

THE BOND BUYER

Bankruptcy deal would protect bonds issued to fund wood pellet producer

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Bankruptcy proceedings for a municipal bond-financed wood pellet producer in South Carolina resulted in a deal that secures the bonds backing the project while giving it a second shot at success.

Jasper Pellets borrowed \$12.5 million via private activity bonds issued through the South Carolina Jobs-Economic Development Authority in 2018 to expand an existing facility in Ridgeland, South Carolina, in Jasper County, that produced energy dense biomass wood pellets used largely to generate electricity and heat overseas.

Jasper Pellets [filed for Chapter 11](#) bankruptcy in May, citing a contract dispute with the European importer that contracted to buy its pellets.



Wood pellets are handled at a distributor in Berlin in October. Europe is a primary market for wood pellets produced in the U.S., including the bankrupt, bond-financed Jasper Pellets in South Carolina. **Bloomberg News**

Earlier this month, court filings announced a deal in which the importer, [CM Biomass](#) of Denmark, agreed to buy the company through a wholly owned subsidiary named Ridgeland Pellets, LLC. CM Biomass had intervened in the bankruptcy case after Jasper Pellets filed a motion to reject its contract. The Danish firm said it had not received a single ounce of wood pellets from Jasper despite guarantees production would be online and ramped up a year after construction began.

CM Biomass made what is termed as a "stalking horse" bid, according [to a bankruptcy court filing](#), in which it laid out its terms and the bankruptcy court opened bids in search of a stronger offer. No other bids were received, and closing is scheduled for Monday.

According to the settlement, the original trio of owners will be kept in management positions at the South Carolina facility while CM Biomass assumes ownership of the company's equipment and assets and assumes responsibility for outstanding debt and any future obligations on the bonds. Bond trustee U.S.

Bank agreed to the terms with the express condition that CM Biomass assumed all of the outstanding debt.

The company was incorporated in South Carolina in 2018 by Chris Knight, Danny Faircloth, and Donald Harwell, businessmen with a diverse portfolio of ventures spanning forestry, agricultural, consulting, and industrial development.

According to the December 2018 deal's official statement, the three already owned and operated several profitable wood pellet plants in the state, and planned on renovating the newly acquired facility along the lines of those existing ones.

That idea received a warm welcome from local officials, including Gov. Henry McMaster, Secretary of Commerce Bobby Hitkeen, and Jasper County Council Chairman Tom Johnson, who said in a statement he believed the investment would be a "boon to our local economy" that would help to "lower the overall tax burden" for residents.

The project's pitch also promised at least 27 new permanent jobs for the rural South Carolina community of 4,000 where the factory was located, with output at the plant expected to triple after renovations were finished.

"We are excited about the opportunity to help grow the existing industry in Jasper County," said Knight in a press statement given at the time.

The Series 2018A and 2018B Solid Waste Revenue Removal bonds were unrated and, according to the offering statement, the state and local government has no liability for the debt.

That deal was comprised of \$11.14 million in tax-exempts, subject to the alternative minimum tax, with a 2038 maturity date that carried a 7.25% yield on a 7% coupon, as well as \$1.36 million of tax-exempt bonds carrying a 6.75% yield on a 6.5% coupon with a 2023 maturity date.

The deal also included a clause disclosing that companies owned by the three shareholders would be contracted for much of the eventual work needed to expand and upgrade the facility.

According to the offering document, Charles Knight Consulting Associates, owned by Knight, would act "designer of the improvement and equipping of the project," Faircloth Welding & Fabrication, Inc., owned by Faircloth, as "principal contractor," with Harwell acting as guarantor for "the payment and performance of the construction and installation contract and the equipment supply contract."

The expansion would boost production of the biomass fuel pellets meant to satisfy a growing thirst in Europe for fuel option that could meet newly set climate standards, but still suited for use in existing energy-production facilities, with work done "pursuant to a long-term contract," with a single importer, CM Biomass, as sole purchaser of the product, said the offering statement.

"To ease domestic pressures and expand supplies, European firms are now looking to North America as the primary source of Pellets," said the offering statement. "Pursuant to the CMB contract, all pellets produced in Ridgeland will be transferred by truck thirty-two miles to East Coast Terminal in Savannah, Georgia, for storage prior to being loaded on a bulk ocean-going vessel for export to Europe."

The company expected revenue from the contract with CM to allow it to meet debt service obligations but, on May 27, Jasper Pellets filed for Chapter 11 bankruptcy protection in South Carolina, citing financial difficulties due to that very contract.

By 2021, the Jasper Pellets venture was experiencing fiscal problems, as evidenced by a [series of filings](#) to the Municipal Securities Rulemaking Board's EMMA disclosure website. It was also facing pressure from CM Biomass to deliver under terms of its contract, according [to another disclosure](#) filed on EMMA.

The company also drew complaints from local residents about [noise](#) and safety hazards, as well as a lawsuit [brought by environmental groups](#) accusing Jasper Pellets of installing new machinery that would produce more pollutants without the proper permit.

"The Debtors relationship with CM has caused the Debtors financial Problems and is ultimately lead to the filing of this bankruptcy," the court filing by Jasper Pellets said.

Days later, the trustee for the tax-exempt bonds, US Bank, began foreclosure on Jasper Pellets, organizing an auction that was eventually postponed by a court order meant to give the parties time to negotiate a solution.

While rare, defaults in municipal markets can still be a threat, said John Hallacy, founder of John Hallacy Consulting LLC. When municipal bonds end up in bankruptcy court, it's often up to the judge's discretion how they are disposed.

"There is real risk in these projects," Hallacy said, "and any statements that are made about the details need to be closely examined."

Hallacy said potential investors should evaluate all of the risks that associated with a given project including "technology, fabricators, the people doing the construction, all aspects."

"Every project and every answer is a little different," he added.