



August 8, 2017

Honorable Jorge O. Elorza
Mayor
City of Providence
Providence City Hall
25 Dorrance Street
Providence, Rhode Island 02903

RE: ***Valuation of the Providence Water Supply Board Water Assets***

Dear Mayor Elorza:

Pursuant to your request, MR Valuation Consulting, LLC (“MRV Consulting”) has performed a valuation of the Providence Water Supply Board Water Assets, as of March 31, 2017. Due to Rhode Island regulation, the Providence Water Supply Board is subject to rate suppression and a “pay as you go” infrastructure program. They are *not* allowed to earn a rate of return on its rate base. Any monies approved by the Public Utilities Commission must be paid back with principal and interest and zero profit is allowed.

The purpose of this analysis is to provide the City of Providence (the “City”) with a hypothetical valuation of the water assets owned and operated by the Providence Water Supply Board, as of March 31, 2017. The hypothetical condition is that the Providence Water Supply Board is to be considered a “special purpose” property and the analysis should only consider the cost approach to value, specifically “reproduction cost new, less physical depreciation, less functional obsolescence.” According to the Uniform Standards of Appraisal Practice (“USPAP”), a hypothetical condition is defined as “a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.”

The premise of value is “reproduction cost new, less physical depreciation, less functional obsolescence,” which is the cost of reproducing a new replica of a property or asset on the basis of current prices with the same or closely similar materials, as of a specific date. The premise of value should include physical depreciation, which is “a form of depreciation where the loss in value or usefulness of a property is due to the using up or expiration of its useful life caused by wear and tear, deterioration, exposure to various elements, physical stresses, and similar factors.” In addition, the premise of value should include functional obsolescence, which is “a form of depreciation in which the loss in value or usefulness of a property is caused by inefficiencies or inadequacies inherent in the property itself, when compared to a more efficient or less costly replacement property that new technology and changes in design, materials, or process that result in inadequacy, overcapacity, excess construction, lack of functional utility, excess operating costs, etc. has developed.”

As indicated above, the attached report is a valuation analysis, not a real estate appraisal. This valuation analysis has been conducted consistent with the USPAP and the local Rhode Island regulation. The local Rhode Island regulation does not account for certain intangible value associated with unique characteristics of the water assets owned and operated by the Providence Water Supply Board. MRV Consulting considered the value of these intangible assets, however, due to the local regulations a value was not assigned to these assets.

Most significantly, these approaches considered but did not assign value to certain intangible value associated with the public interest in the assets, particularly considering the scarcity of comparable resources. There is inherent, additional intangible value in the water system to the City of Providence that provides a majority of the state's water supply while ensuring high standards of water quality. These approaches considered but did not assign value to water quality standards, the state's reliance on this resource, or the intangible value associated with the need to preserve and maintain this essential resource into the future.

Conclusion

Subject to the assumptions and limiting conditions stated throughout the accompanying report and based on our research and analyses, we estimated the "reproduction cost new, less physical depreciation, less functional obsolescence" of the assets owned and operated by the Providence Water Supply Board to be **\$404,200,000**, as of March 31, 2017.

The conclusions expressed herein are explained throughout the attached valuation report and are subject to the above hypothetical condition, the statement of assumptions and limiting conditions and certification. These conclusions should not be used for any purpose other than the purpose specified above. Before the conclusions presented in this letter are relied upon, the attached report should be read and analyzed in its entirety.

Should you have any questions with regards to the matters discussed herein, or if we can be of any further assistance to you, please contact Mark Rodriguez at (732) 780-6010 or by email at MRodriguez@MRValuation.com.

Respectfully submitted,

MR Valuation Consulting, LLC

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