

January 25, 2011



Michelle T. V. Torres, J.D.  
Executive Director  
The Harrisburg Authority  
212 Locust Street, Suite 304  
Harrisburg, PA 17101

**Subject: Fair Market Value of the Harrisburg Material and Energy Recovery Facility**

Dear Ms. Torres:

The Harrisburg Authority (the “Authority”) retained R. W. Beck, Inc. (“R. W. Beck”) to perform an appraisal study to estimate the Fair Market Value of the Harrisburg Material and Energy Recovery Facility (the “Facility”). Our report of the appraisal study (the “Appraisal Report”) is attached and the results of the appraisal are summarized in this letter. The study was performed in accordance with the Uniform Standards of Professional Appraisal Practice as promulgated by the Appraisal Standards Board of the Appraisal Foundation. The standard of value relevant for this appraisal is Fair Market Value<sup>1</sup>.

In performing the appraisal, R. W. Beck considered all three generally accepted approaches to valuation (cost, income, and market). The results of R. W. Beck’s analyses and indicators of value developed are described, in detail, in the Appraisal Report. We did not rely on the Market Approach because no sufficiently comparable sales of similar assets were found. The theory of substitution states that no prudent purchaser would be willing to pay more than the lesser amount of the Cost Approach and the Income Approach.

### **Cost Approach**

The replacement cost method involves determining the estimated current cost of assets that could be designed and constructed under present market conditions with requisite technological and regulatory modifications to produce an equivalent net functionality to that of the Facility. Although this method indicates the cost of building a comparable asset at present market prices, it generally does not consider the inherent risks of construction and ownership, such as design defects, construction delays, cost overruns and natural disasters. Neither does it consider the value to a private company of the facts that 1) the Authority has the necessary operating permits for the Facility; 2) the Authority has a site for the Facility; and 3) the Authority has already incurred all the significant legal and engineering expenses associated with obtaining a site and all necessary permits. No prudent purchaser would be willing to pay more than Replacement Cost New less Depreciation (“RCNLD”). The estimated RCNLD for the Facility is approximately \$192,000,000.

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<sup>1</sup> Fair Market Value is the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.



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### **Income Approach**

The Earnings Stream Method under the Income Approach involves a determination of an estimated value, which, based upon an assumed level of revenues and expenses, would result in a typical purchaser receiving a return on its investment of an assumed amount, if that typical purchaser paid the estimated value. In our earnings stream analyses for the Facility, we estimated the net cash flows from the operation of the asset under competitive market conditions and discounted such net cash flows using an appropriate discount factor. The value of the Facility was then determined by discounting cash flows to present value.

The Authority currently accepts waste originating in adjacent counties at an average tip fee of approximately \$40 per ton. Our analysis indicates that if all the waste were received at \$40 per ton the operating expenses would exceed the revenues and therefore no prudent purchaser would be willing to pay any amount for the facility. If the purchaser were guaranteed tipping fee revenues for Harrisburg and Dauphin County waste at the current level then it is likely that a potential purchaser would assign a positive value to the Facility.

Accordingly, our opinion of Fair Market Value at current market tipping fees is \$0, that is to say, without certain guarantees by the Authority related to waste flows and tipping fees, no prudent purchaser would be willing to pay any amount for the facility as is.

Sincerely,

**R. W. BECK, INC.**

A handwritten signature in black ink, appearing to read 'M Lane', with a long horizontal line extending to the right.

Michael Lane, ASA  
Senior Consultant

MGL/kjg