concerns led cattle producers to request legislative members to examine the feasibility of locating a beef processing facility in Mississippi. Today, the most reasonable options for producers are located in Augusta, Georgia and Palestine, Texas.

Audit Department research shows that the idea of opening a beef processing facility in Mississippi is not a new one. In fact, Mississippi has had several such plants (although none as ambitious as Mississippi Beef Processors) over the years. This report acknowledges that the Agribusiness Council researched the idea at least three times in the last 10 years. According to Dr. John Lee, former Director of the Mississippi State University Agricultural Economics Department, the 1999 memo that has received a good bit of media attention was prepared for the Agribusiness Council Executive Director. "Lee recalled there being open dialogue between players involved in initial talks on the cull cattle plant. That's why the internal memo was generated to start with."<sup>19</sup>

Anecdotal evidence including published statements of Speaker Billy McCoy and Representative Steve Holland indicate they were involved in the conception of the plan to develop a cull cow processing plant. According to Speaker McCoy, "The House of Representatives was involved very early on. It was evident that there was a real opportunity to take full advantage of one of our farm commodities" (Clarion-Ledger, January 10, 2005). Media reports quote Representative Holland as saying "It was birthed in mine and Speaker (Billy) McCoy's trips down the Natchez Trace over the years" (Clarion-Ledger, January 9, 2005). Since the idea of opening a new beef processing plant had been "kicking around" in the Agribusiness Council (of which Representative Holland was a member) for several years, this origin seems quite plausible.

During the second extraordinary session of the 2000 legislature, the Advantage Mississippi Initiative was introduced, passed, and signed into law by former Governor Musgrove in only three days. This bill (SB 2002) contained the language creating the Mississippi Land, Water and Timber Resources Act (and Board) in sections 53-55. This Act is codified as §69-46-1, Mississippi Code of 1972, Annotated, et seq.

The initial meeting to discuss a cull cow processing facility was attended by the Mississippi Development Authority (MDA), the Mississippi Department of Agriculture and Commerce (MDAC),

<sup>18</sup> Hall, Richard. (2001, May 4). Business plan for Mississippi Beef Processors. 16 pages

<sup>19</sup> Lindsey, Arnold (2005, January 14). Beef plant risky, memo warned. The Clarion-Ledger



Representatives Donny Ryals, Bo Eaton and Bobbie Shows, Mississippi State University (MSU) representatives, the Mississippi Cattlemen's Association, and Mr. Richard Hall of the Tennessee Dressed Beef Company.

Representative Bo Eaton, recalls a trip to Nashville, TN<sup>20</sup> in December, 2000 with other officials to talk with Mr. Richard Hall and learn why he and his family had left the state. "We were just trying to figure out what went wrong with Hernando (Boneless Beef Co.)," Eaton said. "We were trying to fix up something to where he might be able to come back to Mississippi. They were definitely interested."<sup>21</sup> Agriculture Commissioner Lester Spell said he also went on the trip, along with vice-chairman of the House Ways and Means Committee Representative Leonard Morris, and former Department of Agriculture employee Chris Sparkman. Morris filled in for House Speaker Billy McCoy, then Ways and Means chairman. Spell said off-and-on discussions with Hall led to a meeting between Hall and the Land, Water and Timber Resources Board. Spell co-chairs the board, which was established in 2000. Representative Steve Holland said "the processing plant was the brainchild of lawmakers. No one pitched the idea to lawmakers."<sup>22</sup> However, Richard Hall states that lawmakers Tommy Reynolds, Bo Eaton, and Donny Ryals approached him several years ago about setting up this type of a facility.<sup>23</sup>

The feasibility study done by Mississippi State in 2001 had various pieces of information provided by Richard Hall. They were used to change MSU's initial operational parameters for the plant. The MSU analysis was then used by Mr. Hall in his business plan.

When MDA requested MSU to revise their analysis of capitol investment requirements from \$21 million to \$40 million, MSU reminded them that "at no time" had they "attempted to estimate capital needs. They have always been provided by Mr. Hall . . ."<sup>24</sup>

Richard Hall's business plan seems to have been mostly written through the analysis of MSU, but was still lacking in all the necessary information to begin constructing a facility of this magnitude. Furthermore, the business plan did not include a design plan for the plant, nor did it include a time line to include phases of development, risks, or a contingency plan. The finance section of the business plan lacked proof of ability to secure \$2 million personal financing as suggested in his sourcing capital requirements. Despite all of the shortfalls to the concept and Richard Hall's ability to bring his own funds to the table, there was this overall assumption that the project was infallible, which is not responsible business oversight and management.

Richard Hall, as President of Mississippi Beef Processors, entered into numerous contractual agreements for the design and construction of the plant as well as the equipment to be used to process the cull cows. In March 2003, prior to the State increasing from \$21 million to \$35 million his state backed loan and prior to the involvement of the Facilities Group his overall contractual commitments totaled \$31,354,875.67.<sup>25</sup> There are many ways to measure management skills. One major key to good management is proper allocation of financial resources to the extent of not over-extending one's financial obligations. Mr. Hall's apparent inability to manage his financial commitments within the parameters of his available funding soon became a problem.

<sup>20</sup> Mississippi officials urged Hall to run beef plant (2004, December 5) SPC Marketing Company cites that this took place in the Spring of 2000, but MDA reports that this trip occurred in December 2000,

<sup>21</sup> Mississippi officials urged Hall to run beef plant (2004, December 5) SPC Marketing Company. available <http://www.spcnetwork.com/mii/2004/041215.htm>.

<sup>22</sup> Lindsay, Arnold (2004, November 18). Beef plant closes for now. The Clarion Ledger.

<sup>23</sup> Phillips, Glynda. Beef processing plant set to open June 1. MS Farm Country. Available <http://www.msfb.com/news/Farmcountry/may04>

<sup>24</sup> Culver, V. Letter to Bob Rohrlack and Lester Spell. 7 April, 2003.

<sup>25</sup> Cawood, N. Letter to Terri Hudson and Chance Carter, Mississippi Development Authority. 10 Dec. 2004



Additionally, concern has been expressed over the used equipment purchased and used as part of this project. There have been many fingers pointing in all directions putting blame on anyone and everyone in range. In a review of the letters, contracts, and media, the Office of the State Auditor is attempting to shed some light on the facts over this issue.

On November 25, 2002, a purchase order was sent from Mississippi Beef Processors to Anco-Eaglin. What is interesting to note is the list of equipment to be included as part of the agreement between the two companies. The list includes a total of thirty-seven (37) items for the rendering plant, eight (8) were MBP owner supplied and seven (7) were refurbished. Just less than half of the equipment was not new. Facilities Group stated that "Mississippi Beef's decision to buy used rendering plant equipment from Anco-Eaglin has proved to be a source of major difficulty in the startup and operation of the plant."<sup>26</sup>

Good management oversight on a project that is supposed to have "state-of-the-art" equipment should not allow for used equipment to hinder any potential plans for success. While buying good used equipment may not be a problem, buying used equipment that can't be made to function shows a lack of planning to prepare for such expenses as equipment to be purchased.

Richard Hall blames the shutdown on "substandard work by Anco-Eaglin of North Carolina, and The Facilities Group of Smyrna, Georgia," a construction consultant group. The Facilities Group alleged that the problems with the rendering plant started prior to their involvement in June 2003. Also, Brian Eaglin of Anco-Eaglin states that "his crew rebuilt portions of the rendering plant on orders from Hall and The Facilities Group. ...They bought the equipment from an old rendering plant. Facilities Group installed some, and we installed some. ...Some of the equipment was in such poor condition that we said we would not take responsibility for it, and that's when the Facilities Group said 'we'll do it.'...The equipment that they bought was more or less junk. And they put us on a pretty tight budget. And we did a ... good job."<sup>27</sup>

In a letter sent by the Facilities Group to the Mississippi Development Authority on December 10, 2004 in response to Mr. Hall's complaints on the rendering plants mechanical issues, Facilities Group states that their observation was "that while ongoing mechanical adjustments in both the basement and rendering will support a better operation, this plant is ready and can run." They go on to state that in their opinion "all of the good about this facility has been overshadowed by the rendering plant's used equipment shortfalls." Facilities Group took the stance that Anco-Eaglin had "unfulfilled contractual obligations."

<sup>26</sup> Mohr, Holbrook (2004, December 3). Mississippi Beef construction firms threaten lawsuits. Available <http://newsobserver.com>.

<sup>27</sup> Subcontractor sues Mississippi beef plant. (2004, December 4). SPC Marketing Company. Available <http://www.spcnetwork.com/mii/2004/041207.htm>.



## ***Funding Mechanisms for MBP***

The chart below summarizes the funds that have been allocated for Mississippi Beef Processors to date. However, because the State has taken on the responsibility for utilities and other costs, the numbers below are not the final totals:

<b>Date</b>	<b>Funding</b>	<b>Source</b>	<b>Amount</b>
July, 2001	Land, Water & Timber Grant	§§ 69-46-1 thru 7	\$5,000,000
February, 2002	Legislative Loan Guaranty	HB 1834 (4/9/02)	\$21,000,000
March, 2003	Additional Legislative Loan Guaranty	HB 1493 (4/15/03)	\$14,000,000
March, 2003	Land, Water & Timber Grant - Facility	§§ 69-46-1 thru 7	\$3,500,000
			<b>\$43,500,000</b>
July, 2002	CDBG Grant - Yalobusha County	MDA	\$2,500,000
October, 2001	Small Municipalities Grant to Oakland	MDA	\$250,000
October, 2001	ARC Grant for gas line	Federal	\$500,000
			<b>\$46,750,000</b>
February, 2002	Line-of-credit	Community Bank	\$6,500,000
December, 2004	Power substation note due to TVPA		\$650,000
December, 2004	Past Due electric bills	State	\$167,000
			<b>\$54,067,000</b>

*Table supplied by MDA, January 2005*

The mechanisms that went into funding the Mississippi Beef Processors project included state and federal loans and grants in addition to a private bank line of credit. The following section details where the State funding came from and the problems with internal controls for those funding sources.

### **Land, Water and Timber**

In 2000, the Mississippi Legislature enacted §69-46-1, Mississippi Code of 1972, Annotated, et. seq., establishing the Mississippi Land, Water and Timber Resources Act and creating the Mississippi Land, Water and Timber Resources Board. Its goal was to assist the Mississippi agricultural industry in developing, marketing, manufacturing, producing and distributing agricultural products.

The Executive Director of the Mississippi Development Authority (MDA) and the Mississippi Department of Agriculture and Commerce Commissioner (MDAC) serve as co-chairmen of the fourteen member board. The Board files an annual report with the Governor, Secretary of the Senate, and the Clerk of the House of Representatives, not later than December 1 of each year.

The Board established a Screening/Finance Committee which considers requests from grantees and makes recommendations to the Board regarding project requests. The Board meets at least once quarterly to consider projects recommended for approval by the Steering/Finance Committee. To date, forty four (44) projects have been approved by the Board with funding of \$27,930,439.

Upon approval of a project, the Board and the grantee enter into an agreement. MDA and the Board prepare closing documents and disburse funds on a reimbursement or service rendered basis. Should default occur, the Board may seek repayment under terms of the contract. According to its authority, the Board may provide funds to public and private entities through loans, grants, contracts and any other manner the Board determines appropriate for the purposes of carrying out the provisions of the Act.



Goals of the Board are to fund various projects that demonstrate viability for success with the necessary experience and managerial expertise to justify the investment. In project selection, the Board is supposed to give considerable weight to assessing the extent to which a prospective project will either enable Mississippi businesses to develop and market new agricultural products or increase the value of existing ones.

At the point when cost overruns and poor planning put the Mississippi Beef Processors project severely over budget, the Board also contracted with Facilities Group for \$3.5 million to manage the construction. The rest of Mississippi Beef Processors funding came through a state backed 100% guaranteed loan—an unprecedented move by the legislature, especially since there was virtually no contribution by Richard Hall. The authority for the loan was placed in the Emerging Crops Fund through SB 2858 in the 2002 regular session.

Whether intentional or not, the creation of the Land, Water and Timber Board to distribute state taxpayers dollars has allowed the checks and balances that protect these funds to be circumvented.

### Emerging Crops Fund

The definition of an 'emerging crop' means any nontraditional plant or animal crop designated by a board consisting of the executive directors of the Mississippi Cooperative Extension Service and the Mississippi Agricultural and Forestry Experiment Station or as specified in §69-2-11.

The lending provision—§69-2-13(3)(a), Mississippi Code of 1972, Annotated—in the original Act was amended in 1991 to include a provision allowing a loan amounting to up to twenty percent of the amount for which funding is sought not to exceed \$200,000 per individual interest-free loan. To date, MDA had disbursed \$187.8 million for interest-free loans and received \$120.3 million in repayments on over 1,700 loans. According to MDA, less than \$10,000 has been lost to date in the form of unrecoverable loan debts. In addition, agricultural manufacturing and processing facilities are eligible for various other funding programs administered by MDA, such as the Mississippi Business Investment Act (MBIA) in §§57-61 et seq. of the Mississippi Code. The fact that MDA has been able to make more than 1,700 loans and grants (through its other programs) over the last decade, is a clear indication that they, as an agency, are as supportive of agricultural projects as the legislature funds them to be.

However, while the above section of the Emerging Crops Fund has been highly successful, in the 2002 regular session the Fund was amended with the following section added through SB 2858:

§69-2-13(3)(b) The Mississippi Development Authority shall, in addition to the other programs described in this section, provide for a program of loans or loan guaranties, or both, to be made to or on behalf of any agribusiness enterprise engaged in beef processing for the purpose of encouraging thereby the extension of conventional financing and the issuance of letters of credit to such agribusiness enterprises by private institutions. Monies to make such loans or loan guaranties, or both, by the Mississippi Development Authority shall be drawn from the Emerging Crops Fund and shall not exceed Twenty-one Million Dollars (\$21,000,000) in the aggregate. The amount of a loan to any single agribusiness enterprise or loan guaranty on behalf of such agribusiness enterprise, or both, under this paragraph (b) shall not exceed the total cost of the project for which financing is sought or Twenty-one Million Dollars (\$21,000,000), whichever is less. The interest charged on a loan made under this paragraph (b) shall be at a rate determined by the Mississippi Development Authority. All repayments of any loan made under this paragraph (b) shall be deposited into the Emerging Crops Fund. Assistance received by an agribusiness enterprise under this paragraph (b) shall not disqualify the agribusiness enterprise from obtaining any other assistance under this chapter.



## **Performance of the LWT Board on Mississippi Beef Processors Project**

“The LWT Resource Board was created to help maintain a balance between agriculture and industry and to make sure Mississippi’s natural resources get full credit and opportunities,” Representative McCoy stated during a Board meeting.

The Mississippi Land, Water and Timber Resources Act is contained in Sections 69-46-1 through 69-46-7 of the Mississippi Code of 1972, as amended. It was authorized in the second extraordinary session in 2002 as part of the ‘Advantage Mississippi Initiative.’

Its purpose as stated in Section 69-46-3 is: “assisting Mississippi agricultural industry in the developing, marketing and distribution of agricultural products.” This fourteen-member Board has three legislative nonvoting members who are the Chairmen of the House and Senate Agriculture Committees, or their designees, and the Chairman of the Senate Forestry or his designee. The Executive Director of MDA, the Mississippi Forestry Commission, and the Commissioner of Agriculture or their designees are members as well. The Executive Director of MDA and the Commissioner of Agriculture serve as co-chairmen of the Board. Representatives of the Mississippi Farm Bureau Federation, Cooperative Extension Service at Mississippi State University, and Alcorn State University or their designees serve on the Board, along with the Director of the Agricultural Finance Division of the Mississippi Development Authority and the Director of the Agriculture Marketing Division of the Mississippi Department of Agriculture & Commerce or their designees. There are also three (3) gubernatorial appointees who are active producers of Mississippi land, water or timber commodities—one from each Supreme Court district.

The board was given a variety of powers and duties in Section 69-46-5 of the Mississippi Code including:

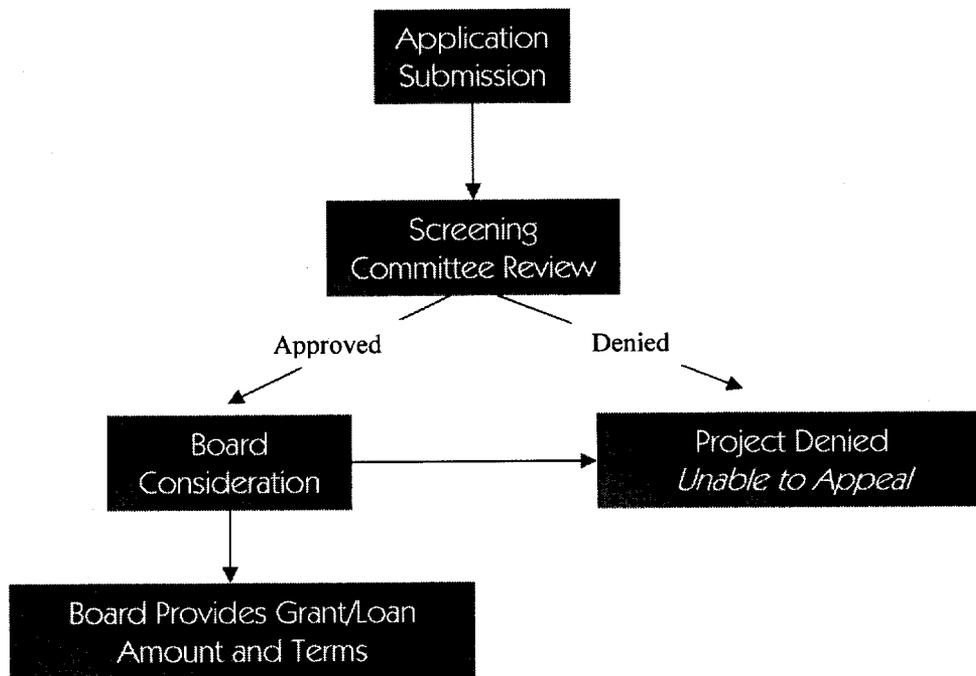
- Developing marketing plans and opportunities for independent farmers in Mississippi;
- Encouraging commercialization of new agricultural technology businesses;
- Initiating the development of processing facilities for Mississippi agricultural commodities as well as the development of wholesale distribution businesses for agricultural inputs and products;
- Promoting the development of institutional and specialty markets;
- Encouraging research for new agricultural product development;
- Developing a working relationship with the state offices of the United States Department of Agriculture (USDA) to promote and develop Mississippi agriculture;
- Other duties ranging from promoting the ‘rural quality of life’ to filing an annual report, along with promulgating and enforcing ‘rules and regulations in accordance with the Administrative Procedures Law, as may be necessary to carry out the provisions of the Mississippi Land, Water and Timber Resources Act’ as authorized in 69-46-5(j).
- Expending funds from the Mississippi Land, Water and Timber Resources Fund.

Expenditure of funds authorized in Section 69-46-5(k) and is described in Section 69-46-7 of the Mississippi Code. This special fund is authorized to receive either bond proceeds or private funds. Unexpended amounts from these sources do not lapse into the general fund at the end of fiscal year, nor does any interest or investment earnings derived from these monies.



Application Process

The application process for receiving funds from the LWT Board is broken down into three stages. First, the applicant is required to fill out an application and supply three copies to LWT or MDA for review. Once received, the application will be reviewed by the LWT Screening Committee, and the applicant is required to give a presentation on the project proposal. At this time, the Committee will vote to determine if the project will be recommended to the full LWT Board for grant/loan consideration. Third, if the project is recommended the project goes before the full board where the applicant will be given another opportunity to make a formal presentation. If approved by the Board, the Board will establish the amount and the terms of the assistance for the project. However, if a project is denied by either the Screening Committee or the full board, the applicant does not have any right of appeal.



Application Information

The application included the following requests for information:

- Local Government Unit
- Company Information
  - Contact Person
  - Taxpayer/Employer Organization
  - Other Economic Development Incentive Programs applied for
  - Company Ownership
  - Person to review legal documents
- Project Location
- Nature and Cost of Project



- Detailed explanation of why assistance is requested
- Estimated Project Costs
- Proposed Project Financing
- Project Employment Information
- Project Revenue Information
- Project Sales Information
- Type of Assistance Requested
- Required Attachments
- Exhibits
  - A - Local Government Unit Application Certification
  - B - Company Application Certification

After a review of the LWT program application it is evident that the requirements of the application are not sufficient to determine if projects should be awarded grant bond money from the LWT Board on behalf of the state taxpayers of Mississippi. The OSA recommends that MDA continue to expand its efforts to improve the LWT application in order to insure that proper and sufficient information is provided to assist LWT Board in making sound determinations on approval of grant funds. The information provided by MBP on the LWT application is not sufficient to justify a multi-million dollar commitment. The OSA recommends that the LWT Board begin requiring all of the following, completed in writing, prior to approval of grant money on a scale larger than \$100,000:

- Final architectural and engineering plans for the proposed project.
- A project budget detailing all estimated expenditures for the development, construction, start-up and operation of the Project. Such Project Budget should identify in detail the expected use of all funds provided under the requested grant.
- Proof of secured personal collateral if necessary for the project.
- Detailed Project time-line.
- Full and Complete Business Plan
  - Executive Summary
  - Business History
  - Organizational Structure
    - Management Team Profiles & Ownership Structure
      - Compensation
    - Advisors
    - Professional Services
    - Human Resources Requirements
  - The Business Product/Service Mix
    - Identify benefits to the State/Community
    - Legal Protection (patents, copyrights, trademarks, etc.)
    - Government Approvals (licenses, inspections, permits, etc.)
  - Details to the Business Environment
    - Industry Overview
      - Sectors within the industry
      - Seasonal factors
      - Consumer Trends
    - Position in the Industry
      - Competition
      - Use of Technology (Benchmarking)
    - Historical Analysis in the Market



- Marketing Plan
  - The Target Market
  - Services
  - Pricing Strategy
  - Sales/Distribution Plan
  - Advertising/Promotion Plans
- Operations
  - Stage of Development
    - Risks
    - Contingency plan
    - Association Membership
  - Production Process
- Finance
  - Income Statement
  - Cash Flow Statement
  - Balance Sheet
  - Financial Forecast Assumptions
  - Sourcing Capital
- Risks & Conclusions

#### Award Guidelines & Requirements

According to the MS LWT Program Regulations in order to qualify for financial assistance the project must meet the following criteria:

- Promote the marketability of Mississippi agricultural projects;
- Assist in the development of marketing plans and business opportunities for independent farmers in the State;
- Encourage the commercialization of new agricultural technology business;
- Assist in the research and development of new agribusiness products;
- Initiate the development of a processing facility for Mississippi agricultural commodities;
- Initiate the development of Mississippi wholesale distribution businesses for agricultural inputs and products;
- Promote the development of institutional and specialty markets for Mississippi agriculture products;
- Promote farm and agricultural education; or
- Encourage additional research for new agricultural product development.

By following these guidelines, Land, Water and Timber can improve their assurance about the projects they fund.



## **Performance of MDA on Mississippi Beef Processors Project**

### ***Requirements & Responsibilities***

In the initial contract agreement between MDA, the LWT Board, Yalobusha County, Community Bank of MS, and Mississippi Beef Processors, LLC section 4, MDA's undertakings states:

"MDA agrees to work with the Company in obtaining all applicable incentives, including tax incentives available through the MS State Tax Commission, in particular, any and all jobs tax credits that the Company may be eligible for under Section 57-73-21, MS code of 1972, as amended. Further, MDA agrees to work with the Company in obtaining financing under any eligible programs administered by MDA."

MDA also had the responsibility of supervising the disbursement of funds and originating the guaranty documents associated with MBP and its lender.

### **Loan vs. Loan-Guaranty Decision**

The line of logic for using the loan guaranty authority rather than the loan authority is likely to have been driven by common sense. For the State to have acted as the bank and issued the debt itself, it would have had to exercise its bond issuance authority right away. On the heels of having issued \$363.5 million in Nissan debt, etc., this prospect would not have seemed very attractive. The State was certainly not anxious to issue any more debt. Granted that it would not be the lien holder in the event that the project failed, but despite the concerns which had been raised, it does not appear that those at MDA responsible for making this decision were so concerned that they felt that the financial risk posed by the project justified the issuance of additional economic development debt at that time. Avoiding the issuance of additional bonds would have been a potent motivator to temper the perception of financial risks associated with the project.

In OSA interviews with MDA staff, it was acknowledged that the original and sole purpose of Sen. Minor's bill, when SB 2858 was sent to the House, was to extend the repealer on the monies from the Emerging Crops Fund given to Alcorn State University for the Agribusiness and Natural Resource Development Center. Using the Emerging Crops Fund seemed logical to the House Ways and Means Committee, because the primary use of the loan authority in Section 69-2-13(3)(a) had been poultry loans. Therefore, the language about the beef facility was inserted immediately following in Section 69-2-13 (3)(b).

Inserting the money in this bill wasn't well received when the bill went back over to the Senate. However, MDA staff said they were asked in the full Senate Finance Committee if HB 1834 (the companion to SB 2858) involved Richard Hall's processing facility. They responded in the affirmative. During the interview, MDA pointed out that despite the way in which the language ended up being passed, the Senate could not say that they were completely unaware of what the intent of the legislation was. The actual decision for final language in both bills was made in conference committee at the end of the session.



As for the decision to make the language read 'loans or loan guaranties,' the loan guaranty route was preferred by the Ways & Means Committee because they had a self-imposed \$200 million limit on bonds to be issued. They didn't want to put more than 10% into this because it would displace other projects. It appeared to MDA that the Committee would rather consider it to be a contingent liability rather than have to issue the bonds right away. Nevertheless, the loan option was likely included in case the negotiations with the bank failed to produce an agreement. The idea that the State could, if needed, issue the loan itself was seen as giving the State greater leverage.

Once the language became law, and the responsibility for handling the funds was passed to MDA, in theory, the decision of how much to loan and how to loan the money needed to be made. On April 26, 2002, MDA signed documents approving a 100% state-backed loan guaranty.<sup>28</sup> At the meeting that day only MDA "raised the point that Hall was putting zero of his own money into the project."<sup>29</sup> The reason that the loan guaranty was necessary to begin with, stemmed from Hall's inability to secure the funding required by the original \$5 million Land, Water and Timber agreement.

The monies were not likely to be forthcoming from financial institutions and all attempts to secure this funding had apparently failed. Furthermore, it was MDA's clear understanding, regardless of the provision in the law allowing the State to loan the monies itself or to combine loans and guaranty provisions that the intent of the legislation was for MDA to draw up arrangement for a 100% state guaranty for a bank-financed loan—if one could be obtained. One MDA official said it was his opinion that the loan provision was there only to give the State a little more leverage, perhaps, in negotiations with potential lenders or to be used as a last resort in the event that private financing proved impossible.

Based on interviews with MDA staff that had legislative involvement related to MBP in 2002, when the \$21 million loan guaranty was authorized, it is their position that the proposal authorizing a 100% state loan guaranty came from the leadership in the House Ways & Means Committee. They indicated that they were first made aware of this approach to providing funding at a legislative work session aimed at drafting the necessary legislation. When asked if any of the MDA officials expressed concern at the time about the financial liabilities and risks of doing this, they said they did not. However, they stated that the agency's concerns about additional state funding for this project were well known to those legislators in attendance. From MDA's perspective, it was clear that these policymakers had made up their minds regarding a workable way to provide the additional State support needed.

It is MDA's position that despite the flexibility in the statute about the issuance of loans as opposed to loan guarantees, no real consideration was given to any approach other than the one put forth by the Ways & Means leadership.

After discussions to reconcile the difference between the concerns MDA had about MBP with their actions at key moments in the project decision-making process, it must be concluded that their perception of legislative climate was such that MDA felt forced to factor possible loss of program funds into its decisions about continued candor if they persisted in raising concerns which policymakers didn't want to hear. An example of this reportedly occurred on April 26, 2002 in a meeting in the Attorney General's Office in which an MDA official quoted Representative McCoy as having said: "If you don't go ahead and get this done, you're going to have a lot less programs to administer in the future."<sup>30</sup> The

<sup>28</sup> State of Mississippi. Agreement for \$21 million state backed loan guaranty. 26 April 2002.

<sup>29</sup> Rohrlack, R. Memo to file. March 25, 2003

<sup>30</sup> Personal interview with Jim Craig, Mississippi Development Authority. 26 January.2005.



MDA employee also said that Rep. McCoy repeatedly expressed the view that MDA had been and remained unresponsive to the concerns of agricultural interests.

Contrary to MDA's assertions of concern, the Executive Director Steve Hale forwarded a final letter to Speaker Billy McCoy on January 7, 2004. The letter states in part that *"from the onset of this project, MDA has been one of the many organizations that have been wholeheartedly supportive of Mississippi Beef and what it will mean for the cattle producer and overall agricultural economy in our state."* MDA has explained that the statement was made to show that they were doing everything they could to be supportive and to show that they were not unsupportive of agribusiness.



## Findings and Recommendations

### **Finding # 1**

Controls in place to protect the State from financial losses when investing public funds in economic development projects were inadequate to prevent undue financial risk involving millions of taxpayer dollars.

### **Recommendation**

Greater controls are needed to ensure that all economic development projects, including all agribusiness-related activities, follow an adequate set of standards for project approval and oversight.

### **Finding # 2**

The Mississippi Land, Water and Timber Resources Board failed to exercise the necessary controls, authority and responsibility given to it by the Mississippi Legislature.

### **Recommendation**

The Legislature should determine whether the Land, Water and Timber Resources Board should continue to be responsible for awarding and overseeing new and existing projects currently in process. Should the Legislature deem necessary, responsibility for the remaining funds and program obligations should be transferred to MDA to ensure continuity of management activities.

### **Finding # 3**

Adequate technical expertise and independent counsel for a \$43 + million project is absolutely essential to the economic success of state funded economic development projects.

### **Recommendation**

All economic development projects, including those carried out under the auspices of the Land, Water & Timber Resources Board, should contract with outside experts to ensure that adequate technical expertise is available to both elected policymakers and other public decision makers involved expending and disbursing taxpayer dollars.



**Finding # 4**

Even if adequate and accurate technical expertise is provided, the public's financial interest will not be assured should decision makers fail to act on the advice and counsel provided. Whether adequate or not, sufficient information was available to cast serious doubt about the economic viability of the Mississippi Beef Processors project. However, decision maker's failure to be responsive to these concerns have led to the failure of this project to fulfill the public trust as well as the public funding invested in this endeavor.

**Recommendation**

Channels of communication must be improved to ensure that the Legislature is able to rely on the agencies charged with implementing programs and priorities such as was the case with this economic development project.

**Finding # 5**

The ultimate failures of Mississippi Beef Processors are largely attributable to lack of adequate capitalization on the part of the project grantee. Richard Hall, as owner and operator failed to obtain the funding needed for the continued operation of the facility.

**Recommendation**

Capitalization requirements can and must be determined prior to the State' investment in any economic development project. The State should always require suitable and appropriate matching funds and should demand independent verification of a prospective business' ability to generate the necessary capital prior to the commitment of any state monies.

**Finding # 6**

Personal investment of \$1.5 million by Mr. Hall as collateral was insufficient given the enormous investment of public funds—more than \$50 million thus far.

**Recommendation**

Sufficient personal and/or corporate assets, including letters of credit, should be mandatory for any future economic development projects such as Mississippi Beef Processors.



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## Conclusions

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Performance audits must be completed with total independence and lack of emotion. Inflammatory language and supposition is kept to a minimum. Only facts and recommendations based on clear observations and logical conclusions should be included in the review. These have been our simple goals in the preparation of this report.

A comprehensive conclusion to a review of the Mississippi Beef Processors Project will not be possible at this time. The man hours of document review and interviews of those involved have been staggering and are continuing.

The following is a conclusion of the information contained in this first report. It is important to remember that the audit process is continuing and evolving. The complexity of conducting a performance review, while simultaneously conducting a joint criminal investigation with federal and state authorities, adds to the difficulty of our mission. However, it is important that both processes continue. Without this review, the Executive and Legislative leadership would lack a written document of the events and actions that led to the failure of Mississippi Beef Processors and the recommendations needed to prevent a similar outcome in the future economic development projects.

The limited review of the Mississippi Beef Processors Project by the Office of the State Auditor provided specific information to draw the following conclusions:

- Analysis regarding the potential for success of a cull cow processing plant in Mississippi was either ignored or minimized by proponents of the project in the Legislature and Mississippi Land, Water and Timber Resources Board.
- Legislative influence by the House leadership and the Agriculture and Commerce Commissioner, based on their desire to serve the agriculture community, resulted in the concept and creation of Mississippi Beef Processors.
- Lack of a proper project plan to include a construction and business management expert in the field of cattle processing was irresponsible when a \$43 million dollar investment by the State was at risk.
- The absence of substantial personal or corporate assets on the part of the business owner was an unsound and incomprehensible condition that was accepted by all parties involved.
- The approval of a \$21,000,000 which was subsequently increased to a \$35 million loan guarantee by the Mississippi Legislature for Mississippi Beef Processors was a pivotal event that escalated the project from a bad business decision to a speculative investment on a grand scale.
- The undercapitalization of Mississippi Beef Processors resulted in the plant's closing with the company not able to continue to fund the operations cost when production problems occurred and the purchase of cattle to meet the 1,000 head a day project became a necessity.



Currently, the State has a financial exposure of approximately \$54 million. The continued payment of the plant utilities and security will cause that amount to increase. This does not include the cost of attorney fees for private council retained by the State, the expense of research and investigative costs and the debt service of any bonds that will be issued to pay the remaining portion of the loan once the plant has been sold. These costs and a financial report of the total project will be included in subsequent reports.

The Mississippi Land, Water and Timber Resources Board unanimously approved a resolution on Friday, January 29, 2005 to allocate \$8.7 million toward the acquisition of the plant. These funds will be used in an attempt by the State to gain control of the plant during a public auction. The \$8.7 million allows the State to gain control of the property while reducing the amount of the guaranteed loan with Community Bank. The plant could then be marketed for potential sale.

The sale of the plant and its successful operation is the best opportunity to reduce the cost for taxpayers and salvage any potential benefits of a cattle processing plant in Mississippi. Fortunately, Mississippi Development Authority, under the leadership of Mr. Leland Speed and with the assistance of Attorney General Jim Hood, is well qualified to meet the challenge of this task.

Based on recommendations of the State Auditor, numerous bills have been introduced to add accountability to any future economic development funding proposals. These bills include HB 1247 (ACE Fund); HB 1343 (general economic development); SB 2529; and SB 3008 (MS Existing Industry Loan Program). These standards currently exist for many Mississippi Development Authority (MDA) programs. Also, since MDA has long been responsible for managing economic development programs, both industrial and agricultural, a bill has been introduced (SB 2670) which transfers the powers of the Land, Water and Timber Board to MDA. These recommendations are not intended to in any way prevent or interfere with the economic development efforts of the Mississippi Development Authority or the Mississippi Legislature. They will ensure, if properly utilized, that future efforts will be sound business investments with a high degree for success.

The Office of the State Auditor will continue its criminal investigation with the assistance of the Federal Bureau of Investigations, U. S. Attorney and Mississippi Attorney General. The public must know without a doubt if any laws were broken. No effort will be spared to complete this probe.

No rush to judgment or assumption will be made by this agency. Just as certainly, no political power or motivation will be allowed to affect the outcome of our investigation or performance review. This is a conclusion that will be assured to the taxpayers of this state.



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## Mississippi Beef Processors Project Timeline<sup>31</sup>

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**October 2000:** Initial meeting to discuss cattle slaughter facility attended by Mississippi Department of Agriculture and Commerce (Spell, Sparkman, Barlow), Mississippi Development Authority (Tucker, Braswell), Legislators (Ryals, Eaton, Shows), Tennessee Dressed Beef Co. (Richard Hall, Sr., Richard Hall, Jr.), MSU (Dr. Kiser), Miss. Cattleman's Assoc. (Blossom), and Willis Engineering (Robert Willis).

Economic incentive proposal sent to Richard Hall, Jr. from MDA (Roy Braswell)

**November 2000:** Follow-up meeting to discuss cattle slaughter facility attended by MDAC (Spell, Sparkman), MDA (Tucker, Braswell, Craig), Tennessee Dressed Beef Co. (Hall Sr., Hall, Jr.), Legislators (Morris, Holland, Eaton, Ryals, Pierce), MSU (Kiser), Miss. Cattleman's Assoc. (Blossom).

General information packet sent from Richard Hall, Jr. to MDA

**December 2000:** MDAC and several legislators take state plane to visit Tennessee Dressed Beef Co. in Nashville, TN.

MDA requested financial information on project (business plan, pro-forma, etc.). Total project size \$17 million with Hall asking for \$5 million grant from state and remainder to be financed.

Memo to file from Jim Craig stating conversations with Larry Veazy of Union Planters Bank in Grenada, MS about potential financing for project. Union Planters was conducting due diligence on the \$12 million loan proposal from Halls.

**January 2001:** *Economic Evaluation of a Proposed Cow Slaughter Facility in Mississippi* prepared by Mississippi State University. 1000 head/day facility, \$21.7 million construction costs and equipment, \$6.8 million operating capital needed.

Meeting between MDAC, MDA, DEQ, USDA, Union Planters Bank to discuss project.

**April 2001:** Business plan and pro-forma financials sent to MDA from Richard Hall, Jr. Project financials reviewed by MDA's Existing Business and Industry Staff and several concerns noted in memo to file.

**June 2001:** J.C. Burns OK's proposed incentive package of \$2,550,000 from MDA (CAP, CDBG, SMLP).

**July 2001:** Land, Water, Timber Resources Board approves \$5 million grant to Mississippi Beef Processors contingent upon Miss. Beef securing remaining financing.

**August 2001:** Memorandum of Understanding between State of Mississippi, MDA, LWT Board, Yalobusha County Board of Supervisors, Town of Oakland, MBFC, and Mississippi Beef Processors drafted but never signed.

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<sup>31</sup> Mississippi Development Authority. Chronological timeline of Mississippi Beef Processors project. January, 2005



**October 2001:** Yalobusha County is awarded \$250,000 SMLP grant to assist with financing of natural gas service for plant.

**Spring – Winter 2001:** Mississippi Beef Processors pursues but is unable to secure remaining financing for project.

**February 2002:** Meeting held at State Capital (Ways and Means) to discuss Miss. Beef's inability to obtain financing for project. MDA was instructed (by legislators present) to create documentation whereby the State of Mississippi could provide a 100% guaranty for a potential lender. MDA and MDAC disagree over disbursements of LWT grant funds.

Community Bank issues commitment letter to Mississippi Beef Processors for a \$21 million construction loan and \$6,500,000 operating line of credit. (Both loans subject to several conditions, letter in file).

**March 2002:** Community Bank submits request to MDA for 100% guaranty on \$21 million loan and subordinated first lien position on the project for the \$6.5 million operating line of credit.

**April 2002:** Mississippi Beef Processors, LLC incorporation papers filed with Secretary of State's office.

Agreement/MOU signed between Miss. Beef, MDA, LWT, Community Bank, Yalobusha County.

MDA requests Attorney General's opinion on whether LWT grant funds can be disbursed directly to a private company. AG's opinion was that statute allows it.

**May 2002:** Ongoing negotiations with Community Bank on guaranty language. McGlinchey Stafford, PLLC to assist with guaranty documentation.

Mississippi Beef Processors, LLC signs grant agreement for LWT grant. Conditioned upon \$1.5 million equity in cash/cash equivalents.

Loan guaranty agreement and guaranty authorization signed between Community Bank and MDA.

**July 2002:** Yalobusha County awarded \$2.5 million CDBG grant for wastewater.

\$6.5 million operating line of credit closed with Community Bank (Hall's \$1.5 million cash tied to this loan)

**September 2002:** Loan closing for \$21 million 100% guaranty loan held at McGlinchey Stafford office.

**October 2002:** Approval letter from TVA (signed by McCullough) for \$2 million loan to Mississippi Beef (never closed).

**Fall – Winter 2002:** Monthly disbursements made on loan and LWT grant.



**January 2003:** Meeting held at Miss. Beef site for project update. (Jones, Herring, Carter, Hinton, Hall). Hall indicated to MDA and bank that an additional \$2.5 million in equipment is needed for construction loan and his accountants indicated that an additional \$3 million in working capital would be needed to operate the facility.

Notice of adverse financial condition letter sent from Community Bank to MDA. Bank ceases funding on construction loan.

**February 2003:** Letter from MDA to Community Bank fully supporting decision to stop funding.

LWT Screening Committee (Spell, Barlow, Rohrlack, Carter, Waide) meets and decides to withhold final grant disbursement of \$292,118.66 until Community Bank and MDA authorize funding on loan.

MDA, MDAC, Miss. Beef, Community Bank meets to discuss budget overruns and various solutions.

MDA agrees to authorize Community Bank to pay Carothers Construction outstanding January invoice.

TVA modifies commitment letter to propose financing for boning/grinding and rendering equipment with subordination from Community Bank. (not accepted)

List of processing consultants given to Community Bank by Richard Hall. Wyman Jones travels to Georgia to meet with Facility Group.

“New” budget of \$29 million submitted by Miss. Beef.

Facility Group chosen to perform initial audit of project “to date” and advice on status. No final plans or specs for project.

Letter from Richard Bradley to Bill Mendenhall requesting clarification that the pledged “Hall assets” are not at risk

Letter from Carothers Construction to Miss. Beef stating they will cease work if not paid by March 17<sup>th</sup>.

**March 2003:** Miss. Beef and attorney plead with Community Bank and MDA for payment of outstanding invoices to avoid contractors “pulling off site.”

Letter from Richard Hall to Commissioner Spell pleading for assistance.

Special LWT Board meeting held at State Capitol to discuss Mississippi Beef Processors situation. Board Members: Spell, Barlow, Carter, Craig (for Rohrlack), Pepper (for Waide), Culver (for McGilberry), Sledge, Dahl, Gustavis. Other attendees: Richard Hall, Jr. and various design team members and vendors, State Auditors office, Tony Pitrone of Facility Group, Bill Mendenhall, various Legislators. Presentation by Mississippi Beef and vendors on status of project. Board adopted resolution asking MDA to authorize payment of outstanding invoices. (Carter and Craig cast opposing votes).

Letter from Community Bank to Richard Bradley expressly stating that there will be no further funding until Facility Group has finished their initial report on project.



Recap letter from MDA to Miss. Beef copied to following: Governor Musgrove, Commissioner Spell, Phil Bryant, Chairman McCoy, Bill Minor, Jeff Smith, Leonard Morris, Tommy Reynolds, Bo Eaton, Steve Holland, and Wyman Jones.

Presentation by Facility Group held at MDA and attended by all involved parties. Project can be finished with budget of \$43 million with a guaranteed maximum price (which includes fee of \$3.5 million) if Facility Group is allowed to take over full control of construction. Approximately \$4.7 million of necessary equipment excluded from current plans. Final plans and specifications do not exist to date.

Carothers and Hendon/Redmond give proposal to take over construction management services for project.

Agreed upon by MDA, MDAC, Community Bank, and LWT to enter into letter of intent with Facility Group to provide consulting and construction management services.

Legislature amends statute to increase guarantee amount from \$21 million to \$35 million.

**April 2003:** Letter from Mississippi Beef questioning selection of Facility Group.

Letter from Miss. Beef's attorney to MDA and Community Bank asking for outstanding invoices to be paid while negotiating contract with Facility Group, admitting budget shortfalls, discussing history of involvement, etc.

MDA authorizes all outstanding invoices associated with project and O.K.'d by Facility Group to be paid by Community Bank. LWT authorizes disbursement of final grant payment.

**May 2003:** Updated pro-formas submitted by Mississippi Beef Processors.

Letter from Calvert-Spradling Engineers to Mississippi Beef referencing gas line to be connected from Tennessee Gas at Coffeerville to the plant site.

**June 2003:** Appointment Agreement signed between Mississippi Beef and Facility Group

MDA letter (Hale) to Community Bank authorizing continued funding of project without "firm" commitment for additional operating capital.

**July 2003:** Six-month operating budget submitted to MDA (approved) for expenses drawn on operating line.

Formal closing of all amended guaranty documents (increasing guaranty to \$35 million) held at McGlinchey Stafford. Invoices to be submitted monthly by Facility Group to Community Bank and MDA for approval.

Project management agreement signed by Facility Group, Land, Water, Timber and Community Bank.



**August 2003:** Discovery of shortage of funds by Oakland/Yalobusha Gas District for construction of gas line.

Letter from Richard Hall, Jr. to Dr. Spell disputing fees associated with the "discovery stages" of Facility Group's involvement and overall frustration with LWT board, Yalobusha County Board of Supervisors, Willis Engineering, Tallahatchie Valley Electric Power, etc.

**September 2003:** Commitment letter from USDA Rural Development to Oakland/Yalobusha Gas District for \$565,200, which represents the amount needed to finish pipeline for Mississippi Beef and 350 residential users.

Meeting held at Farm Bureau to discuss Rural Development's program funding situation and answer questions from gas district board about viability of project.

Letter from Richard Bradley to George Sewell, attorney for Facility Group, referencing disputed charges to Mississippi Beef.

**October 2003:** Letter from Community Bank notifying MDA of potential material adverse change in status of Mississippi Beef Processors as a result of delayed natural gas service.

Facility Group Control Meeting #1 held at Miss. Beef site.

Exploration of various options and costs associated with delayed gas service. Propane vaporizer unit identified as a short-term solution at an approximate cost of \$250,000.

Letter from USDA Rural Development Office to James Swearingen, President of the Oakland/Yalobusha Gas District summarizing list of conditions to be met before construction on gas line.

**November 2003:** E-mail correspondence between Richard Hall and Facility Group referencing configuration of barn and hides room.

Meeting held at USDA office in Jackson attended by MDA, MDAC, Representative Tommy Reynolds, Bob Calvert (engineer), Bill Mendenhall, and Pat Bailey (Facility Group) to discuss gas line situation.

Control Meeting #2 held at Miss. Beef site. Forecasted costs over budget by \$285,000.

Letter from Facility Group to Richard Hall specifically addressing the disputed areas of concern that have both operational and financial management considerations.

Letter from Community Bank to MDA reiterating the additional operating line of credit and gas line cost overruns as potential material adverse changes in financial position of Miss. Beef.

**December 2003:** Letter from Richard Bradley to Wyman Jones that indicated Mississippi Beef Processors had a conditional commitment letter from ELS Financial Services from Brentwood, TN for a \$4,000,000 line of credit.



Letter from MDA to Community Bank acknowledging the potential material adverse changes and stating that no additional (MDA controlled) state funds will be injected into the project.

**February 2004:** E-mail correspondence from Richard Hall to MDA and Community Bank identifying additional project costs that are outside the Facility Group guaranteed maximum price and how these costs will adversely affect cash flows.

Letter from Hall to Facility Group expressing concern over rail height in barn and concrete pad for loading dock.

Letter from Community Bank to MDA stating that the additional costs outlined in Hall's e-mail constitute a material adverse change and therefore bank will stop funding construction loan until otherwise instructed by MDA.

Letter from Richard Bradley to Community Bank clarifying issues in Hall e-mail and asking bank to resume funding.

Letter from Richard Hall to Greg Brown (Construction Manager for Facility Group) admonishing Facility Group for construction delays.

Letter from MDA to Community Bank authorizing disbursement of funds and reiterating commitment to complete project.

Control Report #3 scheduled in Jackson and attended by: MDA, Richard Hall, MDAC, Community Bank, Facility Group, Governor's Office, State Auditor's Office, Legislators, and LWT Board Members. Construction status was reported to be 70% complete and project was over budget by \$844,000. Hall and Facility Group agree to working solutions for month-long construction disputes.

**March 2004:** Letter from Richard Hall to Facility Group demanding to be reimbursed \$900,000 in general conditions resulting from construction delays.

Nick Cawood from Facility Group responds to Hall's letter and states that the GMP does not guarantee a completion date and that Facility Group assumes no responsibility for MBP's operational losses.

**April 2004:** Start-up plan and updated financial pro-formas provided by MBP at request of MDA and Community Bank.

Status report given to MDA by Facility Group showing completion date of mid-June.

**May 2004:** Control Report #4 held on site and forecasted costs over budget by \$862,000.

GMP change of scope report submitted to LWT, MBP, and Community Bank reflecting a change order in the amount of \$804,521 (LWT and Community Bank take position that all legitimate change order amounts outside the GMP are responsibility of MBP).

Letter from Community Bank notifying MDA that the change orders represents a material adverse change; MDA authorizes continued disbursements of construction funds.



Richard Hall submits request to Land, Water, and Timber screening committee for \$1.5 loan to be used for operating expenses. Application denied.

**June 2004:** LWT Finance Committee votes to withhold final \$335,000 overhead and profit request from Facility Group until facility is completed and handed over to MBP.

**July 2004:** Site visit conducted by Carter (MDA) and Jones (Audit): construction 92% complete, final USDA inspection set for July 16, 30 management positions filled, hourly workers begin orientation August 2, full production scheduled for mid-August. Hall expressed concern over cash flows, but was informed that no State-controlled funds would be available for operating expenses.

Hall visits with WIN Job Center in Oxford to apply for On-The-Job Training assistance for employees. Confusion over amount of money to be allocated for Mississippi Beef

Letter from Richard Bradley to MDA and MDAC requesting the State to reimburse MBP for operational losses caused by construction delays.

Letter from Bill Netemeyer to Richard Hall pointing out MBP contributions to construction delays.

Letter from Richard Bradley to MDA, LWT and Bank regarding the ability of the State to enforce the GMP. (Letter hints of possible litigation)

Letter from Attorney General Hood to MBP and Facility Group encouraging mediation of disputes.

Letter from Pat McAllister (Community Bank Attorney) to Richard Bradley addressing concerns over GMP, change orders, retainage, etc.

**August 2004:** Letter from Facility Group to LWT Board expressing disappointment over non-payment of overhead and profit fee request.

Letter from Facility Group to Richard Hall advising of potential new change order in the amount of \$700-\$900.

Letter from Richard Bradley to Pat McAllister lamenting MBP's financial condition and inability to pay current change orders.

Letter from Community Bank notifying MDA that the newest change order request represents material adverse change; MDA authorizes bank to continue funding.

Letter from Pat McAllister to Facility Group stating that the bank fully expects Facility Group to pay all costs necessary to complete project as guaranteed by GMP.

Letter from LWT to Facility Group stating fee will be paid upon completion of project.

New pro-formas submitted to MDA by MBP's accountants reflecting need for \$1.5 million in additional working capital. Viability of project relies heavily on sustaining production levels i.e., # of head processed/day.



Full production of facility begins August 23<sup>rd</sup>.

**September 2004:** E-mail from Richard Hall detailing problems associated with start-up. Major concerns with basement equipment/design and rendering building.

Request from LBO and PEER for financial information regarding State's involvement with MBP project.

Meeting with Community Bank, MDA, MDAC and MBP accountants regarding ongoing operations of facility. Discussions revolve around current financing needs. Agreements made between State and MBP to allow for release of \$1.5 million of collateral held by bank to be used to secure "bridge loan" with another lender. Community Bank agrees to rearrange payback terms and reverse interest payments previously collected. MBP acknowledges that this agreement is final assistance available from State and MBP assumes total responsibility for operations of facility.

MBP closes \$4 million "receivables based" line of credit with AgriCap Financial.

Facility Group submits Pay Request #2, which includes additional "outside scope" items totaling \$1.4 million.

3<sup>rd</sup> party contractors begin making contact with MDA, MBP, Community Bank regarding unpaid invoices.

**October 2004:** Site report submitted by State Auditors Office reflecting inoperable basement equipment and rendering facility.

MBP repairs basement equipment at own expense and contracts with expert to advise on rendering building problems.

Meeting held on-site with Anco-Eaglin (rendering contractor), MDA, MBP, Dept. Agriculture, Facility Group, rendering consultants and attorneys representing all parties to identify and quantify repairs needed to make rendering facility operational.

Letter from Counsel for Carothers Construction sent to MBP, MDA, Community Bank, LWT, MDAC, and Facility Group demanding payment of outstanding invoice and accounting of all disbursements made.

**November 2004:** Meeting scheduled between MDA, Audit, LWT and Facility Group to reconcile balances owed to 3<sup>rd</sup> parties and confirms all costs associated with change orders and outside scope items identified by Facility Group. To date, approximately \$2 million of contract work is unpaid and not covered by GMP as represented by Facility Group.

Letter from Richard Bradley to State Auditor requesting assistance from State in the amount of \$5.25 million to be used for operating expenses, specifically cattle purchases.

(11-3) Meeting to be held at MDAC between all parties to discuss current status of project. Hall requests additional operating capital to be provided by State and is refused.



On November 17<sup>th</sup>, Mississippi Beef ceases operations.

Mississippi Beef continues to seek additional financing: Most requests would require the State to either subordinate collateral or increase its guaranty and ultimate exposure. All of these requests are denied by MDA.

Meeting held at McGlinchey Stafford between MDA, MDAC, Audit, AG, Facility Group to discuss Facility Group's delivery of the project as contracted.

**December 2004:** Mississippi Beef releases statement blaming Facilities Group and Anco-Eaglin for problems that lead to the shutdown of the plant.

Various contractors and vendors file suits and liens against property for non-payment.

Mississippi Beef fails to make December payment to Community Bank. Bank submits liquidation plan to MDA detailing the plan of action for the foreclosure, disposition of collateral, and expenses associated with maintaining the facility. (Security, insurance, equipment maintenance, etc.)

MDA authorizes Community Bank to pay outstanding electric bill totaling \$167,000 to Tallahatchie Valley EPA.

Community Bank meets with John Crow, attorney for Yalobusha County, to discuss issues associated with Mississippi Beef's lease with the county and payments due to the county for the CDBG overage.

**January 2005:** Negotiations start for transfer of facility to State.

MDA approves Community Bank's liquidation plan and the bank initiates foreclosure proceedings. Sale date set for February 4<sup>th</sup>.

USDA meat inspection confirms that 18,288 head were killed by Mississippi Beef during production. Packers and Stockyards investigators confirm payment on all cattle processed at facility.

Meetings held to develop and discuss various documents involved with transfer of facility to State.

**Appendix A:  
Supporting Documentation**

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COPY

P.O. Box 5187  
Mississippi State, MS 39762  
662-325-2750 Phone  
662-325-8777 FAX

**Agricultural  
Economics**

# Fax

<b>To:</b> Fred Heindl	<b>From:</b> John E. Lee
<b>Fax:</b> 601-359-3636	<b>Pages:</b> 9
<b>Phone:</b>	<b>Date:</b> 02/16/00
<b>Re:</b> Cull Cow Slaughter Project	<b>CC:</b>

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  For Review   
  Please Comment   
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• **Comments:**

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Mississippi State  
UNIVERSITY  
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Food and Fiber Center

## MEMORANDUM

TO: Dr. John Lee, Head, Agricultural Economics

FROM: ~~Vicki~~ Culver, Marketing & Distribution Specialist, Food and Fiber Center  
~~Ken~~ Hood, Economist, Food and Fiber Center

RE: Cull cow slaughter project

DATE: December 2, 1999

In order to understand the market situation for cow slaughter in the southeast, we have done some preliminary research, had two meetings, visited a slaughter/packing facility in Memphis, Tennessee, and done some checking with plant managers of slaughter plants in Mississippi which no longer slaughter. Our findings thus far are contained in the attached materials.

Given the slaughter situation in Mississippi and conversations with Dr. Bob Rogers from Animal and Dairy Sciences, it is evident to us that it is not logical to reason that a new slaughter facility will alleviate the problem of low prices received by producers for cull cows. The Memphis facility, for example, has excess capacity and will take more cows than are currently being slaughtered. Investigating alternatives to increase returns to producers through better use of market channels may prove more fruitful for this project. We've attached materials prepared by Jim Quinn and Charlie Forrest on these alternatives.

Market access is the major disadvantage in bringing a new slaughter facility on line. While investment capital and management capability and experience may be in place, a new firm will be at a competitive disadvantage in entering a low margin, concentrated market. Indications are that the smaller companies that have survived have done so only because they depend heavily on all of the by-products from slaughter rather than meat sales alone to generate profits. In the Memphis facility, both hogs and cows are slaughtered, spreading overhead burden and generating multiple market opportunities.

## Market Alternatives

The committee discussed other ways to increase the net price received by producers for cull cows. This discussion can be divided into two areas. First, we looked at management practices that will improve the quality of cull animals and subsequently increase their value at market. Then we looked at identifying any market failures that may be evident given the current industry structure. Are there ways to improve the current market?

Producers need to view the cull cow as a potential profit center and manage them to improve marketability just as with any other class of livestock. A general discussion of the cull cow market, and definitions for grades, body conditions scores, and related terminology can be found in the attached publication. Buy-Sell margins and seasonal price changes for cull cows are presented in different tables and graphs. There is also a budget that can be used to figure the returns associated with increasing the body condition score of culls held over the winter, and sold on a stronger Spring market

The committee explored the possibility of making adjustments to the marketing system. The first scenario, working within the existing system, would require a change in practices by management at existing auction markets. The other alternative would involve investing time and money to replicate existing facilities or market activities, if auction managers were reluctant to make the changes producers feel are necessary. Either way producers will have to be willing to make significant changes in the way they market cull cows. Both these alternatives will require more planning, investment and work from the producer.

The question is can producers and marketing agents implement a new system or better coordinate current activities to improve the quality of the product, lower transaction costs and/or enhance the price discovery process (receive premiums). It will probably take a positive change in all these areas to make an alternative acceptable. The overall goal would be to gain premiums and lower costs by adopting some combination of the following: 1.) Sell cattle on the rail at the plant 2.) Sell animals by bid 3.) Sell animals in 40,000 pound loads. 4.) Sell cows in a local area only on a specific day to increase volume and attract buyers. 5.) Coordinate with other producers to market collectively 6.) Improve quality and add weight to culls

There are several issues that would have to be addressed depending on the system or the changes adopted. They are listed below in no particular order:

1. Riskiness
2. Capital
3. Coordination
4. Management/Control
5. Education and producer willingness to accept change
6. Value of increased knowledge about cattle quality and related marketing issues
7. Ease of use
8. Commission/Marketing Costs
9. Changes in management practices
10. Profitability - Premiums/Discounts

## Meatpacking Industry Trends

The meatpacking industry in the U.S. has experienced a steady reduction in number of plants since 1975. Statistics collected by the U.S.D.A. Grain Inspection, Packers and Stockyards Administration (GIPSA) show a reduction in all plant capacity sizes except for the largest category of meat packers. (Table 21) These statistics reflect the changing structure of the industry, which is reduction in plant units along with mergers and consolidation leading to concentration. Industry concentration increased sharply in the last 20 years. For example, the four largest packers accounted for 82 percent of slaughter in 1994, versus only 72 percent in 1990 and 36 percent in 1980. Packers have become more vertically integrated and through more coordinated arrangements have reduced the role of public markets. Some concern has arisen over the effects of increased concentration and integration on prices and the price discovery process. Firms in a concentrated processing industry may be able to reduce prices paid to suppliers. Some observers fear that increases in vertical integration and coordination may amplify the potential for exercise of market power. Some also express concern that large packers may use vertical coordination arrangements as a means of blocking smaller competitors from sources of supply, or as a mechanism for discriminating among livestock sellers. At the least, vertical coordination arrangements reduce the prevalence of open-market transactions, thereby restricting the availability of market information.

In Mississippi, the meatpacking industry has followed the national trend. In 1978, the Mississippi Meat Packers Association listed 24 meatpackers in the state. The list was comprised of small custom plants (less than 10 head slaughtered daily) and larger commercial packers (50 or more head slaughtered daily). At that time, there were 8 larger commercial plants in Mississippi strategically located throughout the state. Current data (1999) show that Mississippi has only 12 small, custom beef slaughter facilities in operation. The nearest commercial beef slaughter facility to Mississippi is located in Memphis, TN. The Memphis facility currently slaughters Mississippi cull cows and has excess capacity to slaughter more. The management of the Memphis facility has expressed an interest in purchasing more cull cows to supply a growing market for further processed products.

Current industry trends do not support building a new beef slaughter facility in Mississippi. A more reasonable solution would be to investigate better coordination of cull cow inventories and market them directly to the existing slaughter facility in Memphis.

Market penetration for beef cuts is extremely difficult given the concentration of the larger meatpackers in the U.S. market. Market barriers, coupled with low margins in the meatpacking industry (Table 35), would make it economically difficult for a new facility to survive. Consistent supply of cull cows for slaughter also poses problems. Currently the facility in Memphis is purchasing cows from five states. Management of a slaughter facility in Mississippi that closed cited the lack of animals for slaughter as a primary reason for closure. At the time of closure the plant was purchasing cows from 15 different states. The cull cow herd in Mississippi and the southeast continues to decrease. It would be difficult for a new facility to find a consistent supply of cows to slaughter, therefore making it difficult to offer a consistent supply of output for the market.

Table 21.—Cows and bulls: Slaughter by plant size, packers reporting to GIPSA, 1975-97 reporting years

Year	Less than 1,000		1,000-9,999		10,000-24,999		25,000-49,999		50,000-99,999		100,000 or larger <sup>1</sup>		150,000 or larger	
	No. Plants	Thous. Head	No. Plants	Thous. Head	No. Plants	Thous. Head	No. Plants	Thous. Head	No. Plants	Thous. Head	No. Plants	Thous. Head	No. Plants	Thous. Head
1975	206	83	302	1,107	83	1,298	57	2,046	36	2,440	22	2,959	5	917
1976	202	85	298	1,149	74	1,183	74	2,558	41	2,740	17	2,104	5	920
1977	193	79	299	1,153	76	1,206	61	2,118	35	2,433	13	1,609	5	917
1978	206	82	295	1,172	65	1,066	57	1,942	38	2,648	9	1,074	5	917
1979	243	98	262	957	52	855	39	1,277	30	1,945	7	810	3	489
1980	250	93	240	832	56	926	46	1,609	21	1,539	4	482	5	807
1981	213	86	206	728	55	887	40	1,397	24	1,664	6	669	7	1,153
1982	207	86	195	741	44	744	45	1,594	25	1,700	9	1,063	6	1,012
1983	197	77	199	775	48	809	51	1,814	21	1,490	8	943	8	1,541
1984	192	73	171	648	48	800	48	1,745	27	1,874	12	1,400	8	1,661
1985	188	71	145	572	48	764	40	1,411	17	1,333	12	1,427	8	1,666
1986	149	55	133	478	43	680	41	1,430	16	1,124	20	2,320	8	1,770
1987	154	51	121	441	48	775	32	1,104	24	1,778	13	1,572	7	1,470
1988	146	48	127	483	36	588	29	934	21	1,541	13	1,618	7	1,402
1989	136	46	110	408	33	579	25	857	17	1,300	8	964	11	2,159
1990	140	45	99	330	28	500	17	597	19	1,311	11	1,349	10	2,001
1991	127	42	89	311	24	400	21	766	18	1,344	10	1,274	10	1,933
1992	120	42	77	300	25	435	15	526	15	1,104	10	1,263	12	2,238
1993	114	42	66	244	20	350	12	456	14	1,031	10	1,214	14	2,777
1994	104	38	53	212	19	313	13	474	18	1,372	10	1,282	12	2,596
1995	93	27	58	224	18	314	12	445	12	885	9	1,083	17	3,510
1996	88	27	54	210	18	312	12	447	9	602	10	1,220	21	4,591
1997	77	23	50	199	15	247	13	525	15	1,093	8	1,041	18	4,100

<sup>1</sup> Size limits are 100,000-149,999 beginning in 1976.

(GIPSA-SR-99-1)

Table 35.—Sales, expenses, and operating income of 4, 8, 20, and 40 largest meatpacking firms, 1997 reporting year<sup>1</sup>

Item	Percent of sales			
	Top 4	Top 8	Top 20	Top 40
Net sales	100.00	100.00	100.00	100.00
Cost of sales	74.98	69.87	65.55	65.89
Livestock purchases	85.16	82.76	81.81	81.99
Total cost of sales	14.84	17.24	18.19	18.01
Gross income				
Operating expenses:				
Manufacturing	7.93	8.73	8.34	8.30
Advertising & selling expenses	0.92	1.76	2.60	2.49
General & administrative	1.25	1.26	1.56	1.63
Depreciation & amortization	0.50	0.56	0.59	0.60
Interest	0.66	0.63	0.59	0.58
Other	2.49	2.52	2.43	2.36
Total operating expenses	13.76	15.46	16.11	15.95
Operating income (loss)	1.09	1.78	2.07	2.05

Note: Reported financial figures may include information on operations other than meat packing.  
<sup>1</sup> Ranking determined by total amount spent for all livestock slaughtered.

(GIPSA-SR-99-1)

3 2 3  
purchased by dealers and order buyers has fluctuated between 3.7 million and 4.5 million but has shown no discernible upward or downward trend since 1990.

Mergers and Acquisitions in Meat Packing

Numerous mergers and acquisitions have occurred in meat packing in the last several years. The following table lists mergers and acquisitions in 1997 and 1998 involving firms that report to GIPSA. In most cases the transactions involved the purchase of entire firms. However, some transactions, which are noted, included only plants and/or brands.

Meat Packer Mergers and Acquisitions, 1997 - 98

1997

- Acquiring Company: Transhumance Inc.; Davis, CA.
- Company Acquired: Boston Lamb & Veal; Boston, MA.
- Acquiring Company: IBP, Inc.; Dakota City, NE.
- Company Acquired: Foodbrands America, Inc.; Oklahoma City, OK.
- Acquiring Company: IBP, Inc.; Dakota City, NE.
- Company Acquired: Bruss Company; Chicago, IL.
- Acquiring Company: Smithfield Foods, Inc.; Smithfield, VA.
- Company Acquired: Curly's; Minneapolis, MN.
- Acquiring Company: Hatfield Quality Meats; Hatfield, PA.
- Company Acquired: Wild Bill's Foods; Lancaster, PA.

1997, continued

- Acquiring Company: Smithfield Foods, Inc.; Smithfield, VA.
- Company Acquired: A pork slaughter plant from American Foods Group; Green Bay, WI.

1998

- Acquiring Company: IBP, Inc.; Dakota City, NE.
- Company Acquired: the appetizer division of Diversified Foods Group, including plants in Chicago and Newark, NJ.
- Acquiring Company: IBP, Inc.; Dakota City, NE.
- Company Acquired: BeefAmerica processing plant; Norfolk, NE.
- Acquiring Company: Smithfield Foods, Inc.; Smithfield, VA.
- Company Acquired: North Side Foods Corp.; Arnold PA.
- Acquiring Company: ConAgra, Inc.; Omaha, NE.
- Company Acquired: Fernando's Foods Corp.; Commerce, CA.
- Acquiring Company: ConAgra, Inc.; Omaha, NE.
- Company Acquired: Signature Foods; Omaha, NE.
- Acquiring Company: Continental Grain Co.
- Company Acquired: 51% interest in Premium Standard Farms; Princeton, MO.

Acquiring Company: The John Morrell subsidiary of Smithfield Foods, Inc.; Smithfield, VA.  
 Company Acquired: Mohawk Packing Co.; San Jose, CA.

1998 continued

Acquiring Company: Farmland National Beef; Kansas City, MO.  
 Company Acquired: Kansas City Steak Company; Kansas City, MO.

Acquiring Company: ConAgra, Inc.; Omaha, NE.  
 Company Acquired: Zoll Foods; Chicago, IL.

Acquiring Company: Packetland Packing Co., Green Bay, WI.  
 Company Acquired: Murco, Inc., Plainwell, MI.

Acquiring Company: ConAgra, Inc.; Omaha, NE.  
 Company Acquired: GoodMark Foods; Raleigh, N.C.

Acquiring Company: American Foods Group; Green Bay, WI.  
 Company Acquired: Dawson-Baker Packing Co.; Louisville, KY.

**EXCEL EYES IOWA'S QUALITY CATTLE**

**WHY** is Cargill, Inc., prepared to spend \$60M to \$80M to build a new beef plant in Iowa? The answer is quality beef for export. Iowa is the fifth largest cattle feeding state. It is well known for having high-quality cattle, specifically those that meet Excel's specifications for export products, says Cargill's Mark Klein. Cargill also believes partnerships are a sign of where the industry is heading. That means cooperation between producers and packers to create a great-eating product for consumers. Cargill has worked very hard to functionally integrate and produce a better quality product, says Ken Bull, Excel's vice president of procurement. The Iowa partnership ties in very well with Cargill's strategic intent, he says.

Excel would buy cattle for the plant on an individual carcass merit basis and supply individual data back to producers, says Bull. Excel has been working diligently with new technology (such as carcass vision systems) to determine the true value of a carcass. Cargill's High River, Alta., and Excel's Ft. Morgan, Colo., beef plants now use the vision system. Excel will have the system in all Excel plants in the next 3-4 months, he says. Excel in August hired meats scientist Dr. Glen Dolezal from Oklahoma State University. He is heading up the next phase, to apply the science of the system to production capabilities. The plant will be as state-of-the-art as Cargill can make it, he says. It will be built on the High River model, starting with one shift and moving to two shifts eventually. It will include full fabrication and rendering, and have provision for case-ready and cooked meat production. Cargill anticipates a solid year of construction after ground breaking, he says.

Should the plant get built, Excel will face competition in Iowa not just from IBP and Nebraska-based packers but also from U.S. Premium Beef. It has a large number of members in Iowa (third only after Kansas and Nebraska). Given USPB's financial rewards and growth to date (see opposite page), it's unlikely any of these Iowa producers will support the new venture. So the question is how much money can Iowa cattlemen raise. If the amount raised is very small, will Cargill decide to go ahead with the plant anyway? If that happens, Cargill will make sure the plant works for it, say observers. But it may not work so well for producers, they say.

**IBP WILL CLOSE TAMA COW PLANT**

**NEWS** of a new beef plant in Iowa came only five days after IBP announced it is closing its cow plant in Tama, Iowa. IBP has been losing money at the plant for some time. An ongoing shortage of labor and declining cow supplies prompted its decision, it says. IBP will shutter the plant December 20. The plant is capable of killing 1450 head per day. But IBP has run it below this recently. The extreme shortage of available workers has made it difficult to keep the plant fully staffed, says Gene Leman, IBP President-Fresh Meats. Iowa's unemployment rate hit a record low of 2.4% in September. The plant is running 50 to 60 people short of where it would like to be, says IBP. The inadequate supply of market-ready cows is another factor, says Leman. It makes it hard for cow processors in the region to remain profitable. Since 1996 there has been a more than 20% decline in U.S. cow slaughter. Additional reductions are expected in 2000, he says.

Cow slaughter has diminished sharply each of the last three years. The industry killed 7.277M head in 1996, 6.560M head in 1997 and 5.981M head in 1998. This year's kill looks like declining to 5.6M head, with another decline to 5.3M head next year. CBW on January 11 this year estimated there was at that time about 50% overcapacity in the cow processing business. It forecast several closures. Since then, about 3500 head of daily cow slaughter capacity has been removed with six plant closures. The Tama closure will mean that about 1.25M head of annual cow slaughter capacity will have been removed in 1999.

Closure of Tama Packing signals a further retreat by IBP from the cow processing business. IBP entered the business in March 1995 when it bought Western Packing, Sealy, Texas. It bought Gibbon Packing, Gibbon, Neb., a week later. The Gibbon business included the Tama plant. IBP then bought Vernon Calhoun Packing, Palestine, Texas, in April 1996. The Tama closure will leave IBP with only the Gibbon plant. It closed the Sealy plant in August 1998 and Calhoun on April 30 this year. Tama currently employs 425 people. IBP will offer cash incentives to encourage workers to relocate to other IBP plants (Joslin, Ill., and Columbus Junction, Iowa).

STATE OF MISSISSIPPI



OFFICE OF THE ATTORNEY GENERAL

MIKE MOORE  
ATTORNEY GENERAL

April 25, 2002

OPINION  
DIVISION

Mr. Robert J. Rohrlack, Jr.  
Executive Director  
Mississippi Development Authority  
6<sup>th</sup> Floor, Woolfolk Building  
501 N. West Street  
Jackson, Mississippi 39205

RE: Mississippi Land, Water and Timber Resources Board

Dear Mr. Rohrlack:

Attorney General Mike Moore received your letter of request dated April 24, 2002, and asked that I research and respond. In your letter you pose the following questions, which I will address in the order presented:

As Co-Chairman of the Mississippi Land Water and Timber Resources Board ("the Board") and as Executive Director of the Mississippi Development Authority ("MDA"), a State Agency that has administrative duties in relation to this Board, I request an opinion on the following matter:

In the 2002 Legislative Session of the Mississippi Legislature, Miss. Code Ann. Section 69-46-5 which establishes the powers and duties of the Board was amended by House Bill 1341 by adding a new subsection as follows:

(1) The board may provide funds to public entities and private entities through loans, grants, contracts and any other manner the board determines appropriate for the purposes of carrying out the provisions of the Mississippi Land, Water and Timber Resources Act.

At its July 30, 2001 meeting, the Board voted unanimously to approve a grant in the amount of Five Million Dollars (\$5,000,000.00) requested by a private entity

("the Company") for construction of a proposed cow slaughter facility. The grant agreement will be administered by the MDA.

**Question No. 1:** Pursuant to House Bill 1341, does the Board have the authority to grant \$5,000,000.00 directly to the Company?

**Response:** Yes. Article 4 Section 66 of the Mississippi Constitution of 1890 provides in pertinent part as follows:

No law granting a donation or gratuity in favor of any person or object shall be enacted except by the concurrence of two-thirds of the members elect of each branch of the legislature....

House Bill 1341, which amends Miss. Code Ann. Section 69-46-5, was passed by two-thirds vote of the members of the House and the Senate. Therefore, the prohibition against donation in Section 66 of the Constitution does not apply. The statute clearly grants to the board the authority in its discretion to provide funds directly to private entities through grants.

**Question No. 2:** If the Board may grant funds directly to the Company, must the Company comply with state bid laws?

**Response:** No. In MS AG. Op. Pittman (February 12, 1999) this office stated that the duties and responsibilities of a public owner -- such as compliance with state bid laws -- cannot be waived, abdicated or delegated to a private company in an inducement agreement. In MS AG. Op. Williamson (September 11, 1998) a public hospital capitalized a nonprofit corporation it had formed which in turn injected the funds by loan into a private for-profit company. This office opined that no statute required the private for-profit company to comply with the public bid requirements applicable to public construction. Similarly, MS AG. Op. Johnson (October 26, 2001) states that a contract between the Mississippi Department of Corrections and a private medical provider for healthcare services at a private prison is not subject to the state public bid laws. These three opinions are consistent. There is a clear distinction here between a public and a private entity and the duties that attach to each. A private company is not by statute subject to the Public Purchase Laws. In this case, unlike the Pittman opinion, there is no public owner or entity retaining ownership of any property or facilities. Instead, the Board has granted the funds directly to a private company; as in the Williamson opinion, that private company's contracts with regard to its own property are not subject to state bid laws. The Board, however, has the discretion to impose such a condition upon a private company in its grant agreement.

**Question No. 3:** May the Board, in its grant agreement with the Company, limit the purposes for which the grant funds may be expended or condition receipt upon granting the State a lien on assets acquired with proceeds of said grant?

Response: Yes. House Bill 1341 provides that the board may provide funds by loan, grant or contract and in "... any other manner the board determines appropriate for the purposes of carrying out the provisions of the ... Act." This broad residual power gives the Board authority to structure the grant so as to insure that the legislative mandate is fulfilled and the taxpayers' funds put to their most effective use.

Question No. 4: May the Board, in its grant agreement, impose job creation and/or reporting requirements upon the Company, the breach of which will require the Company to pay some or all of the grant back to the State?

Response: Yes. See the response to question 3 above.

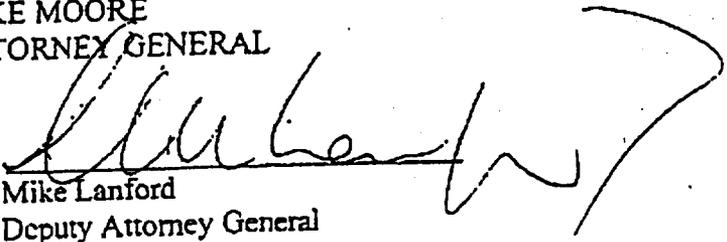
The above cited opinions are attached hereto and incorporated herein.

I hope that this opinion has been responsive to your request.

Sincerely,

MIKE MOORE  
ATTORNEY GENERAL

BY:

  
Mike Lanford  
Deputy Attorney General



**COPY**

**STATE OF MISSISSIPPI**  
RONNIE MUSGROVE, GOVERNOR  
**MISSISSIPPI DEVELOPMENT AUTHORITY**  
ROBERT J. ROHRLACK, JR., CED  
EXECUTIVE DIRECTOR

March 21, 2003

Mr. Wyman Jones  
President, Rankin-Hinds Division  
Community Bank of Mississippi  
1255 West Government Street  
Brandon, MS 39042

Re: Mississippi Beef Processors, LLC Project (the "Project")

Dear Wyman:

Based on the representations of Mr. Richard Hall that he can timely secure additional working capital of approximately \$3,000,000 required for the Project and the assurance of Representative Thomas U. Reynolds, Representative Bo Eaton, II, and Dr. Lester Spell that the Mississippi Legislature will, in its current session, fund the expected shortfall in construction costs of the Project currently estimated at approximately \$13,000,000, the Mississippi Development Authority ("MDA") agrees to the payment of those invoices presented to Community Bank and MDA for payment during the months of January and February in connection with the Project, to the extent that those invoices have been approved under the normal approval process. We understand that the total amount of these invoices is approximately \$2,500,000 (the "Expenses"). The payment of the Expenses shall in no way affect the terms and provisions of the Loan Guaranty Agreement, dated May 24, 2002, by and between you and the State of Mississippi, acting through MDA.

In addition, our approval of the payment of the Expenses is conditioned upon Mr. Hall's agreement to fully cooperate with the Facility Group, Inc. (the "Facility Group") in its evaluation of the Project and to reach an agreement on Monday with the Facility Group, satisfactory to MDA, on a new construction budget for the Project. This includes, but is not limited to, Mr. Hall immediately providing to the Facility Group his final plans, construction contracts and similar documents.

-2-

Mr. Wyman Jones  
March 21, 2003

MDA is approving the payment of the Expenses based solely on the representations and assurances made in today's meeting.

Sincerely,



Robert J. Rohrlack, Jr., CEcD  
Executive Director

cc: Governor Ronnie Musgrove  
Honorable Phil Bryant  
Commissioner Lester Spell  
Representative Billy McCoy  
Senator Bill Minor  
Representative Thomas U. Reynolds  
Representative Bo Eaton, II

March 22, 2003

*Confidential Communication*  
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This memo is written to the file as a record of the events of the Mississippi Beef Processors project and actions out of the ordinary.

During the legislative session in 2002, the MS Legislature passed a bill awarding a \$21 million loan guarantee to MS Beef Processors, headed by Richard Hall. Dr. Lester Spell, Commissioner of Agriculture and Consumer Services had induced Hall to MS. (see letter on file from Richard Hall).

From the beginning, the Mississippi Development Authority staff expressed concern to me about the project. The legislature, while strongly endorsing the project had done none of the standard background check on the financial viability of the project. Hall was not able to produce the standard background information MDA usually requires on a project. Each time MDA asked for more information, legislators or Dr. Spell accused MDA staff of trying to kill this project.

The Land Water and Timber Resources Board (LWT) awarded a \$5 million grant to Mr. Hall for the project. This was awarded before I arrived at MDA. MDA, by statute, is required to administer the funds for LWT. Repeatedly, I have asked the legislature to remove MDA from this board and administering the funds. This is due to our extreme concern about the viability of the project and how Dr. Spell runs LWT on a daily basis.

The projects of LWT are typically done with little or no background check and brought to the screening committee for approval by Dr. Spell. When MDA does not act in a way Dr. Spell wants, he publicly and privately criticizes MDA as being unsupportive of agriculture. MDA has the majority of the work to do after a project is awarded. In addition, Dr. Spell, without any consultation with MDA lobbied for the 2002 legislative bond bill to provide \$500,000 for his agency for LWT. MDA would have been left with no funding if we had not protested to House Ways and Means Chairman, Billy McCoy.

The MS Beef Processors project went through many starts and stops during 2002. At the April 26, 2003 meeting it was MDA that raised the point that Hall was putting zero of his own money into the project. The process was slowed down until Hall was able to put up \$1.5 million compared to the state's \$26 million. Two problems in particular are:

1. Hall faked an invoice to get paid \$3,875 for trucking equipment to the site. MDA refused to pay that invoice.
2. Representative Tommy Reynolds has been a constant lobbyist for this project. He has called MDA staff to question when we will pay invoices and has been up front advocating MDA pay invoices when all the records are not complete. MDA has documentation that Rep. Reynolds is being paid by the construction contractor on this project. I have been told this is an ethics violation. Rep. Reynolds has been told to stay out of the project, by legislative leadership but he keeps lobbying for it. (After it was discovered that the project was over budget, Rep. Billy McCoy strongly lectured Rep. Reynolds to stay out of the project and nothing would happen until MDA was satisfied with the project status to move forward.)

In January 2003, Hall informed the bank that he was over budget by \$5 million (\$2 million for construction & \$3 million for working capital) and would need more money. Hall had arraigned for TVA to loan him money if the state would take a subordinate position to TVA. MDA declined that action which has gotten us to the position we are in now.

Hall informed the bank that he is over budget. According to the agreement MDA has with the bank, they are required to tell MDA if there are any material breaches to the project. MDA immediately put a stop on payments until the issues are resolved. As of this date, Hall has not submitted a complete set of plans or a final budget. This has caused repeated problems that are affecting the project. The Bank and MDA cannot determine what the project parameters are and how to administer them. Dr. Spell, Reps. Reynolds and Eaton know these facts.

While the budget situation was in debate, Hall, through Spell, Reynolds and Eaton have been calling MDA staff and directing them to pay the outstanding invoices of over \$1.1 million. The invoices are for construction work done already on the project. MDA recommended the final draw on the LWT \$5 million grant and Hall's personal money be used to pay the invoices. Hall refused to use his own money. A meeting was scheduled for February 28 to discuss this issue.

#### February 28 Meeting

Chance Carter, Richard Bradley (Hall's attorney) Dusty Hinton, Bill Mendenhall, Lester Spell, Tommy Reynolds, Rickey Bennett and Bob Rohrlack were in attendance. Richard Hall participated by phone.

Hall expressed his concern that the state was not committed to the project (despite the \$26 million the state had already committed to the project). I expressed that MDA does support the project, but the finances needed to be in place and we needed the Facilities Group to give a preliminary okay on the projects feasibility. The Facilities Group was hired to do a review of the plant design to give a third party assessment of the projects feasibility and budget. The Bank and MDA asked Hall for a list of companies that could do this type of review. Hall provided a list that included The Facilities Group based in Atlanta. There is a letter on file from Hall dated March 1, 2003 where he begged Dr. Spell not to involve the Facilities Group in the project. Hall's resistance to review of the project has raised serious suspicion on the project.

Also at the February 28 meeting, Hall claimed that final plans would be delivered to the Bank that day. (Final plans were not delivered). It was agreed that on March 7, 2003 a preliminary meeting would be held with the Facilities Group to review what version of the plans they had and receive a progress report.

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Pressure has continued from Reps. Reynolds and Eaton, Dr. Spell and Richard Bradley for MDA to approve payments for invoices even though the project is over budget. I have consistently stated that until there is a viable plan with a matching budget, there will be no payments made.

While I was out of the office, the above-mentioned persons along with Rep. Steve Holland and Chairman McCoy have met with Governor's Office Chief of Staff Bill Renick and later with Renick and the Governor to apply pressure to get MDA to pay the invoices. At those meetings, they told Renick and the Governor that the Bank was ready to pay the invoices if MDA would only give the go-ahead. This is not true. If MDA wants the invoices paid, the Bank wants an approved plan and budget or wants MDA to release them of their responsibility under the guaranty.

March 19, 2003

There was a scheduled conference call with the Facilities Group at Dr. Spell's office to get a preliminary briefing on the project. I was unable to be there due to scheduling conflicts. This meeting was a last minute meeting. Just as the meeting was to start, Dr. Spell left and went to Rep. McCoy's office to criticize MDA and our handling of this project.

March 20, 2003

There have been many meetings where Dr. Spell has been looking for ways to apply pressure on MDA to pay the invoices without proper documentation on the viability of the project. Dr. Spell has tried to meet with staff of MDA without any notification to my office in order to pressure individual staff to approve payment without my knowledge.

At the 4:00 conference call, the Facilities Group stated that the project is probably going to cost \$39.1 million to build correctly. Richard had proposed a \$29.3 budget back in February. However, an hour before the call, he sent the Facilities Group a budget for

\$31.946 million budget. Dr. Spell had a copy of the budget but did not share it with MDA or the bank until I asked if we already had a copy about an hour into the meeting.

There are specific areas of the facility that are missing and are detailed in my notes I have on file. The Facilities Group made it clear that there are several areas that will not meet USDA specifications and would not approve the facility as presented in Hall's plans. Also, the Facilities Group "guestimated" that only 75% of the equipment the facility would need was included in the plan.

The meeting ended with the Facilities Group agreeing to meet with Richard Hall ASAP to come to some conclusions on how to build the facility and what type of budget would be required. (The meeting was later scheduled for Monday, March 24, 2003)

The Bank made the statement that Hall was either "a liar or stupid" with all the problems they are having and still not getting a final set of plans or budget. I spoke up that I agreed and that I was tired of MDA staff and the MDA itself getting criticized by those in the room over this project. MDA staff has worked extremely hard to keep this project on track despite all the wild goose chases others have started. Because this project has gone so far over budget, I made it clear that we would not go any farther until it was back in line and on budget. Dr. Spell asked me what it would take to apply the invoices and I restated the position that the project must be back on track before payments are approved.

March 21, 2003

#### Meeting at the Governor's Mansion

7:15am: I met with Governor Musgrove and Bill Renick to brief him on the project. I explained that the project is grossly over budget and we would be questioned on our reasoning for agreeing to pay invoices while the project is so far over budget. I explained how Hall has not been forthcoming with information and how Reynolds, Eaton and Spell

have been pushing the project rather than working on the issues that can be resolved to fix the problems.

The Governor stated that the project was a mess and only the super big processing projects were viable and this project was questionable.

8:00am Governor Musgrove, Renick and I meet with Dr. Spell, David Wade (LWT Board Member) Wyman Jones and Darrell Brown from Community Bank, Reps. Reynolds and Eaton and myself to discuss project.

Rep. Eaton admits the legislature made a mistake on this project by pushing it themselves and not going through MDA to review and recommend the project. Reynolds agrees. They further admit there has been no economic impact study on this project and we don't know when or if it will break even.

They state that Hall grew up in the industry and should be able to make the project successful although he has never run a facility himself. His father and grandfather have.

With Rep. Reynolds and Dr. Spell agreeing and nodding in agreement, Rep. Eaton states that the legislature will commit to raising the needed money to take the project to within budget.

I expressed our concern about the project, as did the bank. (Similar to the meeting the day before). Knowing what we know about the project, the Governor approves the payment of the outstanding invoices.

I drafted the letter dated March 21, 2003 and had Renick approve it before I sent it out. The bank had some questions and faxed a letter to me asking for my sign off. We had a conference call with the MDA and Community Bank lawyers present and we discussed and finalized the issues. I signed an amended letter from Community Bank and sent it back to the bank.

I then received a letter from Dr. Spell commenting on my letter to the bank. He has backed away from his commitment to get the legislature to fund the project. Dr. Spell has played a cat and mouse game on this project. He takes a leadership role with no accountability or follow-through. He has been quick to criticize MDA while not being willing to take the project on himself. MDA has repeatedly stated that we are willing and will cooperate in the transfer of this project to any other state agency including Dept. of Agriculture and Commerce. Each time we offer we are turned down.

When the budget issue first developed, Dr. Spell stated that it was MDA's issue and that "I've done my part. I'm out of this project now."

This project, as it currently stands is bad for Mississippi. It is not financially sound and being advocated by elected officials that do not have the experience or education to support it. MDA has from the beginning and continues to hold strong reservations about this project. We have expressed those concerns only to be rebuked and told we are unsupportive of agriculture or the north part of the state.

When I arrived at MDA in December 2001, I was told to put this project through the same requirement we put Nissan through. This project cannot stand up to the stringent standards that Nissan has been required to follow.

It is my continued belief that this project will not work with the current parties involved in making it happen. Unless there is dramatic change in the process coming from Hall, this project is doomed to failure.

March 24, 2003

Rep. Billy McCoy called a meeting to discuss the project. In attendance were: Reps. Leonard Morris, Steve Holland, Jeff Smith, Bo Eaton, Dr. Lester Spell, Ricky Gray, David Wade, Steve Hale, Jim Craig, Bob Rohrlack.

The project is approximately \$10 million to \$13 million over budget. There was a discussion of how much additional bond money the legislature would need to provide to make this project feasible. After a lengthy discussion, the legislators agreed there was a need for an additional \$9 – \$13 million needed to make this project functional and work. There was a request for MDA to do a Business Plan review, cash flow analysis and payback to the state analysis and be prepared to present the information by Thursday, March 27, 2003. I stated that we could not begin that process until we receive a final budget from Hall that has been endorsed by Facility Group. Dr. Spell was asked to get that information from Hall so MDA could begin this analysis.

Bob Rohrlack  
Executive Director  
Mississippi Development Authority  
March 25, 2003

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**STATE OF MISSISSIPPI**  
RONNIE MUSGROVE, GOVERNOR  
**MISSISSIPPI DEVELOPMENT AUTHORITY**  
ROBERT J. ROHRLACK, JR., CED  
EXECUTIVE DIRECTOR

March 25, 2003

**Telecopy**

Mississippi Land, Water & Timber Resources Board  
Mississippi Department of Agriculture  
121 North Jefferson Street  
Jackson, MS 39201

Re: Mississippi Beef Processors, LLC

Gentlemen:

This letter will set forth the thoughts of the Mississippi Development Authority ("MDA") regarding the above-referenced project along, with a summary of events to date. June 19, 2001, pursuant to preliminary conversations with Mr. Richard Hall of Mississippi Beef Processors, LLC ("MBP"), the beef processing facility proposed by MBP (the "Project") initially came to the attention of the Mississippi Land, Water & Timber Resources Board (the "Board"). Following a series of discussions during the spring of last year, the Board, after reviewing the Project in detail, including its financial feasibility, construction costs, etc., granted to MBP the sum of \$5,000,000 (the "Grant"), to be accompanied by a state-guaranteed loan in the amount of \$21,000,000 (the "Loan"). Throughout the discussion process, it was clearly understood by the Board and MDA that the Board's role would be to evaluate and determine the feasibility of the Project and that MDA's role would be to administer the Loan and the Grant in accordance with the documents prepared in connection with the Loan and the Grant.

After the Board's decision was made to fund the Project, MDA and its counsel drafted and actively negotiated the terms of a Loan Agreement between Community Bank (the "Bank") and MBP, as well as other transaction documents, including a Grant Agreement. Initially, the Bank considered using its standard commercial loan documents, but, at MDA's insistence, detailed documents were prepared specific to this particular transaction to insure that the proceeds of the Grant and the Loan were properly disbursed.

As you are aware, on or about January 28, 2003, MBP disclosed to the Bank that the Project could no longer be completed for the \$26,290,536 set forth in the Loan Agreement, but instead, that approximately \$2,000,000 in additional funds would be required. At the same time, MBP indicated that the original working capital line of credit from the bank to MBP, in the amount of \$6,500,000, would no longer be sufficient and that an additional \$3,000,000 would be

March 25, 2003

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required from another source. Both of these revelations jeopardize the State's position with respect to the Project since in order to obtain funding for both shortfalls, the State and the Bank could be required to subordinate their respective interests in significant portions of the collateral for the Loan. Subsequent to MBP's initial disclosures of its budget shortfall, it has since presented a revised budget totaling \$31,964,794, leaving a deficit, by MBP's own computations, of \$5,674,258 in construction costs, plus a deficit of \$3,000,000 in working capital. Please note that this \$8,674,258 deficit reflects only MBP's computations and not those of any independent party.

In response to this situation, MDA and the Bank immediately suggested to the Board that an independent consultant be retained to review the Project and MBP's revised budget, and bring to the Board and the Bank recommendations for completing the Project. As a result, Facility Group, Inc. (the "Facility Group"), of Atlanta, Georgia, was employed and is reviewing available information concerning MBP and the Project. Please note that, in initial conversations with Facility Group, we have been told that significant deficiencies exist in MBP's plans and the Project's design and that the Project's construction costs could ultimately total \$39,000,000. MDA has no reason to question the Facility Group's qualifications or the accuracy of their initial report. The Facility Group has indicated that it is very possible that the Project could experience a shortfall of as much as \$15,700,000, including additional construction and equipment costs and additional funds needed for operating lines of credit.

We are unaware of any funds available to the Board to cover the deficit currently expected for the Project. Likewise, we have received no indication that the principals of MBP are willing or able to contribute additional equity to the Project of a magnitude sufficient to permit the Project to be completed. Based upon this analysis, unless the Mississippi Legislature during its current session provides additional financial support, the completion of the Project is in doubt.

Commissioner Lester Spell and I met yesterday with the leadership of the Senate Finance Committee and the House Ways and Means Committee to update them on the status of the Project. Both committees requested that MBP provide MDA by the end of business today with certain financial information concerning the project which MDA will need to provide answers to questions raised at yesterday's meeting. Commissioner Spell is working with MBP to provide MDA this information.

We request that each member of the Board indicate as soon as possible to the leaders and members of these two committees their continued support of the Project and the Board's need for their immediate assistance to complete the Project.

As we have since the beginning, MDA stands ready and willing to do everything within our power to assist the Board in insuring the Project's success.

March 25, 2003

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Please contact Commissioner Spell or me if you have any questions or if you would like to discuss this matter in more detail.

Sincerely,



Robert J. Rohrlack, CEcD  
Executive Director

RJR:sp

cc: Governor Ronnie Musgrove (Hand Delivery)  
Commissioner Lester Spell (Hand Delivery)  
Honorable Phil Bryant (Hand Delivery)  
Representative Billy McCoy (Hand Delivery)  
Senator Bill Minor (Hand Delivery)  
Representative Jeff Smith (Hand Delivery)  
Representative Leonard Morris (Hand Delivery)  
Representative Tommy Reynolds (Hand Delivery)  
Representative Bo Eaton (Hand Delivery)  
Representative Steve Holland (Hand Delivery)  
Mr. Wyman Jones (Hand Delivery)



**COPY**

**STATE OF MISSISSIPPI**  
HALEY BARBOUR, GOVERNOR  
**MISSISSIPPI DEVELOPMENT AUTHORITY**  
LELAND R. SPEED  
EXECUTIVE DIRECTOR

September 22, 2004

Governor Haley Barbour  
Lt. Governor Amy Tuck  
Representative Billy McCoy  
Representative Thomas U. Reynolds  
Representative Bo Eaton  
Representative Steve Holland  
Senator Cindy Hyde-Smith  
Senator Tommy Robertson

Gentlemen, Governor Tuck and Senator Hyde-Smith:

The Mississippi Development Authority (MDA) and the Mississippi Land Water and Timber Board (LWT) are pleased to tell you that the beef processing facility envisioned for the State of Mississippi has now been completely constructed and the plant is in operation.

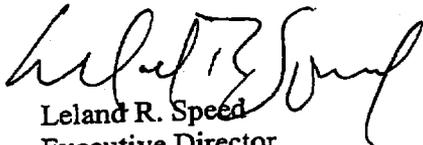
We learned, however, in a meeting last week with Mississippi Beef Processing, LLC (MBP), the owner operator of the plant, that MBP has run short of operating capital and the viability of the facility is in jeopardy. We understand that MBP's operating line of credit in the amount of \$6,500,000.00 is nearly exhausted from various start-up costs.

At the request of MBP and in response to this critical turn of events, MDA (in consultation with LWT) and Community Bank of Mississippi (Bank) have agreed to subordinate or release the bank's first priority security interest in One Million Five Hundred Thousand Dollars (\$1,500,000.00) of cash and cash equivalents that MBP pledged as collateral. This plan of action will allow MBP to use that collateral to secure a new loan for the same amount from a third party lender to use as working capital, or alternatively, allow some or all of this collateral to be released or liquidated so that MBP may use this money as operating capital.

This \$1,500,000.00 in collateral constitutes a portion of the security for the existing \$6,500,000.00 operating line of credit and a \$35,000,000.00 term loan from the Bank that is guaranteed by the State of Mississippi. After consultation with MBP's accountants, both agencies and the Bank believe that by subordinating or releasing this collateral, MBP will be able to bridge its cash flow problem and continue operations until it has secured other operating loans.

MDA and LWT are pleased with the cooperation shown by all parties and desire to do everything reasonably possible to help insure that this project succeeds. However, MBP acknowledges that the responsibility to obtain adequate operating capital and to operate the facility lies with MBP and not the state. MBP has been advised that this accommodation by the state is the only remaining financial assistance that the agencies are able to provide. We are very hopeful that with this final assistance the project will prosper from this point forward. We hope that these actions meet with your approval.

Sincerely,



Leland R. Speed  
Executive Director

cc: Commissioner Lester Spell, DVM  
Honorable Phil Bryant

**DANIEL COKER HORTON & BELL, P.A.**

ATTORNEYS AT LAW

**COPY**

4400 Old Canton Road, Suite 400 (39211-5982)  
Post Office Box 1084  
Jackson, Mississippi 39215-1084  
Telephone: 601-969-7607  
Facsimile: 601-969-1116

November 2, 2004

RICHARD C. BRADLEY III  
rbradley@danielcoker.com

**VIA HAND-DELIVERY**

Mr. Phil Bryant  
Office of the State Auditor  
501 North West Street, Suite 800  
Jackson, Mississippi 39201

Re: Capital needs of Mississippi Beef Processors, LLC

Dear Mr. Bryant:

I am writing to inform you that Mississippi Beef Processors, LLC ("MBP"), needs an immediate infusion of operating capital in the amount of five and a quarter million dollars to provide liquidity to cover operating costs for the month of November or MBP will not be able to continue operations. MBP also requests that the loans guaranteed by the State of Mississippi be restructured to defer debt service on principal and interest until July, 2005. The company is now at a standstill. Without additional operating capital, MBP will be forced to send the employees home and to liquidate its inventory to pay outstanding bills. MBP needs cash now to buy cows now to keep operating. Richard Hall has tried and is continuing to try to find another investor for the operation, but those efforts have not borne fruit. Therefore, Mississippi Beef processors is asking the State of Mississippi to lend it the money or to guarantee the loan of the funds requested or to make an additional grant.

Why five and a quarter million dollars? The number is based on the cost of cattle and the demands of the necessary cash flow. An analysis of the cash needs of MBP for the period November 1 through December 3 is attached to this letter as Exhibit "A." MBP needs to purchase cattle every business day. For this first week of November, the cost of cattle is approximately \$313,515.00 per day (600 head per day times \$522.50 time four days; the plant did not process cattle on Monday), rising to approximately \$496,375 per day (950 head times \$522.50) by the third week. If MBP does not buy cows to process, it cannot add value and continue in business. MBP needs five and a quarter million in operating capital now. As partial security, the company can offer the increase in the value of the inventory which will build up as the daily production rate increases. More importantly, without the money, MBP and the State will have a closed plant on its hands by the end of the week and the lost opportunity to pay back the existing debt as well.

November 2, 2004  
Letter to Mr. Phil Bryant, State Auditor  
Page 2

Attached to this letter as Exhibit "B" is a pro forma prepared by the accountants for MBP based upon actual operating figures for MBP through the end of September. (The actual figures for October are not yet available.) The pro forma assumes cattle purchases of 600 head per day for November 2-5, rising to 950 head per day later in the month. Based on those assumptions and deferral of debt service, MBP will be able to cover its operating expenses for the month of November as well as increase its inventory on hand from approximately two million dollars to more than four million two hundred fifty thousand dollars. The reason for the inventory buildup is to be able to sell truckload quantities of particular items that MBP produces.

Why has the original operating capital proved insufficient? The answer is that the plant was delivered late and that MBP has never had a fully operational plant so that it could ramp up production to 750-800 head per day, much less the full one thousand head per day. Instead, MBP has been limited to production levels far below the point that it can break even on operations. It has now exhausted its working capital. Two problems have prevented MBP from processing cattle at a sustainable level since it began operations on August 23, 2004. The basement of the main processing plant did not function properly to move the offal to the rendering plant and the rendering plant was not operational. Those two problems limited production in October to an average of 389 head per day instead of 750 head per day or higher. MBP estimates that it loses \$123.87 in revenue for each head of cattle that it cannot process. If MBP had been able to average processing 750 head of cattle per day in October instead of 389 cattle per day, MBP would have processed 16,500 cattle instead of only 8,558. That difference of 7,942 cattle represents lost income of approximately \$985,000 for October and the loss of approximately \$2,250,000 in increased inventory in the freezer. That represents over three million dollars in cash or inventory awaiting sale that would be in the business now. Just as importantly, MBP would have been replenishing its cash and adding to its inventory on hand and not depleting its working capital.

This terrible situation could have been avoided if MBP had received a complete processing facility in August, including a functional basement and rendering plant. Instead, MBP received a plant with an inoperable basement and an inoperable rendering plant. Even in mid-September, MBP reasonably thought it would reach break-even in short order. Instead, MBP has been working seven days a week, day and night, literally, to handle the offal at a cost to MBP of \$10,000 per day in transportation charges, labor, equipment rental, fuels, and insurance on equipment rental plus the lost sales on the products that can be made from processing the offal. MBP has had to load the offal into trucks and send it elsewhere for rendering instead of processing it on site and realizing the revenue on the products. MBP has incurred approximately \$700,000 in increased costs and lost revenue on the rendered materials.

As of mid-October, MBP had solved the basement problems by moving the conveyors and other equipment into a more efficient and workable layout. That permitted the plant to increase daily production to 600 head of cattle. But, that level proved to be the physical limit at which the employees and equipment in the basement could handle the offal and offload it into trucks on a

November 2, 2004

Letter to Mr. Phil Bryant, State Auditor

Page 3

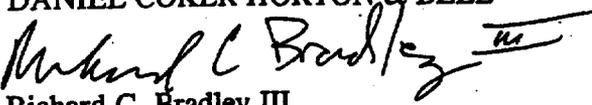
daily basis in the absence of an operating rendering plant. Unfortunately, at 600 head per day, the company bleeds money. MBP needs to be able to process approximately 750-800 head per day to break even.

The company that designed the rendering plant and installed the equipment has breached its contractual obligation to provide an operating rendering plant. It has repeatedly failed to respond to requests for assistance by MBP and FCMI. Several weeks ago, MBP located and hired Mr. Nickerson, a rendering plant expert, to determine why the equipment in the rendering plant does not work and to get it running. As you are aware, he reported at the meeting in Oakland on October 25 that the design of the rendering plant is fundamentally sound. He has corrected the improper installation of some items, modified other items, and installed the additional pumps and other equipment needed to make the rendering plant operate. To date, MBP has spent approximately \$60,000 (consulting fees, labor, parts, equipment rental, etc.) to get the rendering plant operable. On Monday, November, 1, Mr. Nickerson successfully tested the system by boiling water in the cooker. He performed further tests today. He plans to begin rendering the offal tomorrow. MBP now expects to work up to full rendering operation by the end of next week. That will allow the plant to begin processing 950 head per day by the third week of this month and permit MBP to operate at a level of profitability for the first time. MBP conservatively projects that production will exceed the break even point during the third week of November. However, MBP will not get there without the money to buy cattle in the interim.

MBP is providing this information to you so that you may be as informed as possible concerning the situation and so that you and your staff will be in a better position to advise those members of the Executive and Legislative branches of the government who may consult you about this request. If you need additional information about this request, please contact either Richard Hall or Keith McCeney or myself.

Sincerely yours,

DANIEL COKER HORTON & BELL

  
Richard C. Bradley III

RCB III:bcr

cc: Mississippi Beef Processors, LLC

encl



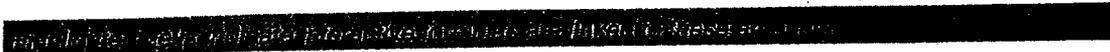
**MISSISSIPPI BEEF PROCESSORS, LLC**  
**Highlights from the Financial Statements**



<b>Revenue</b>				
Meat Products	\$23,809,939	\$149,630,286	\$149,630,286	\$ 149,630,286
By-Products	3,115,241	21,085,138	21,085,138	21,085,138
<b>Total Revenue</b>	<b>26,925,180</b>	<b>170,715,425</b>	<b>170,715,425</b>	<b>170,715,425</b>
<b>Operating Expenses</b>				
Cow purchases	21,619,193	137,940,000	137,940,000	137,940,000
Packaging	478,542	4,092,000	4,092,000	4,092,000
Quality control	131,744	327,360	327,360	327,360
Labor	2,272,734	6,732,000	6,732,000	6,732,000
Salary	1,147,862	1,254,996	1,254,996	1,254,996
Payroll taxes and fringes	615,707	1,437,659	1,437,659	1,437,659
Health insurance	143,649	540,000	540,000	540,000
Safety	16,500	66,000	66,000	66,000
Utilities	448,375	1,140,000	1,140,000	1,140,000
Natural Gas	319,200	1,108,800	1,108,800	1,108,800
Supplies	119,613	251,856	251,856	251,856
Phone	33,879	60,000	60,000	60,000
Repair/Maintenance	115,689	280,488	280,488	280,488
Freezing	-	-	-	-
Grinding	24,470	134,640	134,640	134,640
Transportation of fin. Product	691,855	4,963,200	4,963,200	4,963,200
Accounting	44,835	50,004	50,004	50,004
Legal	41,895	50,004	50,004	50,004
Interest	1,876,674	2,195,059	2,108,798	2,018,485
Insurance	322,953	566,516	566,516	566,516
Tankage operations	20,000	60,000	60,000	60,000
Miscellaneous	102,914	240,240	240,240	240,240
Shipping / Handling	24,889	35,730	35,730	35,730
Disposal	7,197	39,600	39,600	39,600
Hide Processing	71,970	396,000	396,000	396,000
Water / Water treatment oper.	48,000	144,000	144,000	144,000
Infrastructure expense	-	-	-	-
Bank and loan fees	30,015	-	-	-
ELS loan costs	234,312	1,496,303	1,496,303	1,496,303
Depreciation	634,952	1,904,856	1,904,856	1,904,856
<b>Total Operating Expenses</b>	<b>31,501,538</b>	<b>167,507,310</b>	<b>167,421,050</b>	<b>167,330,736</b>
<b>Income From Operations</b>	<b>(4,576,357)</b>	<b>3,208,115</b>	<b>3,294,375</b>	<b>3,384,689</b>
<b>Income Taxes</b>	-	-	-	-
<b>Net Income</b>	<b>(4,576,357)</b>	<b>3,208,115</b>	<b>3,294,375</b>	<b>3,384,689</b>

EXHIBIT "B"

**MISSISSIPPI BEEF PROCESSORS, LLC**  
**ASSUMPTIONS**



<b>Revenue</b>			
Meat Products	[REDACTED]	per head	from cow matrix
By-Products	79.87	per head	from cow matrix
<b>Operating Expenses</b>			
Cow purchases	[REDACTED]	per head	from cow matrix
Packaging	[REDACTED]	per head	
Quality control	[REDACTED]	per day	
Labor	561,000	Full employment - 405 employees starting July 1, 2004	
Salary	[REDACTED]	\$1,254,996 per year full employment - management	
Payroll taxes and fringes	[REDACTED]	of labor and salary	
Health insurance	[REDACTED]	monthly per quote	
Safety	[REDACTED]	5000/mo nurse + 500/mo other	
Utilities	[REDACTED]	per TVEPA worksheet - starts at end of construction	
Natural Gas	[REDACTED]	per day	
Supplies	[REDACTED]	per day plus	[REDACTED] per head \$ 170,000
Phone	5,000	per month	
Repair/Maintenance	23,374	per month	
Freezing	[REDACTED]	percentage of meat product sales	
Grinding	[REDACTED]	CO2 costs for grinding per head	
Transportation of fin. Product	[REDACTED]	per head	
Accounting/Legal	4,167	per month	
Interest	[REDACTED]	see loan amortization	
Insurance	38,043	per month	plus annual \$ 110,000.00
Tankage operations	[REDACTED]	per month	
Miscellaneous	[REDACTED]	per head	
Water / Water treatment oper.	12,000	per month	
Depreciation	158,738	monthly from plant & equipment tab	
Disposal	0.150	per head	
Hide processing	1.500	per head	

KILL/DAY  
AVG LIVE W  
DRESS %  
AVG C WT

1000 KILL/WEEK  
1100 LIVE COST/LB DELIVERED  
0.46 CARCASS COST/LB  
506

5000 KILL/YEAR  
0.475  
1.032609

260000

COST PER HEAD  
[REDACTED]

	% CAR WT	LBS	PRICE/LB	VALUE/HD
B B 100%	0.0000		1.80	-
B B 90%	0.5850	296	1.35	399.60
B B 85%	0.0000	0	1.15	-
B B 75%	0.0000		1.00	-
Bull Meat	0.0000	0	1.30	-
3 oz Patty	0.0000		1.70	-
4 oz Patty	0.0000		1.67	-
5 oz Patty	0.0000		1.25	-
1 # Chubs	0.0000		1.70	-
5 # Chubs	0.0000		1.60	-
10 # Chubs	0.0000	0	1.43	-
TOTAL BEEF	0.5850	296		-
KNUCKLES	0.0357	18.0642	1.65	29.81
100% EyeRound	0.0086	4.3516	1.75	7.62
100% Insides	0.0246	12.4476	1.95	24.27
100% Flats/Eyes	0.0189	9.5634	1.93	18.46
100% Strip	0.0091	4.6046	1.96	9.03
Flank Steak	0.0054	2.7324	1.90	5.19
RIB EYE 5/6	0.0146	7.3876	1.80	13.30
RIB EYE 3/5	0.0074	3.7444	1.80	6.74
TNDRS 4 UP	0.0101	5.1106	2.90	14.82
TNDRS 4 DN	0.0041	2.0746	2.90	6.02
Chuck Tenders	0.0081	4.0986	1.35	5.53
Whizard Trim	0.0028	1.4168	1.35	1.91
SPB	0.0136	6.8816	1.80	12.39
Sirloin Butts	0.0165	8.349	1.45	12.11
% OF CARC	76.45	370.1796	BONE OUTS	[REDACTED]
% OF LIVE W	33.65			
	% CAR WT	LBS	PRICE/LB	VALUE/HD
OFFAL CDT				
TONGUE	0.0060	3.036	0.65	1.97
TONGE TRM	0.0025	1.265	0.18	0.23
LIPS	0.002	1.012	0.70	0.71
HEARTS	0.0079	3.9974	0.37	1.48
TAILS	0.004	2.024	1.70	3.44
LIVERS	0.02	10.12	0.12	1.21
FEET	0.0255	12.903	-	-
TRIPE	0.0350	17.71	0.45	7.97
HONY CMB	0.003	1.518	1.70	2.58
MTN CHAIN	0.0220	0	-	-
WEASND MT	0.0012	0.6072	-	-
OMASUM	0.0055	0	-	-
KIDNEYS	0.0049	2.4794	0.15	0.37
CHK MEAT	0.0075	3.795	1.16	4.40
HIDE VALUE / HEAD \$				40.00
MEAT/BONE MEAL/GREASE /HEAD \$				11.00
FETAL BLOOD-AVG \$ PER HEAD				4.50

OFFAL CREDIT/HD [REDACTED]

**PROPOSED PROJECT BUDGET**

		<b>Depreciation</b>		
		<b>life in years</b>	<b>annual</b>	<b>monthly</b>
Carothers Construction	17,395,037	39.5	440,380.68	36,698.39
Slaughter	1,497,586	39.5	37,913.57	3,159.46
Tripe and Feet Dept.	454,847	39.5	11,515.11	959.59
Offal Dept.	89,129	39.5	2,256.43	188.04
Boning Room/Fab Room	998,455	39.5	25,277.34	2,106.45
Cooler/Shipping/Quality	280,207	39.5	7,093.85	591.15
Grinding Room	708,266	39.5	17,930.78	1,494.23
Boiler Room/Rendering	1,990,500	7	284,357.14	23,696.43
Packaging for Grinding Dept	1,067,775	39.5	27,032.28	2,252.69
Refrigeration/Refrig. Panels	5,556,948	7	793,849.71	66,154.14
Additional Construction Costs	7,000,000	39.5	177,215.19	14,767.93
Hides Room	535,530	39.5	13,557.72	1,129.81
Cleaning/Wash Down	-	39.5	-	-
Design fees	254,966			
Furniture	25,000	7	3,571.43	297.62
Phone system	125,000	7	17,857.14	1,488.10
Vehicle	-			
Accounting Fees	48,000			
Insurance Life	19,970			
Equipment Installation/Transportation	495,000	7	70,714.29	5,892.86
MDA Fees	210,000	7	30,000.00	2,500.00
Bank Fees	95,250	7	13,607.14	1,133.93
Legal Fees	50,036	7	7,148.00	595.67
Performance bond	1,698			
Startup costs and fees	350,000			
Software and hardware	250,800	5	50,160.00	4,180.00
	<u>39,500,000</u>			
Grant Offset	<u>(5,000,000)</u>	39.5	<u>(126,582.28)</u>	<u>(10,548.52)</u>
	<u>34,500,000</u>		<u>1,904,855.54</u>	<u>158,737.96</u>

MISSISSIPPI BEEF PROCESSORS, LLC  
 BALANCE SHEET (2004 by month)

As of the Month Ending:

	Actual											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Assets</b>												
Current Assets												
Cash	\$11,417	\$29,256	\$20,534	\$25,502	(\$4,460)	\$62,992	\$79,900	\$77,787	(\$152,166)	\$2,841,545	(\$4,988,382)	(\$4,906,867)
Accounts Receivable					950	950	554	1,754	828,963	1,410,953	1,664,996	2,003,828
Inventory									849,890	1,988,639	4,288,196	4,288,196
Total Current Assets	11,417	29,256	20,534	25,502	(3,536)	83,942	80,454	79,521	1,525,655	6,241,137	964,800	1,365,157
Fixed Assets												
Plant	15,466,431	16,748,862	16,169,337	20,308,024	23,298,079	22,320,471	23,432,370	23,487,286	23,801,732	23,001,732	23,001,732	23,001,732
Equipment	8,540,526	8,976,261	10,003,750	10,637,563	11,454,663	14,639,652	15,108,367	15,698,322	16,674,773	15,674,773	15,674,773	15,674,773
Land, water, waste treatment	13,163	13,163	13,163	13,163	13,163	13,163	513,163	513,163	513,163	513,163	513,163	513,163
Lease Depreciation									(156,739)	(317,478)	(476,214)	(534,852)
Net Fixed Assets	24,020,120	25,738,306	26,185,250	30,954,750	34,783,905	36,873,286	39,054,900	39,676,763	39,630,830	39,472,192	38,313,454	39,154,716
<b>Total Assets</b>	24,039,537	25,767,562	26,205,784	30,984,252	34,780,399	37,057,228	39,135,354	39,756,304	41,156,585	45,713,329	40,278,254	40,519,873
<b>Liabilities &amp; Owners' Equity</b>												
Current Liabilities												
Accounts Payable	16,659	14,010	15,269	-	-	-	58,183	56,432	291,299	657,993	735,240	640,505
Income Taxes Payable									281,299	857,993	735,240	640,505
Total Current Liabilities	16,659	14,010	15,269	-	-	-	58,183	56,432	281,299	857,993	735,240	640,505
Notes Payable												
Bank Note	19,624,196	21,320,847	23,795,521	26,522,448	30,143,482	31,847,951	33,835,159	34,293,200	34,397,635	34,397,635	34,264,888	34,132,141
Agricultural												
Bridge Loan												
Line of Credit	852,808	959,443	1,157,472	1,559,625	1,846,908	3,090,072	3,546,920	4,270,497	6,407,140	6,407,140	6,407,140	6,407,140
Total Notes Payable	20,483,663	22,280,290	24,952,993	28,081,073	32,092,390	34,938,023	37,440,282	38,620,129	41,096,074	41,462,788	41,407,268	41,378,786
Total Liabilities	20,483,663	22,280,290	24,952,993	28,081,073	32,092,390	34,938,023	37,440,282	38,620,129	41,096,074	41,462,788	41,407,268	41,378,786
Member's Capital												
Member's Capital	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Retained Earnings	(1,454,128)	(1,528,739)	(1,732,476)	(2,096,821)	(2,332,021)	(2,890,795)	(3,304,908)	(3,963,625)	(4,839,489)	(5,813,617)	(6,129,014)	(5,859,913)
Total Member's Capital	3,545,874	3,473,262	3,267,522	2,903,179	2,667,979	2,119,205	1,695,092	1,136,175	90,511	(813,617)	(1,129,014)	(859,913)
<b>Total Liabilities &amp; Member's Capital</b>	24,039,537	25,767,562	28,205,784	30,984,252	34,780,399	37,057,228	39,135,354	39,756,304	41,156,585	40,849,151	40,278,254	40,519,873

MISSISSIPPI BEEF PROCESSORS, LLC  
 BALANCE SHEET (2008 by month)  
 As of the Month Ending:

Assets	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current Assets												
Cash	(\$4,488,341)	(\$3,931,980)	(\$3,631,780)	(\$3,441,319)	(\$3,140,277)	(\$2,838,654)	(\$2,536,451)	(\$2,233,666)	(\$1,930,307)	(\$1,628,355)	(\$1,327,825)	(\$1,028,867)
Accounts Receivable	1,989,475	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095
Inventory	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198
Total Current Assets	1,794,330	2,093,630	2,383,511	2,583,972	2,885,014	3,186,937	3,488,940	3,791,924	4,094,990	4,398,938	4,697,468	4,998,604
Fixed Assets												
Plant	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732
Equipment	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773
Land, water, waste treatment	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163
Less Depreciation	(793,690)	(952,428)	(1,111,169)	(1,288,904)	(1,428,642)	(1,587,389)	(1,746,118)	(1,904,856)	(2,063,594)	(2,222,332)	(2,381,070)	(2,539,808)
Net Fixed Assets	38,995,978	38,637,240	39,678,502	38,518,794	38,361,028	38,202,288	38,043,590	37,884,812	37,726,074	37,567,336	37,408,598	37,249,860
Total Assets	40,790,308	40,930,871	41,072,013	41,103,736	41,246,040	41,388,925	41,532,390	41,676,437	41,821,064	41,966,272	42,108,065	42,248,464
Liabilities & Owner's Equity												
Current Liabilities												
Accounts Payable	970,378	969,798	1,079,217	968,638	968,056	967,475	966,894	966,313	965,733	965,152	964,545	963,938
Income Taxes Payable	870,378	869,798	1,079,217	968,638	968,056	967,475	966,894	966,313	965,733	965,152	964,545	963,938
Total Current Liabilities	1,840,756	1,839,596	2,158,434	1,937,276	1,936,112	1,934,950	1,933,788	1,932,626	1,931,464	1,930,304	1,929,142	1,927,980
Notes Payable	33,899,394	33,896,647	33,733,900	33,801,153	33,488,406	33,335,669	33,202,912	33,070,165	32,937,418	32,804,671	32,665,928	32,527,185
Bank Note												
AgriCap												
Bridge Loan												
Line of Credit	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140
Total Notes Payable	40,306,534	40,273,787	40,141,040	40,008,293	39,875,546	39,742,799	39,610,052	39,477,305	39,344,558	39,211,811	39,073,064	38,934,325
Total Liabilities	41,376,812	41,243,585	41,220,257	40,979,429	40,843,602	40,710,274	40,576,946	40,443,618	40,310,291	40,176,963	40,043,635	39,898,283
Member's Capital	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Member's Capital	(5,986,804)	(5,312,715)	(5,148,245)	(4,873,184)	(4,597,862)	(4,321,349)	(4,044,556)	(3,767,182)	(3,489,227)	(3,210,881)	(2,931,546)	(2,651,799)
Retained Earnings	(666,804)	(312,716)	(148,245)	128,808	402,438	878,881	956,444	1,232,818	1,510,773	1,789,399	2,068,452	2,348,201
Total Member's Capital	40,790,308	40,930,871	41,072,013	41,103,736	41,246,040	41,388,925	41,532,390	41,676,437	41,821,064	41,966,272	42,108,065	42,248,464

**MISSISSIPPI BEEF PROCESSORS, LLC**  
**BALANCE SHEET (Year 2006 by month)**  
 As of the Month Ending:

Assets	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Current Assets</b>												
Cash	(\$728,942)	(\$428,591)	(\$127,832)	\$83,094	\$98,106	\$68,896	\$972,273	\$1,278,266	\$1,580,867	\$1,888,075	\$2,191,889	\$2,490,849
Accounts Receivable	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095
Inventory	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198	4,288,198
Total Current Assets	5,298,349	5,596,700	5,897,659	6,088,225	6,381,387	6,694,177	6,997,964	7,301,557	7,606,158	7,911,366	8,217,180	8,516,140
<b>Fixed Assets</b>												
Plant	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732	23,801,732
Equipment	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773
Land/vehicle/waste treatment	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163
Less Depreciation	(2,889,548)	(2,857,283)	(3,018,021)	(3,174,759)	(3,333,487)	(3,492,235)	(3,650,973)	(3,809,711)	(3,968,449)	(4,127,187)	(4,285,925)	(4,444,663)
Net Fixed Assets	37,091,122	36,932,385	36,773,647	36,614,809	36,456,171	36,297,433	36,138,695	35,979,957	35,821,219	35,662,481	35,503,743	35,345,005
Total Assets	42,387,471	42,529,085	42,671,305	42,704,133	42,847,588	42,991,610	43,136,258	43,281,514	43,427,377	43,573,846	43,720,923	43,861,145
<b>Liabilities &amp; Owners' Equity</b>												
<b>Current Liabilities</b>												
Accounts Payable	983,331	982,724	1,072,117	961,510	960,903	960,296	959,689	959,082	958,475	957,868	957,261	956,621
Income Taxes Payable			1,072,117	961,510	960,903	960,296	959,689	959,082	958,475	957,868	957,261	956,621
Total Current Liabilities	983,331	982,724	2,144,234	1,923,020	1,921,806	1,920,592	1,919,378	1,918,164	1,916,949	1,915,735	1,914,521	1,913,242
<b>Notes Payable</b>												
Bank Note	32,388,442	32,248,899	32,110,956	31,972,213	31,833,470	31,694,727	31,555,984	31,417,241	31,278,498	31,139,755	31,001,012	30,864,807
AgriCap												
Bridge Loan	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140
Line of Credit	38,795,582	38,656,838	38,518,095	38,379,353	38,240,610	38,101,867	37,963,124	37,824,381	37,685,638	37,546,895	37,408,152	37,261,947
Total Notes Payable	39,758,913	39,619,563	39,580,213	39,340,863	39,201,513	39,062,163	38,922,813	38,783,463	38,644,113	38,504,763	38,365,413	38,218,568
<b>Total Liabilities</b>	42,387,471	42,529,085	42,671,305	42,704,133	42,847,588	42,991,610	43,136,258	43,281,514	43,427,377	43,573,846	43,720,923	43,861,145
<b>Members' Capital</b>												
Member's Capital	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Member's Capital	(2,374,442)	(2,090,478)	(1,818,907)	(1,638,730)	(1,353,945)	(1,070,553)	(786,555)	(501,949)	(216,739)	(89,084)	355,510	642,577
Retained Earnings	2,628,558	2,606,522	3,081,093	3,363,270	3,646,055	3,929,447	4,213,445	4,498,051	4,783,284	5,068,084	5,353,510	5,642,577
Total Member's Capital	42,387,471	42,529,085	42,671,305	42,704,133	42,847,588	42,991,610	43,136,258	43,281,514	43,427,377	43,573,846	43,720,923	43,861,145

MISSISSIPPI BEEF PROCESSORS, LLC  
 \*\*\* BALANCE SHEET (2007 by month) \*\*\*

As of the Month Ending:

Assets	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Current Assets</b>												
Cash	\$2,790,448	\$3,090,887	\$3,391,566	\$3,593,084	\$3,885,242	\$4,188,040	\$4,491,477	\$4,795,554	\$5,100,270	\$5,405,626	\$5,711,622	\$6,018,258
Accounts Receivable	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095	1,757,095
Inventory	4,288,196	4,288,196	4,288,196	4,288,196	4,288,196	4,288,196	4,288,196	4,288,196	4,288,196	4,288,196	4,288,196	4,288,196
Total Current Assets	8,835,739	9,176,178	9,476,857	9,638,375	9,930,533	10,273,331	10,516,768	10,820,845	11,125,561	11,430,917	11,736,913	12,043,548
<b>Fixed Assets</b>												
Plant	23,601,732	23,601,732	23,601,732	23,601,732	23,601,732	23,601,732	23,601,732	23,601,732	23,601,732	23,601,732	23,601,732	23,601,732
Equipment	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773	15,674,773
Land, water, waste treatment	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163	513,163
Less Depreciation	(4,603,401)	(4,762,139)	(4,920,877)	(5,079,615)	(5,238,353)	(5,397,091)	(5,555,828)	(5,714,567)	(5,873,305)	(6,032,043)	(6,190,781)	(6,349,519)
Net Fixed Assets	35,186,267	35,027,528	34,868,791	34,710,053	34,551,315	34,392,577	34,233,839	34,075,101	33,916,363	33,757,625	33,598,887	33,440,149
<b>Total Assets</b>	44,002,006	44,143,507	44,285,648	44,318,428	44,461,848	44,605,908	44,750,607	44,895,946	45,041,924	45,186,543	45,335,800	45,483,688
<b>Liabilities &amp; Owners' Equity</b>												
<b>Current Liabilities</b>												
Accounts Payable	955,982	955,342	1,064,702	954,063	953,423	952,783	952,144	951,504	950,864	950,225	949,585	948,945
Income taxes Payable												
Total Current Liabilities	955,982	955,342	1,064,702	954,063	953,423	952,783	952,144	951,504	950,864	950,225	949,585	948,945
<b>Notes Payable</b>												
Bank Note	30,708,602	30,562,397	30,416,192	30,269,987	30,123,782	29,977,577	29,831,372	29,685,167	29,538,962	29,392,757	29,246,552	29,100,347
AgriCap												
Bridge Loan	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140	6,407,140
Line of Credit	37,115,742	36,969,537	36,823,332	36,677,127	36,530,922	36,384,717	36,238,512	36,092,307	35,946,102	35,799,897	35,653,692	35,507,487
Total Notes Payable	38,071,724	37,924,876	37,888,034	37,831,190	37,784,345	37,737,500	37,690,656	37,643,811	37,596,966	37,550,122	37,503,277	37,456,432
<b>Total Liabilities</b>	39,027,706	38,880,218	38,952,736	38,865,253	38,767,767	38,679,283	38,590,800	38,492,317	38,403,834	38,315,351	38,226,868	38,138,385
<b>Member's Capital</b>												
Member's Capital	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Retained Earnings	930,283	1,218,828	1,397,614	1,687,239	1,977,503	2,268,407	2,559,951	2,852,135	3,144,958	3,438,421	3,732,523	4,027,285
Total Member's Capital	5,930,283	6,218,828	6,397,614	6,687,239	6,977,503	7,268,407	7,559,951	7,852,135	8,144,958	8,438,421	8,732,523	9,027,285
<b>Total Liabilities &amp; Member's Capital</b>	44,002,006	44,143,507	44,285,648	44,318,428	44,461,848	44,605,908	44,750,607	44,895,946	45,041,924	45,186,543	45,335,800	45,483,688

MISSISSIPPI BEEF PROCESSORS, LLC  
 INCOME STATEMENT (2004 by month)

	Actual												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Totals
Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Meat Products													
By-Products													
Total Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Operating Expenses													
Cow purchases													
Packaging													
Quality control													
Labor	61,662	62,396	86,878	89,000	82,485	75,610	184,631	104,678	495,056	581,000	561,000	2,272,734	1,447,862
Salary													
Payroll taxes and stringes													
Health Insurance													
Safety													
Utilities						52							
Neutral Gas													
Supplies	302	808	1,616	5,000	6,344	7,670	19,383	8,704	42,000	82,400	82,400	20,968	319,200
Phone	301	771	1,167	3,000	980	2,256	439	4,855	5,000	19,601	5,000	5,000	119,613
Repair/Maintenance													
Freighting													
Transportation of fn. Product													
Accounting	4,000	4,000											
Legal	14,237	3,224	1,585	4,167	2,113	300	8,000	8,167	43,144	160,860	188,202	283,148	691,855
Interest	77,331	5,002	111,214	129,336	124,795	399,822	156,685	132,772	3,788	4,167	4,167	4,167	41,885
Insurance		88		115,000	487	55,196			187,865	187,865	187,294	188,703	1,878,674
Tenants operations													
Miscellaneous	510	2,747	3,300		11,041	6,263	12,387	21,625	6,000	5,000	5,000	20,000	20,000
Shipping / Handling													
Disposal	2,227	3,574			1,218	4,333	1,398	231	4,320	11,165	2,310	3,300	24,889
Hide Processing													
Water / Water treatment oper.													
Infrastructure expenise													
Bank and loan fees	10,000					15	20,000						30,015
Ag/Corp loan costs													224,312
Depreciation									15,735	37,677	68,643	113,073	634,952
Total Operating Expenses	170,570	72,812	205,740	364,343	235,200	548,774	424,113	558,917	2,995,664	5,147,084	8,146,967	12,631,554	31,501,538
Income From Operations	(170,570)	(72,812)	(205,740)	(364,343)	(235,200)	(548,774)	(424,113)	(558,917)	(2,995,664)	(5,147,084)	(8,146,967)	(12,631,554)	(4,576,357)
Income Taxes													
Net Income (loss)	(170,570)	(72,812)	(205,740)	(364,343)	(235,200)	(548,774)	(424,113)	(558,917)	(1,075,664)	(874,128)	(315,387)	(288,100)	(4,576,357)
Head Count	0	0	0	0	0	0	0	0	288	388	734	850	
Work days	22	22	22	22	22	22	22	22	10	22	22	21	
Head per month	0	0	0	0	0	0	0	0	2880	8558	16148	19950	







MISSISSIPPI BEEF PROCESSORS, LLC  
 CASH FLOWS, 2004 By Month

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Sources of Cash:</b>												
Operations during the year:												
Net Income After Taxes	(\$170,570)	(\$72,612)	(\$206,740)	(\$364,343)	(\$226,200)	(\$646,774)	(\$424,113)	(\$556,617)	(\$1,076,604)	(\$974,126)	(\$316,367)	\$288,100
Add items not decreasing cash:												
Depreciation	6,936	(2,849)	1,259	(15,269)	-	-	56,183	(1,751)	156,736	156,736	156,736	156,736
Increase in Accounts Payable									234,967	306,664	77,247	108,266
Deduct items not increasing cash:												
Increase in Accounts Receivable					650	-	(399)	1,200	627,209	3,204,606	3,131,147	336,662
Cash from Operations	(163,632)	(75,461)	(204,481)	(379,612)	(236,150)	(646,774)	(365,634)	(601,668)	(1,509,266)	(3,553,582)	(3,210,656)	194,241
<b>Cash flows from Investing Activities:</b>												
Inventory									(646,660)	(1,136,776)	(2,279,557)	-
Net used in investment activity									(646,660)	(1,136,776)	(2,279,557)	-
<b>Financing &amp; Other:</b>												
Capital contributed												
Loan proceeds	137,363	93,300	195,759	384,580	206,162	636,252	362,442	556,735	2,136,643	3,650,000	1,850,000	-
Bridge Loan												
AgriCap proceeds												
Principal reductions:									(6,450)	-	(132,747)	(132,747)
Bank Note												
AgriCap												
Line of Credit												
Cash from Financing	137,363	93,300	195,759	384,580	206,162	636,252	362,442	556,735	2,128,193	3,650,000	1,717,253	(132,747)
<b>Increase/(Decrease) in Cash</b>	(26,249)	17,839	(8,722)	4,968	(29,666)	87,478	(3,082)	(2,133)	(229,935)	(1,043,331)	(3,772,863)	61,494
<b>Change in Cash Balance</b>												
Beginning Cash Balance	37,666	11,417	29,256	20,534	25,502	(4,469)	62,962	79,900	77,767	(152,166)	(1,185,469)	(4,868,362)
Increase/(Decrease) in Cash	(26,249)	17,839	(8,722)	4,968	(29,666)	87,478	(3,082)	(2,133)	(229,935)	(1,043,331)	(3,772,863)	61,494
Ending Cash Balance	\$11,417	\$29,256	\$20,534	\$25,502	(\$4,469)	\$87,478	\$79,900	\$77,767	(\$152,166)	(\$1,185,469)	(\$4,868,362)	\$1,494

MISSISSIPPI BEEF PROCESSORS, LLC  
 CASH FLOW: 2009 by month

Source of Cash:	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Operations during the year:												
Net Income After Taxes	\$273,309	\$273,898	\$164,470	\$276,051	\$276,632	\$276,213	\$276,793	\$277,374	\$277,955	\$278,536	\$279,117	\$279,700
Add items not decreasing cash:	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738
Depreciation	129,873	(580)	108,418	(110,581)	(581)	(581)	(581)	(581)	(581)	(581)	(907)	(907)
Increase in Accounts Payable												
Deduct items not increasing cash:												
Increase in Accounts Receivable	(14,353)	(232,280)	-	-	-	-	-	-	-	-	-	-
Cash from Operations	676,273	694,427	432,627	323,206	433,789	434,370	434,951	435,531	436,112	436,693	437,274	437,861
Cash flows from Investing Activities												
Inventory	-	-	-	-	-	-	-	-	-	-	-	-
Net used in investment activity	-	-	-	-	-	-	-	-	-	-	-	-
Financing & Other:												
Capital contributed	-	-	-	-	-	-	-	-	-	-	-	-
Loan proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Bridge Loan	-	-	-	-	-	-	-	-	-	-	-	-
AgriCap proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Principal reductions:												
Bank Note	(132,747)	(132,747)	(132,747)	(132,747)	(132,747)	(132,747)	(132,747)	(132,747)	(132,747)	(132,747)	(138,743)	(138,743)
AgriCap	-	-	-	-	-	-	-	-	-	-	-	-
Line of Credit	-	-	-	-	-	-	-	-	-	-	-	-
Cash from Financing	(132,747)	(132,747)	(132,747)	(132,747)	(132,747)	(132,747)	(132,747)	(132,747)	(132,747)	(132,747)	(138,743)	(138,743)
Increase/(Decrease) in Cash	443,526	531,680	299,880	190,459	301,042	301,623	302,204	302,784	303,365	303,946	298,531	299,138
Change in Cash Balance	(4,906,897)	(4,463,341)	(3,931,680)	(3,531,789)	(3,441,319)	(3,140,277)	(2,838,654)	(2,536,451)	(2,233,698)	(1,930,301)	(1,628,355)	(1,327,825)
Beginning Cash Balance	443,526	531,680	299,880	190,459	301,042	301,623	302,204	302,784	303,365	303,946	298,531	299,138
Increase/(Decrease) in Cash	(4,906,897)	(4,463,341)	(3,931,680)	(3,531,789)	(3,441,319)	(3,140,277)	(2,838,654)	(2,536,451)	(2,233,698)	(1,930,301)	(1,628,355)	(1,327,825)
Ending Cash Balance	(\$4,463,341)	(\$3,931,680)	(\$3,531,789)	(\$3,441,319)	(\$3,140,277)	(\$2,838,654)	(\$2,536,451)	(\$2,233,698)	(\$1,930,301)	(\$1,628,355)	(\$1,327,825)	(\$1,028,687)

**MISSISSIPPI BEEF PROCESSORS, LLC**  
**CASH FLOWS: 2008 By month**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Sources of Cash:</b>												
Operations during the year:	\$260,357	\$280,864	\$171,571	\$282,178	\$282,765	\$283,382	\$283,999	\$284,605	\$285,213	\$285,825	\$286,427	\$287,036
Net Income After Taxes												
Add items not decreasing cash	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738
Depreciation	(907)	(907)	(907)	(110,907)	(907)	(907)	(907)	(907)	(907)	(907)	(907)	(907)
Increase in Accounts Payable												
Deduct items not increasing cash												
Increase in Accounts Receivable												
Cash from Operations	438,488	439,085	439,702	330,309	440,810	441,623	442,130	442,737	443,344	443,951	444,558	445,165
<b>Cash flows from Investing Activities</b>												
Purchase of equipment												
Net used in Investment activity												
<b>Financing &amp; Other:</b>												
Capital contributed	-	-	-	-	-	-	-	-	-	-	-	-
Loan proceeds	-	-	-	-	-	-	-	-	-	-	-	-
AgriCap proceeds	(138,743)	(138,743)	(138,743)	(138,743)	(138,743)	(138,743)	(138,743)	(138,743)	(138,743)	(138,743)	(138,743)	(148,205)
Principal reductions:												
Bank Note												
AgriCap												
Line of Credit												
Cash from Financing	(138,743)	(138,743)	(138,743)	(138,743)	(138,743)	(138,743)	(138,743)	(138,743)	(138,743)	(138,743)	(138,743)	(148,205)
Increase/(Decrease) in Cash	299,745	300,352	300,959	191,566	302,173	302,780	303,387	303,994	304,601	305,208	305,815	298,960
<b>Change in Cash Balance</b>												
Beginning Cash Balance	(1,028,887)	(728,842)	(428,581)	(127,832)	93,834	366,106	668,886	972,273	1,276,266	1,590,867	1,896,075	2,191,889
Increase/(Decrease) in Cash	299,745	300,352	300,959	191,566	302,173	302,780	303,387	303,994	304,601	305,208	305,815	298,960
Ending Cash Balance	(\$728,842)	(\$428,581)	(\$127,832)	\$63,934	\$398,106	\$698,886	\$972,273	\$1,276,266	\$1,590,867	\$1,896,075	\$2,191,889	\$2,490,849

MISSISSIPPI BEEF PROCESSORS, LLC  
 CASH FLOW: 2007 BY MONTH

Source of Cash:	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Operations during the year:												
Net Income After Taxes	\$287,706	\$288,346	\$178,885	\$289,625	\$290,285	\$290,904	\$291,544	\$292,184	\$292,823	\$293,463	\$294,102	\$294,742
Add items not decreasing cash:												
Depreciation	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738	158,738
Increase in Accounts Payable	(840)	(840)	109,380	(110,640)	(840)	(840)	(840)	(840)	(840)	(840)	(840)	(840)
Deduct items not increasing cash:												
Increase in Accounts Receivable	-	-	-	-	-	-	-	-	-	-	-	-
Cash from Operations	445,804	448,444	447,084	337,723	448,363	448,003	448,842	450,282	450,921	451,561	452,201	452,840
Cash flows from Investing Activities:												
Purchase of equipment	-	-	-	-	-	-	-	-	-	-	-	-
Net used in investment activity	-	-	-	-	-	-	-	-	-	-	-	-
Financing & Other:												
Capital contributed	-	-	-	-	-	-	-	-	-	-	-	-
Loan proceeds	-	-	-	-	-	-	-	-	-	-	-	-
AgriCap proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Principal reductions:												
Bank Note	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)
AgriCap	-	-	-	-	-	-	-	-	-	-	-	-
Line of Credit	-	-	-	-	-	-	-	-	-	-	-	-
Cash from Financing	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)	(148,205)
Increase/(Decrease) in Cash	297,599	300,239	300,879	191,518	302,158	302,798	303,437	304,077	304,716	305,356	305,996	306,636
Change in Cash Balance												
Beginning Cash Balance	2,480,648	2,780,448	3,080,287	3,281,888	3,583,084	3,885,242	4,188,040	4,491,477	4,795,554	5,100,270	5,405,628	5,711,822
Increase/(Decrease) in Cash	288,899	300,239	300,879	191,518	302,158	302,798	303,437	304,077	304,716	305,356	305,996	306,636
Ending Cash Balance	\$2,769,448	\$3,080,687	\$3,381,566	\$3,585,084	\$3,885,242	\$4,188,040	\$4,491,477	\$4,795,554	\$5,100,270	\$5,405,628	\$5,711,822	\$6,018,238



**COPY**

**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR**

**PHIL BRYANT  
AUDITOR**

**January 3, 2005**

**HAND DELIVERED**

Honorable Amy Tuck  
Office of the Lt. Governor  
New Capitol Building, Room 315  
Jackson, Mississippi 39201

Dear Lt. Governor Tuck:

There is little need in this letter to restate the events which led to the failure of the Mississippi Beef Processor's project. They are many and arguable from several different points of view. These will be issues for another day and a different venue. My responsibility now is to determine the amount of the cost to the Mississippi taxpayers, review all actions to determine their compliance with state law and formulate any recommendations for future endeavors such as Mississippi Beef Processors. We must do all in our power to prevent a similar outcome from ever occurring in the state's economic development efforts.

We must set a higher standard of review prior to funding speculative projects for any individual or corporation. This should include, but not be limited to:

- A completed application with a detailed business plan including a resume indicating past work history relevant to the business being proposed.
- A credit review of the individuals and/or businesses involved.
- A market analysis by an independent firm with necessary expertise for the specific projects.
- The financial records of the recipients and, if applicable, any others providing funding should be reviewed by an independent CPA firm to evaluate stability and accountability.
- Matching funds or a letter of credit for working capital and construction should be mandatory with any future alliances. Nissan North America, for example, invested over a billion dollars into the Canton project and guaranteed at least 4,000 jobs for Mississippians. Our monitoring of this project has produced only positive results.

HONORABLE AMY TUCK  
OFFICE OF THE LT. GOVERNOR  
NEW CAPITOL BUILDING, ROOM 315  
JACKSON, MS 39201

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These steps should be followed with all entities receiving state financial support, no matter the level of notoriety.

Other considerations, including specific deliverables and compliance dates along with strict monitoring, should also be mandatory for future projects. Our rush to grow our economy and provide jobs to Mississippians must be tempered with prudence and a sense of which best practices should be employed.

I would ask your assistance in working with the legislative leadership and Mississippi Development Authority in determining and implementing necessary legislation to place these recommendations into law.

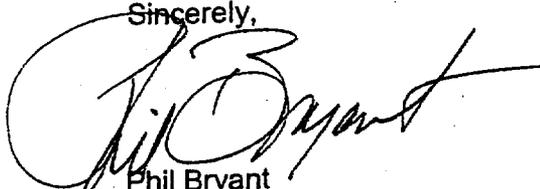
I believe the citizens of this state will expect our mutual response to the Mississippi Beef Processor's failure. We should move now with deliberate speed to assure total accountability and the institution of best business practices to this and all future efforts.

I would also ask that we establish total disclosure of all information surrounding economic development projects funded by the taxpayers. If the people of Mississippi are to become shareholders in these speculative efforts, they deserve to be informed. I believe the public funding of these projects demands no less than full disclosure of all information that is not otherwise protected by law.

I hope you will consider my request at your earliest opportunity and allow our work to begin immediately. An economic development and accountability plan should be prepared for legislative action during this session. I look forward to your positive response.

With best regards, I remain,

Sincerely,



Phil Bryant  
State Auditor

PB/dm

cc: Governor Haley Barbour  
Commissioner Lester Spell  
Mr. Leland Speed  
Attorney General Jim Hood