MISSISSIPPI OFFICE OF THE STATE AUDITOR
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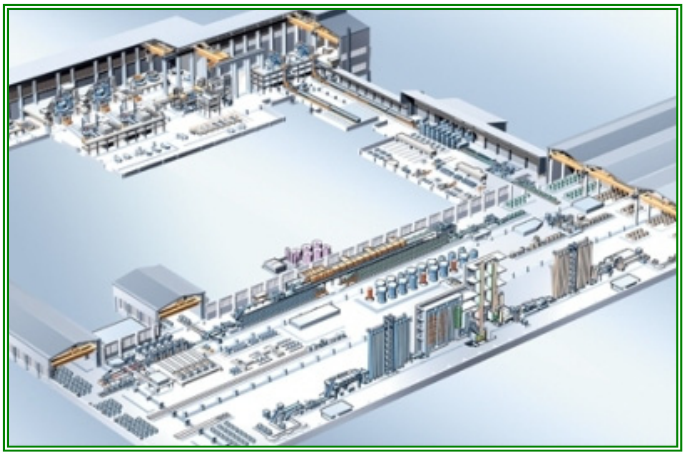
PERFORMANCE AUDIT DIVISION UPDATE

Bond Monitoring: SeverCorr, LLC

July 28, 2006

In November 2005, OSA issued its second brief concerning SeverCorr, the Lowndes County Steel mini mill project. Since then, OSA staff has begun working directly with SeverCorr executives' finance managers in their on-going monitoring efforts. Review work indicates they are complying with all requirements of their Memorandum of Understanding (MOU) with the Mississippi Development Authority (MDA). OSA will continue to monitor SeverCorr's compliance and progress, as well as MDA's internal controls and procedures related to this project.

This state economic development initiative was the first to mandate more and better accountability to the taxpayers of the state. In 2005 HB 1668, the Legislature embraced recommendations of the State Auditor, paving the way for a greater assurance of success for all parties involved in this endeavor.



OSA recommends the legislature consider making the requirements from HB 1668 a minimum standard for similar projects.

Originally know as SteelCorr, LLC, its name was changed to SeverCorr, LLC when Russian steel giant Severstal invested more than $200 million in the mini mill project. The total projected cost of this mill when complete will be almost $725 million. The State will provide a direct grant of $25 million for real estate improvements, a contingent loan of up to $10 million to cover half of the cost overruns during site preparation, and a contingent loan of up to $60 million after five years for miscellaneous purposes. SeverCorr will also receive state income tax credits of approximately $5,000 per net full-time job for a period of ten years, as long as they employ at least 450 people.

PROGRESS TO DATE

After a meeting on April 18, 2006 between Governor Barbour, MDA and representatives of Severstal OAO including Chairman Alexei Mordashov, Vice Chairman Vadim Makhov and Technical Direcotor Gregory Mason, the SeverCorr Board of Directors began evaluating plans for an accelerated expansion of the SeverCorr facility that would double capacity of the project already under constuction.

This potential expansion would increase capacity from 1.5 million tons per year to 3 million tons per year with a permanent capital addition of approximately $300 million, employing between 150-200 additional full-time employees which SeverCorr estimates will also earn an average annual income of $70,000.

SeverCorr, MDA, TVA and the Lowndes County Board of Supervisors are in discussions regarding an incentive package in support of the expansion. This expansion phase was not expected to take place until the initial construction was completed and the mill's production was underway.

However, with the incentives offered by the Gulf Opportunity Zone (GO Zone), SeverCorr, LLC is considering expansion in the near future. Lowndes County has committed $2.5 million in grants to the expansion subject to proportional increases of payments in lieu tax payments by SeverCorr to the County and schools. TVA has committed $380,000 in a Valley Advantage Grant subject to the meeting of investment, jobs and income criteria, while negotiations with MDA are ongoing.

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On June 12, 2006, SeverCorr began taking applications for its 450 jobs. Since then over 8,000 people have applied for the jobs which are purported to average $70,000 when the mill begins production in early 2007. In preparation of the increased vessel traffic on the Tenn-Tom Waterway, the Lowndes County Port Authority is considering improvements to its existing port that will either directly or indirectly benefit SeverCorr's operations. Such improvements include lengthening its rail spur, adding new acreage, upgrading equipment, and creating more barge space. The improvements will be financed partly with loans and grants from the Appalachian Regional Commission (ARC), MS Department of Transportation (MDoT), MDA, and Community Development Block Grant Programs (CDBG). The U.S. Army Corps of Engineers is in the planning phase of increasing the barge capacity at its nearby port in an effort to prepare for an additional 30-40 barges.

As part of its bond monitoring program, OSA reviews, and periodically verifies monthly reporting packages from SeverCorr, LLC, which provide detailed outlines of each phase of the project and the status of the project as a whole. SeverCorr, LLC has been very cooperative throughout this process. They have stated that they believe the State of Mississippi and SeverCorr, LLC have "the same goal, which is a healthy, thriving, state of the art steelmaking plant that will be an economic engine in Mississippi for decades to come." OSA will continue to review documents provided by SeverCorr, LLC, as well as monitor and report on MDA's internal controls over the project. As milestones are reached, OSA plans to verify MOU compliance, too.

In its most recent information package, SeverCorr, LLC reported the following:

- SeverCorr was in its 8th month of construction in May 2006, and remained on schedule in all areas.
- Total equipment and construction in progress cost is $155,023,325 as of the end of May 2006. This equates to an over-all percentage of completion for equipment and construction of 22.32%.
- A total of 32 full-time, permanent employees are now on staff.
- Over 400 construction workers on site each day.
- All required permits (environmental, construction building, FAA, etc.) needed to date have been obtained as of June 1, 2006.

SeverCorr Construction Site:

Then (2005) & Now (2006)

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