



LANCASTER COUNTY SOLID WASTE MANAGEMENT AUTHORITY

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May 2, 2011

J. Marc Kurowski, Chairman
The Harrisburg Authority
212 Locust Street
Suite 202
Harrisburg, PA 17101-7102

Re: **Harrisburg Resource Recovery Facility ("HRRF"):**
March 11, 2011 Memorandum of Understanding ("MOU")

Dear Mr. Kurowski:

Thank you for your recent emails concerning the HRRF. As I mentioned in my letter of April 7, 2011, to the extent possible we have been following the efforts of the various stakeholders to develop a plan to address the financial issues of the City of Harrisburg and The Harrisburg Authority. Our goal is to try to understand the needs and concerns to see if it is possible to modify the concept outlined in the MOU to better meet those concerns, still in a realistic fashion.

As demonstrated by the R.W. Beck fair market value appraisal of the HRRF performed for THA, the value of the HRRF is primarily dependent on the degree to which the County will use its waste flow control powers to direct waste to the HRRF at tipping fees in excess of landfill tip fee market levels. To a lesser degree, the ability of the City to sustain its current level of tipping fees directly affects value. Based on our long experience with our own resource recovery facility, we know that maintaining value of a facility that incinerates waste requires the ability and financial resources for continual capital improvements.

To our knowledge, no one has proposed a realistic scenario in which the HRRF could pay off the existing debt, whether by operations or sale. The Alvarez and Marsal report attached to the Cravath Swaine & Moore report attempts to create hypothetical income stream which would come close to supporting debt service. To do so, Alvarez & Marsal was forced to make revenue and expense assumptions which are completely unattainable.

As everyone is aware, both the City and the County have, by virtue of guarantees of the HRRF debt, reason to participate in a solution which would allow us to pay a purchase price in excess of a market price sale of the HRRF. For that reason, we met with representatives of both the City and the County after they reviewed the MOU to evaluate their concerns and possible willingness to participate.

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Subsequently, based on our discussions, we created a financial model based on realistic assumptions. This latest financial model is our own, not one approved by any third party. As with the original model, this model brings the County and City tip fees into parity within a number of years. Based on the newest financial model, we created the attached document, which enables an increase in the purchase price to \$124 million based on the Harrisburg Parties and Commonwealth participation.

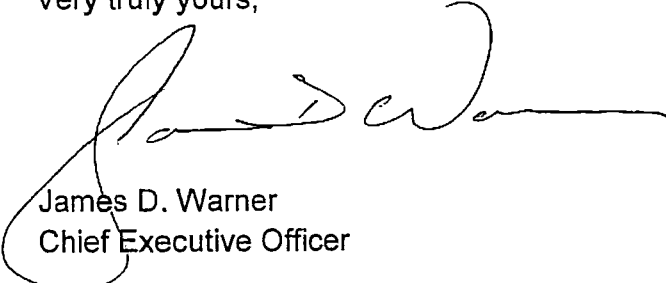
The attached document lists the enhancements to the MOU necessary to increase the HRRF price to \$124 million. Other than the proposed enhancements and the schedule, the other terms of the MOU would remain the same. If THA believes this approach might bear fruit, we would be willing to discuss it with all concerned and seek approval from the LCSWMA Board to proceed with negotiations.

Among the many other items listed in the attachment, this HRRF purchase price assumes that the tipping fees of the City will achieve parity with the County in 2018. Should the City decide to maintain its current tip fee, and escalate the fee at 2.2% per year, over 20 years the difference between the price charged by the City to its residents, and the price charged by LCSWMA to the City, would be \$109,000,000 (NPV of \$60,000,000), which the City could use to repay debt or other purposes.

Our proposal is based on a solid knowledge of the business, the local market and your facility. We do not propose to form a single purpose investment fund of outside investors taking no personal risk, nor do we base our concept on financial analysis without operational experience. We are your neighboring public authority with a fifty year track record of running one of the premier solid waste management systems in the United States.

Thank you for your interest.

Very truly yours,



James D. Warner
Chief Executive Officer

Enclosures

HRRF PURCHASE TERM SHEET¹

Purchase Price: \$124,000,000

Tipping Fee Schedule – City of Harrisburg:

CONTRACTED						
2012	2013	2014	2015	2016	2017	2018
\$190	\$180	\$165	\$155	\$140	\$120	\$90
PROJECTED						
2019	2020	2021	2022	2023	2024	2025
\$90	\$90	\$90	\$90.90	\$91.81	\$92.73	\$93.65
2026	2027	2028	2029	2030	2031	
\$94.59	\$95.54	\$96.49	\$97.46	\$98.43	\$99.42	

Tipping Fee Schedule – Dauphin County:

CONTRACTED						
2012	2013	2014	2015	2016	2017	2018
\$80	\$80	\$80	\$85	\$85	\$85	\$90
PROJECTED						
2019	2020	2021	2022	2023	2024	2025
\$90	\$90	\$90	\$90.90	\$91.81	\$92.73	\$93.65
2026	2027	2028	2029	2030	2031	
\$94.59	\$95.54	\$96.49	\$97.46	\$98.45	\$99.42	

Capital Improvements²:

PROJECTED						
2012	2013	2014	2015	2016	2017	2018
\$4,000,000	\$3,000,000	\$2,000,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
2019	2020	2021	2022	2023	2024	2025
\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
2026	2027	2028	2029	2030	2031	
\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	

¹ Subject to final due diligence report.

² 2012 through 2019, Capital Improvements funded by the Commonwealth of Pennsylvania and/or Harrisburg Parties.

\$124 Million Valuation Narrative

On March 11, 2011, the Lancaster County Solid Waste Management Authority (LCSWMA) submitted a proposal to the Harrisburg Authority (THA) to purchase the Harrisburg Resource Recovery Facility (HRRF) for \$45 million. That proposal price is based on lowering Harrisburg City (City) tip fees to reach parity in 2019 with those of Dauphin County (County), allocating all free cash flow (after debt payments) to capital expenses, and using facility operating revenue to cover the costs of ash disposal. Benefits to the City through the proposal include: 1.) monetizing the value of the HRRF to participate in a regional waste management system, 2.) having certainty in more affordable future disposal fees, thus saving millions of dollars on their tip fees in upcoming years, 3.) assuring they will have a convenient place to dispose of their waste by having LCSWMA funding much needed capital enhancements to improve the reliability of the HRRF, and 4.) having LCSWMA bring its management and industry expertise to serve the waste disposal needs of the City. Dauphin County will also benefit by being assured stable tip fees into the future as well as improved capacity availability for its communities and waste haulers.

In addition to the \$45 million proposal, LCSWMA would like to make a second proposal to THA to purchase the HRRF for \$124 million. It should be noted that LCSWMA is not withdrawing its initial \$45 million proposal, rather is adding for consideration an alternative proposal for \$124 million using a different financial arrangement that will allow LCSWMA to increase the initial purchase price. This new proposal requires participation by the Harrisburg Parties to maximize the value of the HRRF through guaranteeing certain key revenue enhancement or expense reduction parameters to LCSWMA. These parameters, above all assumptions included in the \$45 million proposal, are:

Guaranteed Tip Fees/Revenues

A key concept in the \$124 million proposal is contracted municipal solid waste (MSW) tip fees for the City and County with guaranteed delivery to the HRRF of a minimum amount of MSW each year. Similar to the \$45 million proposal, the City tip fee would be reduced from the current \$200 per ton down to \$90 per ton by 2018 when it would reach parity with the County tip fee. The County tip fee would be incrementally increased from the current rate of \$72.60 per ton to \$90 per ton by 2018. The following tip fee for the City and County will apply:

Dauphin County MSW Tip Fees

2012: \$80
2013: \$80
2014: \$80
2015: \$85
2016: \$85
2017: \$85
2018: \$90 (Parity with City)

Harrisburg City MSW Tip Fees

2012: \$190
2013: \$180
2014: \$165
2015: \$155
2016: \$140
2017: \$120
2018: \$90 (Parity with County)

Tip Fee 2019 - 2031: Increases to City and County tip fees will be limited to and therefore not exceed the CPI adjustment. LCSWMA reserves the right to raise tip fees based on the CPI, but will not necessarily do so each year.

Guaranteed Tip Fee Revenue: To guarantee a minimum tip fee revenue, LCSWMA will require a “put or pay” on the base County tonnage of 136,650 tons per year and the base City tonnage of 38,800 tons per year. In the simplest terms, a put or pay system assures LCSWMA that the current amounts of waste that are delivered from both the City and County will continue to be delivered to the HRRF. If the minimum level of waste is not met, the City and/or County will be responsible for paying to LCSWMA the disposal revenue for waste delivery revenue shortfalls below their established minimums for their respective jurisdictions. However, for waste in excess of the base tons, LCSWMA will offer carryover credits towards the put or pay structure. The put or pay will need secured by both Harrisburg City and Dauphin County through an escrow account, line of credit, or some other form of security acceptable to LCSWMA. This obligation will be for a term of 20 years to coincide with the duration of LCSWMA facility debt.

Rebates: LCSWMA will rebate to the County 25% of tipping revenue for MSW delivered from Dauphin County beyond 136,650 MSW tons per year multiplied by the tip fee for that year. LCSWMA will also rebate to the City of Harrisburg 25% of tipping revenue for MSW delivered beyond 38,800 MSW tons per year multiplied by the tip fee for that year.

Guaranteed Electric Revenues

A vital pre-condition to LCSWMA’s increased proposal is the need to have a guaranteed purchaser of the electrical energy produced by the HRRF..... at established pricing. Therefore, a minimum 15-year power purchase agreement with a to-be-determined entity and LCSWMA will be required. LCSWMA will require the electric purchase rates to begin at \$0.055 per kWh and escalate at 2.25% per year, as detailed below.

<u>Year</u>	<u>Rate/kWh</u>	<u>Year</u>	<u>Rate/kWh</u>
2012:	0.05500	2020:	0.06572
2013:	0.05624	2021:	0.06719
2014:	0.05750	2022:	0.06871
2015:	0.05880	2023:	0.07025
2016:	0.06012	2024:	0.07183
2017:	0.06147	2025:	0.07345
2018:	0.06286	2026:	0.07510
2019:	0.06427		

Off-Site Ash Disposal

LCSWMA maintains that off-site ash disposal will likely become necessary within the next few years, regardless of any current efforts to re-permit the on-site ash landfill. If off-site disposal becomes necessary, the Harrisburg Parties will pay LCSWMA actual costs incurred for transportation of ash (estimated at \$15/ton) to LCSWMA’s Frey Farm Landfill and pay a disposal rate to LCSWMA of \$12/ton, escalating at \$1/ton/year. The costs of this long term obligation will also need secured.

Harrisburg Parties Funding of Capital Expenditures

A key component of both LCSWMA proposals is an investment of much needed capital into the HRRF. This enhanced \$124 million proposal requires the Harrisburg Parties to fund the first \$16 million in capital costs, as solely determined by LCSWMA. LCSWMA understands that there is potentially \$8 million available for capital improvements from the Commonwealth's RCAP program. If this funding is secured, the remaining \$8 million match will come from the Harrisburg Parties. Regardless of whether the Harrisburg Parties are able to secure RCAP funding, the initial \$16 million in capital expenditures will be paid for by entities other than LCSWMA. LCSWMA will negotiate a payback schedule for the \$8 million in match funds.

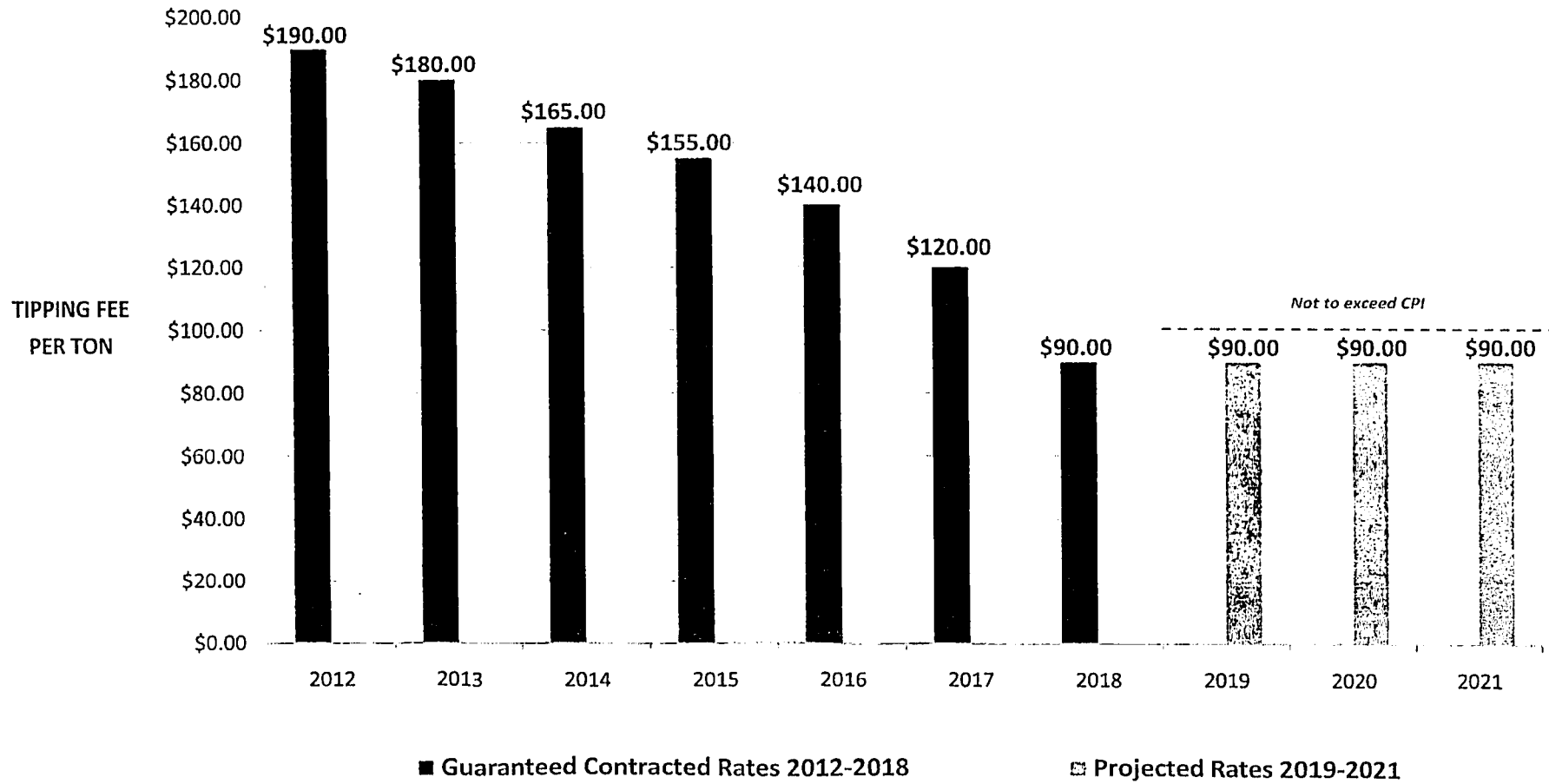
Elimination of Dauphin County Act 90 Fee

LCSWMA will not be assessed the \$4.90 per ton Act 90 fee that is paid by the facility owner to Dauphin County for waste originating in Dauphin County.

Managing the Dauphin County Recycling Program

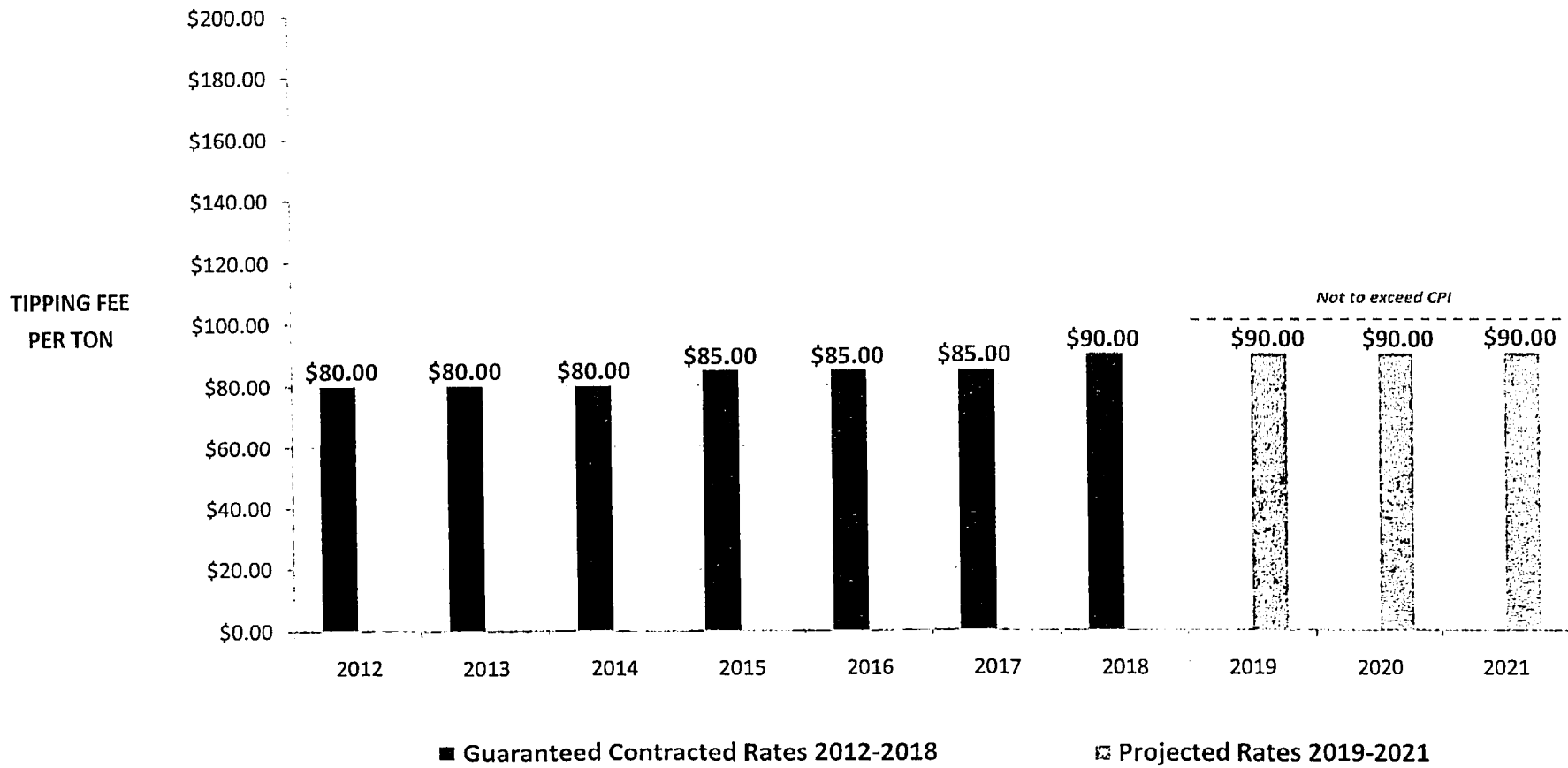
Since LCSWMA will not be assessed the Act 90 fee, LCSWMA will agree to manage and operate (for no fee) the Dauphin County sponsored recycling operation which is based at the HRRF. Any Act 90 fees received by Dauphin County for any waste (such as construction/demolition waste) disposed of at facilities other than the HRRF will be paid to LCSWMA to support recycling program costs.

CITY OF HARRISBURG TIPPING FEE SCHEDULE*



**Subject to final due diligence report.*

DAUPHIN COUNTY TIPPING FEE SCHEDULE*



* Subject to final due diligence report.