Real Property Value Impact Study

ESTILL COUNTY ENERGY PROJECT

Coal Wash Road
Irvine, KY 40336

as of

August 29, 2003

for:

Estill County Energy Partners, LLC

C/O
CBC Engineers & Affiliates, LLC.
112 Dennis Drive
Lexington, KY 40503-2917

Date Signed: September 18, 2003

by:

Glyndon E. Green, KCGA #002897

COMMONWEALTH GUARANTY, Inc.

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To: **Mr. Dell Jaggers, PE**
CBC Engineers & Affiliates, LLC
112 Dennis Drive
Lexington, KY 40503

RE: **Real Property Value Impact Study**
Adjacent and Nearby Properties
Estill County Energy Partners, LLC (ECEP Project)

Dear Mr. Jaggers:

In accordance with your request, we have conducted the required investigation, gathered the necessary data, and made certain analyses that have enabled us to form an opinion of potential impact to the market value of adjacent and nearby properties of the Estill County Energy Partners (ECEP Project) during the site preparation, construction, and operational stages.

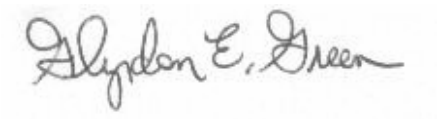
Based on an inspection of the market area and the investigation and analysis undertaken, we have formed the opinion that subject to the assumptions and limiting conditions set forth in this report, the classification of the potential detrimental condition and its impact upon the surrounding area as of August 29, 2003 is:

Class I
No Detrimental Conditions or Benign Condition
Little or No Noticeable Effect Upon Market Values

The Narrative Report that follows sets forth the assumptions and limiting conditions, pertinent facts about the area and subject property, sales data, the results of the investigations and analyses, and the reasoning leading to the conclusions.

It has been a pleasure to assist you. If I may be of further service to you in the future, please let me know.

Respectfully submitted,



Glyndon E. Green
Commonwealth Guaranty, Inc.
Certified General Appraiser
Certification #002897
FHA #001560
Expires: 06/30/2004

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Introduction

This report was prepared in response to a request by Dell Jaggers, PE, Vice President & General Manager of CBC Engineers & Affiliates, LLC, of Lexington, Kentucky. Mr. Jaggers asked that Commonwealth Guaranty, Inc., and specifically Glyndon E. Green, Certified General Appraiser, research and report "potential changes in property values resulting from the siting, construction, and operation" (KRS 278.708 {3}{C}) of the proposed 110 megawatt power plant that is to be built by the *Estill County Energy Partners, LLC* adjacent to the Kentucky River aproximately 1 mile northwest of Irvine, KY 40336.

An old and simplistic real estate adage states that real estate values are driven by *location, location, location.* Clearly, there are many important issues other than location. One way to view the concept of *value* is to consider that the needs, tastes, fears, sensitivities, desires, and anticipations of sellers and buyers are being translated into a number, i.e., a price. To accurately analyze real estate, one must be able to monitor and and interpret the actions of participants within the market area because properties do not deal with one another, people do. When carefully considered, all the factors that have an influence on the property's desirability, and therefore its value, are traced back to the market's perceptions. To truly understand real estate valuation, one must conscientiously focus upon and measure these perceptions. In fact, a more accurate real estate adage may be *perception, perception, perception.*

Real estate values are estimated through the application of the three traditional approaches to value, *Sales Comparison Approach, Cost Approach, & Income Approach.* However, when real estate is damaged or impaired, an additional and often more complex analysis is required. At this point the assignment makes a transition from an appraisal to a damage analysis. Although these studies of property damages can be quite involved, they are, in fact, based upon these same fundamental economic and valuation principles. The traditional appraisal techniques provide the foundation upon which the analysis of real estate damages and detrimental conditions may be made.

Understanding *ownership rights* is essential to any valuation assignment including damaged real estate. The most complete ownership of real estate is the *fee simple estate* which is the complete and total *bundle of rights.* This is subject only to taxes (i.e., property taxes), police power (i.e., zoning and other land use regulations), eminent domain (the sovereign right of the government to take property for the public good and pay just compensation to the owner), and escheat (governmental intervention if the owner dies will no will).

Portions of the *bundle of rights* may in turn be broken off, given away, or sold. For example, the right to occupy the property may be given to another party in return for a rental or lease payment. In this case, the *fee simple* owner becomes the owner of a *leased fee estate,* and the tenant, or *lessee* has a *leasehold estate.*

Two of the most important concepts in the valuation of real estate are the principles of *conformity and regression.* Property values are negatively impacted when surrounding properties are of a lessor value. Conversely, a property of a lesser value is enhanced when the adjoining property values are high. On the other hand, in terms of optimal value, it is generally not a good idea to buy or build the biggest and best home in the neighborhood. Optimal property values are experienced when the properties within a neighborhood conform to one another.

The appraisal process involves three main categories:

1. Defining the appraisal problem.

2. Describing the subject property.

3. Analyzing the property and reconciling its value.

It was of the utmost importance in this particular assignment to be able to accurately define the *appraisal problem*. The appraiser was instructed to measure the potential for economic impact upon real property market values upon properties adjacent to the facility. More specifically, the appraiser was asked to measure any *negative impact* upon property values. Thus, the subject of the appraisal report becomes the surrounding properties, not the power plant itself. Therefore, any conclusion will be a percentage of present value, not an exact value opinion for each individual property that could be impacted during the site preparation, construction, and operational stages of the proposed *Estill County Energy Partners, LLC (ECEP Project).*

(Source: *Real Estate Damages, An Analysis of Detrimental Conditions*, Intro. Pages 1-7; Randall Bell, MAI; © The Appraisal Institute 1999.)

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This is a Restricted Appraisal Report which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(c) of the Uniform Standards of Professional Appraisal Practice for a Restricted Appraisal Report. As such, it presents only summary discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated below. The appraiser is not responsible for unauthorized use of this report.

Furthermore, in accordance with prior aggreement between the client and the appraiser, this report is the result of a limited appraisal process in that certain allowable departures from the specific guidelines of the Uniform Standards of Professional Appraisal Practice were invoked. The intended user of this report is warned that the reliability of the value conclusion provided may be impacted to the degree there is departure from specific guidelines of USPAP. This is a limited appraisal because there was no Cost Approach or Income Approach. Only the Sales Comparison Approach was applicable in this specific report.

Client: **Estill County Energy Partners, LLC**
C/O Dell Jaggers, PE
CBC Engineers & Affiliates, LLC.
112 Dennis Drive
Lexington, KY 40503-2917

Appraiser: Glyndon E. Green
Commonwealth Guaranty, Inc.
120 Rolling Ridge Drive
Berea, KY 40403

Subject: Estill County Energy Partners (ECEP Project)
Coal Wash Road
Irvine, KY 40336

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Purpose Of The Study:

The purpose of this impact study is to provide the appraiser's opinion of the impact to market value of the real property near and around the ECEP Project site during: site preparation, construction, and operation of the of the proposed 110 megawatt power plant. *Market value* is defined by the federal financial regulatory agencies as follows:

Market value means 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. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

(1) buyer and seller are typically motivated;
(2) both parties are well informed or well advised, and acting in what they consider their own best interests;
(3) a reasonable time is allowed for exposure in the open market;
(4) payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
(5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

(Source: Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart 34-Appraisals, 34.42 Definitions (f).)

Intended Use Of Report: This report is intended to assist the client, ECEP, in predicting the *economic impact* upon market values of the real property located adjacent to the *Estill County Energy Partners, LLC (ECEP Project)* during "the siting, construction, and operation of the proposed facility" (KRS 278.708 {3}{C})

Interest Valued: Fee Simple.

Effective Date Of Value: August 29, 2003

Date Of Report: September 18**,** 2003

Development And Reporting Process: In preparing this report, the appraiser:

- inspected the proposed power plant site as well as the improvements;
- inspected the market area, specifically the area bordering the subject site;
- gathered information on recent land sales & recent improved sales;
- gathered market information;
- gathered income information;
- gathered information concerning noise assessment, air quality, blasting, drainage & groundwater issues, hazardous waste, damage to the landscape, odors emitted, pollution in general, traffic patterns, and powerlines;
- gathered information concerning the impact to rail traffic;
- gathered information concerning the operational process for the proposed power plant & the materials that will be burned;
- confirmed and analyzed the data.

Per prior agreement with the client, the appraiser did not use the Income or Cost Approaches to value. Although these approaches would generally be considered meaningful in appraising property, the appraiser believes the only approach to value in this particular report is the Sales Comparison Approach. Since the Cost and Income Approaches were not applicable, the appraisal process therefore involved departure from Standards Rule 1-4(b)i, ii, iv, v, and vi.

This Restricted Appraisal Report is a recapitulation of the appraiser's data, analyses, and conclusions. Supporting documentation is retained in the appraiser's file.

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Description of the Irvine/Estill County Market

Location Description. Irvine is a small community in Estill County approximately 50 miles south of Lexington, Ky. Many residents of Irvine commute to work in Richmond, Winchester, Berea, and Lexington. Housing in Irvine tends to be more affordable than in areas closer to Lexington. Demand for housing in Irvine has been strong during the last 5 years, while the supply of both single-family and multi-family residential properties has increased signifigantly. Abundant vacant land remains available for additional development in the subject's immediate area. The economic outlook for both the immediate future and over the long term for the Lexington Metropolitan Area is favorable. Household income and population are expected to continue to grow. Irvine is adjacent to the Lexington Metropolitan Area.

Census data released by the Bluegrass Area Development District indicates that Estill County's population grew 5% from 14,614 to 15,307 during the 1990 to 2000 time frame, while the population of the rest of the state grew 10%. The U.S. Census Bureau reports that the county has 26.4% of its inhabitants living at, or below the accepted poverty level; and that there were 5,357 homes in Estill County in 2000. No adverse influences affecting price/marketability were apparent at the time this report was prepared.

(Source: Kentucky State Data Center and the Lexington Herald. *State Growth By County;* Wednesday, March 21, 2001.)

Employment appears to be stable in the subject's market area at this time with the unemployment rate averaging 6.8% in Estill County for 2001. The median household income for 2000 was $23,318; an increase of 45.2% from 1990. The percent of people 25 and over with at least a high school education was 58.5% in 2000; an increase of 25.8% from 1990.

(Source: U.S. Census Bureau and the Lexington Herald, *Kentucky Climbing Out of Poverty, Slowly;* Thursday, May 30, 2002.)

Irvine is the county seat of Estill County. Irvine is located 25 miles east of Berea, 20 miles southeast of Richmond, Kentucky; 101 miles south of Cincinnati, Ohio; and 146 miles north of Knoxville, Tennessee. Estill County covers a land area of 256 square miles.

The Economic Framework - Approximately 75% of Estill County is forest; therefore, there is a considerable involvement in forestry occupations. There are also manufacturing and service oriented job opportunities; however, most working residents commute to other nearby communities, including Richmond, Winchester, Berea, and Lexington, to seek employment in manufacturing and service related jobs.

Transportation - Irvine, Ky sits at the intersection of Kentucky Highways #89 and #52. Interstate Highway #75 is located approximately 25 miles west. Twenty-nine common carrier trucking companies provide interstate and/or intrastate service to Irvine. CSX Transportation provides main-line rail service to Irvine. The nearest scheduled commercial airline service is available at Lexington, Kentucky's Blue Grass Airport, 39 miles northwest of Richmond. The Madison Airport, 4 miles north of Berea, maintains a 4,000-foot paved runway and offers charter service.

Power and Fuel - Kentucky Utilities and the Jackson County Rural Electric Cooperative Company provide electricity to Irvine and portions of Estill County. Estill County also receives electricity from Blue Grass Rural Electric Cooperative Corporation and Clark County Rural Electric Cooperative. Columbia Natural Gas Company, Inc. provides natural gas service to Irvine, as well as portions of Estill County. Municipal water supplies are provided by the Irvine City and Estill County Water Districts.

Education - The Estill County School System provides primary and secondary public education to Estill County. While Berea College, a private non-denominational school with an enrollment of approximately 1400 is located in Berea, Eastern Kentucky University, a public institution of higher learning, is located in Richmond, and had a fall enrollment of 16,060 students. Vocational training is available at the Estill County Area Technology Center in Irvine, and at the Central Kentucky Regional Technology Center in Lexington, 50 miles northwest of Irvine. Eastern Kentucky University also provides vocational training and facilities for area industry.

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Proposed Power Plant Property Description

The site is north of Irvine, KY, and is presently accessed from KY Hwy #89 North via Coal Wash Road. Gross area is approximately 505 acres. The site is located on both the north and south sides of the CSX railroad right of way, and is level to rolling. The southern property line is the Kentucky River. The remainder of the surrounding area is a blend of residential, recreational, & industrial properties.

The improvements include: a large metal office building; 2 single-family homes that served as residence to the previous owners; several large metal buildings that were used for maintenance, storage, and processing coal; a former air strip with a hangar and office area; and a large coal tipple adjacent to the CSX right of way that was used for loading & unloading coal from rail cars.

Approximately 80-90% of the property is a coal refuse storage site filled with the by-products of the previous operation, a coal preparation plant. This preparation by-product (coal refuse) is what the developers of the power plant plan to recover and burn through a fluidized bed combustion process. The proposed 110 megawatt power plant building will cover the area where the coal tipple now stands.

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DETRIMENTAL CONDITIONS

There are literally hundreds of situations that impact property values, and many of them create a valuation challenge that goes well beyond the scope of the three traditional approaches to value. To add to the complexity, a property may be impacted by two (2) or more detrimental conditions.

A framework must be established to study the vast number of detrimental conditions and the issues surrounding them. Although identifying, categorizing, and analyzing the numerous conditions may seem overwhelming, the task becomes manageable when the fundamental stage and value effects are considered in logical sequence. The basic tools for detrimental condition analysis are the following:

- The Detrimental Condition Matrix.
- The Detrimental Model.
- The Bell Chart.
- Three Detrimental Condition Approaches To Value.

Detrimental Condition Matrix. Detrimental conditions follow a logical sequence of events, and identifying and organizing these issues can facilitate a useful study. The first step is to recognize that a real property affected by a detrimental condition has a lifecycle that involves three potential stages. The three stages of analysis and related issues that should be considered for every detrimental condition are: the assessment stage, the repair stage, and the ongoing stage, along with the cost, use, and risk value issues. The legal, physical, and financial perspectives should be considered, just as they are in the *highest and best use* section of a typical appraisal report.

Not every stage is necessarily relevant to every detrimental condition. For example, if an airport is developed near a residential neighborhood, there may be no assessment or repair stage, only an ongoing stage. The value is driven not only by the inclusion or exclusion of these three stages but also by three fundamental issues that may occur within each relevant stage:

1. Costs and responsibility for payment of those costs.

2. Use and any restrictions on use.

3. Risks.

While all valuation assignments depend critically on the date of the valuation, a property impacted by a detrimental condition has an even more important issue in this regard because the property's value can vary considerably over these potential stages. The *Detrimental Condition Matrix* was given weight in the preparation of this report.

Detrimental Condition Model. Each detrimental condition is analyzed on a case-by-case basis because each can have any of a variety of impacts on value. While the *Detrimental Condition Model* includes all possible stages, many detrimental conditions do not include all of the stages. The first step with any detrimental condition analysis is to consider the value of the property as if there is no detrimental condition, i.e., the *unimpaired value.* Upon the occurance or discovery of the detrimental condition, the value may fall, if the facts or market data support such a decline. Some detrimental conditions require an assessment, such as conducting a soil, environmental, or engineering study. The value during this period is often the lowest, or the property is even unmarketable, as a potential buyer would require an enticement to purchase the property where the extent of damage is uncharacterized.

Because the *Detrimental Condition Model* is based upon the occurance or discovery of a detrimental condition, and this assignment is a prediction of possible occurances and the negative impact upon values by the potential occurances, the appraiser chose not to utilize the *Detrimental Condition Model.*

Bell Chart. Through the use of the *Detrimental Condition Model* framework showing the relationship of time and value, a variety of graphs emerge depending on the relevance and impact of each value issue during each stage. Out of the hundreds of detrimental conditions, certain common attributes arise that suggest distinct groupings. The *Bell Chart* organizes all detrimental conditions into standard categories.

In determining the impact on value, it is critical that a distinction is made between the detrimental condition and unrelated issues. For example, *market conditions* may be responsible for a change in value that is unrelated to the condition being studied. A worst case scenerio would be the closing of the Carhartt Sewing Facility in the Irvine/Estill County Industrial Development Authority. Carhartt is one of the largest employers in Estill County, having been in existence since the mid 1930's. If Carhartt should relocate to Mexico, for example, the impact to property values would be instant and signifigant. The negative impact would be the result of *market conditions*, but would be similar to that of a *detrimental condition*. The *Bell Chart* was given weight in this report.

Three Detrimental Condition Approaches To Value. The impact of detrimental conditions on property values is ultimately an emperical question that requires the application of one or more of three traditional approaches to value. On rare occasions a fourth approach, the *market survey* might be more applicable. While the fundamental detrimental condition issues seem straightforward, the real challenge of such an assignment lies in the skill of the appraiser or analyst to collect and properly analyze data.

The appraiser, Glyndon E. Green, has been providing appraisal services in Estill County to lending institutions, schools, brokers, attorneys, and private individuals since May of 1994. His largest customer is Citizens Guaranty Bank which is headquartered at 25 River Drive in Irvine, KY 40336. Since 1994 Mr. Green has completed approximately 1,700 to 1,800 appraisal assignments in Estill County. These assignments have included residential, agricultural, commercial, and industrial properties. Because of his vast experience within the borders of Estill County, as well as the surrounding counties, Mr. Green believes himself to have the skill to collect and analyze the data; and, competent to accept and complete this assignment.

Each of the three approaches to value has potential applicability, depending upon the specific situation:

1. *The Detrimental Condition Cost Approach.* The cost approach employs data with and without the costs and losses associated with a detrimental condition. This approach deducts the costs or losses associated with each stage from the *unimpaired value.* Generally, only those costs and losses that are a responsibility of the property owner would be included, as only these would impact the market value. (As a practical matter, if market resistence were applicable, it would likely be determined from the *sales comparison or income capitalization approaches*.) The appraiser chose not to consider the *Detrimental Cost Approach.*

2. *The Detrimental Condition Sales Comparison Approach.* The *sales comparison approach* is a reflection of buyers and sellers in the open market place and is considered the most reliable indicator of value. The *sales comparison approach* utilizes market data with and without the detrimental condition. This approach may not always be easy to apply because of the difficulty of finding relevant market data, but it still is a very strong approach to quantifying the value issues in a detrimental conditions assignment.

a. *Paired Sales Analysis.* One of the most useful applications of this approach is the paired sales analysis. This could be subject property, or similarly impacted properties, termed *test areas,* and unimpaired properties, which are termed *control areas.* Or an analysis could be made between the unimpaired value of the subject property before and after the detrimental condition. If a legitimate detrimental condition exists, there will likely be a measurable and consistant difference between the two (2) sets of market data. If not, there will likely be no signifigant difference between the two (2) sets of data.

b. *Impaired Sales Comparables.* In the *sales comparison approach*, impaired sales data can be analyzed to determine if a diminution exists. For example, if a commercial land parcel was being valued that had previously been the location of a service station. In a situation where the service station had leaking underground storage tanks, but the contamination had been cleaned up to the satisfaction of the relevant regulatory authorities, and a *no further action* letter was in place on the property it may be quite possible that a survey of comparable sales would reveal little, or no impact to the value of the subject properties.

c. *Market Resistance Derivation.* As a variable of the *sales comparison approach* market resistence can be derived from sales comparables. An example would be if an residential property is being evaluated just after a hazardous material spill. If several sales are located in the same neighborhood as the subject, with some occuring before the spill and others occuring after the spill, an *unimpaired value* can be determined market data immediately prior to the spill and the *impaired value* can be determined from data immediately after the spill. Using the relationship between the *unimpaired value and impaired value*, the data can now be used to estimate market resistance.

d. *Sale/Resale Analysis.* Another type of paired sales analysis involves the study of the sale and subsequent resale of the same property. This method is used to determine the influence of time on market values, or to determine the impact of a detrimental condition by comparing values before and after the detrimental condition is discovered. Since no detrimental condition exists at the time this report was written, this method was not utilized by the appraiser.

3. *The Detrimental Condition Income Capitalization Approach. The income capitalization approach* utilizes income and risk factors with and without the detrimental conditions. This approach to value focuses on the impact that a detrimental condition has on: 1.) the income (both short term and in perpetuity) and 2.) risk (the capitalization rate, discount rate, or both).

    a. *Direct Capitalization Approach.* The income capitalization approach recognizes that value (V) reflects an anticipated stream of future benefits (income, or I) capitalized at a return (rate, or R) necessary to attract capital to the opportunity. The detrimental condition has the potential to decrease the stream of future benefits or to decrease the return necessary to attract capital, either or both of which will decrease value. The valuation issue then becomes how to quantify the decrease in future benefits, the increased return, or both. There was not enough income information available to apply this approach to this particular report.

    b. *Discounted Cash Flow Analysis.* This valuation method involves the calculation of the present value of a stream of income that reflects the various costs and revenues as impacted by a detrimental condition over a period of time. The cash flow study would incorporate all the costs related to the assessment stage, repair stage, and ongoing stage, including any change in effective income or operational expenses. If rental rates or vacancy levels are impacted, the effective gross income would reflect that. Also, any changes in operating expenses due to the detrimental condition would have to be accounted for. Any market resistance or other risks could be incorporated in the reversionary capitalization rate or the discount rate.

    This type of analysis is particularly useful in situations where the income, vacancy, or expense impact of a detrimental condition are highly variable or occur over a long period of time. Once again, there is not enough income information available to utilize this approach in the preparation of this report.

4. *Market Surveys.* Generally, one or more of the above appraised-based methods may be used in determining the impact, if any, of a detrimental condition. In some unusual circumstances, the detrimental condition may be so unique that finding situations where it has affected other properties is very difficult or even impossible. In this particular example, no power plants have been built in the region for several decades. This makes it impossible to find comparable market data from which to make a detrimental condition analysis. In this unusual situation, a market survey was made to determine what the community perspective and perceptions are related to the effect on value, if

any. This market survey was used as a secondary supporting documentation for market data.

The pitfalls with such surveys is that without proper discipline, planning, and thought, the *survey* can become little more than a casual conversation where preconceived ideas and notions become superficially validated. The survey should be designed in such a manner that no bias or preconceived notions are projected in the questions being asked, and the questions must be truly relevant to the issues at hand. Once again, the survey was used as a secondary method to lend support to the methods utilized.

(Source: *Real Estate Damages, An Analysis of Detrimental Conditions*, Pages 8-27; Randall Bell, MAI; © The Appraisal Institute 1999.)

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CLASSIFICATION OF DETRIMENTAL CONDITIONS

Class I – No Detrimental Conditions or Benign Condition

Class I is the most straightforward classification because it involves the absence of material detrimental conditions. As many detrimental condition assignments include the initial step of determining the *unimpaired value,* many studies begin with the basic valuation as a benchmark for later comparisons.

Class I detrimental conditions involve acts or events wherein the issue has no effect on value. This can involve any one of the the detrimental conditions in Classes II through IX. While this approach is straightforward, it can be grounds for litigation. For example, a plaintiff may contend that some condition affected his or her property, while the defendant claims that the event had no impact on value.

Virtually any detrimental condition can be benign and not have any impact at all, or it can be so severe that all value is lost. The impact of a detrimental condition, and therefore its ultimate classification, can only be determined by a comprehensive analysis based on relevant market data.

(Source: *Real Estate Damages, An Analysis of Detrimental Conditions*, Pages 46-48; Randall Bell, MAI; © The Appraisal Institute 1999.)

Class II – Nonmarket Motivations

Most commonly, real estate transactions involve *arm's length* situations, where the parities are each acting in their own best interests. While the definition of *market value* is clear, the reality of the real estate market is that not all buyers and sellers are knowledgeable and well informed. Additionally, the transactions may have involved considerations other than cash, special financing may have been a factor, and one of the parties may have been knowledgeable but not typically motivated. In fact, by no means does the term *market value* define all the situations that actually take place in the real estate market, and many real estate transactions fall into categories other than *market value.* Class II nonmarket motivations are those situations where a premium was paid for the property above its market value.

The classification of certain price premiums as detrimental conditions becomes apparent when a transaction is viewed from the perspective of a buyer who pays more than necessary to acquire a property. The classification includes assemblages, over-heated markets, expansions, and nonknowledgeable buyers who overpaid.

(Source: *Real Estate Damages, An Analysis of Detrimental Conditions*, Pages 49-54; Randall Bell, MAI; © The Appraisal Institute 1999.)

Class III – Market Conditions

As is commonly known, real estate values fluctuate over time. In a strong market – commonly referred to as a *seller's market* – prices are increasing, listing periods tend to be short, fewer properties are on the market, and construction is active. Conversely, in a weak market, prices are falling, listing periods are long, an overabundance of properties are available for sale, and construction activity is limited. This is commonly referred to as a *buyer's market* because buyers can be selective and demand lower prices.

Class III includes these normal cycles of the real estate market, when values increase, decrease, or remain level over a specific period of time. The detrimental effect of this condition may be viewed from the perspective of the buyer in an increasing market, or a property owner in a decreasing market. These patterns of value are simply the effects of the general economy, which are driven by the issues of supply and demand.

(Source: *Real Estate Damages, An Analysis of Detrimental Conditions*, Pages 55-67; Randall Bell, MAI; © The Appraisal Institute 1999.)

Class IV – Temporary Conditions

Class IV includes detrimental conditions that are only temporary in nature. Therefore, the loss in value is limited to the disruption caused by the temporary condition. This classification includes distress sales due to bankruptcy, probate, REOs, short sales, and other conditions where the real estate is "dumped" by non-typically motivated sellers. Another common Class IV situation involves temporary construction easements, wherein a portion of the property is utilized by another party while adjoining construction is underway. Upon completing the construction, the full use of the property is returned to its original state.

Temporary disruption can have an impact upon value. For example, if temporary construction disrupts traffic patterns, diminution in value may be extracted from lost revenues, higher vacancy rates, and other related losses. Measuring Class IV detrimental conditions often involves the comparison of the subject property to other properties that incurred similar Class IV situations and subsequently were sold to buyers who were informed of the detrimental conditions. Often a lower sales price is required to entice buyers to purchase properties under thes conditions, and this type of market data is essential in quantifying Class IV detrimental conditions. In addition, the extended marketing times should be considered, as this can effectively increase the loss.

(Source: *Real Estate Damages, An Analysis of Detrimental Conditions*, Pages 67-78; Randall Bell, MAI; © The Appraisal Institute 1999.)

Class V – Imposed Conditions

Class V detrimental conditions involve adverse external factors, undesirable acts, or forced events by another person or entity that affect the value of a property. Class V conditions can include imposed governmental conditions such as downzoning, special bond assessments, or the designation of a property as a historical site. Examples of adverse external factors are dumps, landfills, factories that produce noise and bad odors, neighbors who allow their property to deteriorate, and transmission lines. They may also include the discovery that improvements were illegally constructed or the development of surrounding issues (or perceived nuisances) such as a sewage plant, airport, or prison. Additionally, Class V detrimental conditions apply to eminent domain situations.

These situations often involve a *conditions adjustment,* which may be determined from the marketplace. In some situations, the effects of an imposed condition may be relatively easy to assess, and no special studies are necessary to clarify the situation. In other cases, the imposed condition may be unclear, and special studies are required to decipher how these events will alter the status quo. Upon full investigation and assessment, the uncertainties are eliminated and the actual situation is revealed. With uncertainties eliminated, the value of the property generally increases.

However, some Class V imposed conditions reflect a sudden drop in value upon the occurrence of the detrimental condition and a permanent loss in value as a result of the imposed condition. This would include eminent domain or an imposed neighborhood nuisance, such as a jail, airport, or power plant. Few issues have received as much attention of one of the biggest nuisances for property owners, noise. This is especially a growing concern for a number of communities located near airports.In addition to the annoyance and disruption caused by airport noise, home owners in particular may feel its impact in terms of reduced property values.

The most widely known measurement of noise is the decibel. The decibel scale starts at 0, where only the faintest sounds are heard, and increases in a logarithmic pattern for which every increase of 10 dB, the sound pressure doubles. The following scale is a sampling of sound elements and their dBA rating:

Sound Element	**dBA**
Rustling leaves	20
Room in a quiet dwelling at midnight	32
Soft whispers at 5 feet	34
Window air conditioner	55
Conversational speech	60
Busy restaurant	65
Vacuum cleaner in private residence (at 10 feet)	69
Ringing alarm clock (at 2 feet)	80
Beginning of hearing damage if prolonged exposure over 85 dBA	
Printing press plant	86
Heavy diesel-propelled vehicle (about 25 feet away)	92
Home lawn mower	98
Air hammer	107
Jet airliner (500 feet overhead)	115

(Source: *Real Estate Damages, An Analysis of Detrimental Conditions*, Pages 79-104; Randall Bell, MAI; © The Appraisal Institute 1999.)

Per an "e" mail from Dell Jaggers, PE, dated Friday, February 28, 2003, the nearest property boundary is the opposite bank of the Kentucky River approximately 400 feet from the noise source; and, the nearest residence to the proposed power plant in Irvine, KY will be approximately 2100 feet away. Results of a study provided to the appraiser indicate that residents will experience noise levels of 57 dBA from any construction activities. Noise levels associated with finishing would correlate to approximately 57 dBA and noise associated with erection of major components would correlate to approximately 52 dBA at the nearest residence, similar to a window air conditioner.

The proposed power plant site has been operated as a coal processing plant for over 30 years. Neighbors to the ECEP Project site have been exposed to similar or greater levels of noise from operation of the plant, rail car unloading equipment, ingoing & outgoing coal trucks, and normal rail traffic on CSX. Although these previous activities were not monitored for noise, it is the same type of work that is expected at the future power plant construction and operation.

In response to questions posed by the appraiser, Mr. Jaggers addressed the issue of power lines in the same "e" mail. Per Mr. Jaggers, "ECEP is expected to use the existing power line right-of-way from KU or another utility in the vicinity. No further disturbance or interference will be necessary with regard to power line construction."

(Source Dell Jaggers, *Response to your questions,* CBC Fax [Lexington, KY] 02/28/2003.)

Class VI – Building Construction Conditions

Class VI includes all detrimental conditions associated with the construction of the improvements, such as construction defects, improvements not built to code, ADA noncompliance, and functional obsolescence. It also includes issues of poor workmanship that may result in leaks, plumbing or electrical problems, and other issues.

Some construction issues reflect a drop in value upon the discovery of the condition and a return to full value upon repair of the condition. In some circumstances, however, there may be an ongoing condition that remains because it is not physically or economically possible to cure, thereby resulting in a permanent loss in the value of the improvements. It would not be anticipated that Class VI conditions would be relevant to this report for this would be an existing condition with no impact from the site preparation, construction, or operation of the proposed power plant.

(Source: *Real Estate Damages, An Analysis of Detrimental Conditions*, Pages 105-109; Randall Bell, MAI; © The Appraisal Institute 1999.)

Class VII – Soil and Geotechnical Construction Conditions

Class VII detrimental conditions involve soils and geotechnical construction issues below grade. Generally these problems are more difficult to repair than Class VI conditions because of the challenges of assessing conditions below grade and the associated drilling, coring, and earth moving. This category of detrimental conditions could include grading, soil cut, soil fill, soil compacting, slopes, drainage, tunneling, and retaining walls.

Once again, as in Class VI detrimental conditions, it would not be anticipated that Class VII conditions would be relevant to this report for this would be an existing condition with no impact from the site preparation, construction, or operation of the proposed power plant.

(Source: *Real Estate Damages, An Analysis of Detrimental Conditions*, Pages 110-121; Randall Bell, MAI; © The Appraisal Institute 1999.)

Class VIII – Environmental Conditions

Class VIII involves curable, man-made environmental conditions that may be economically and physically repaired. These conditions may affect the improvements, site, subsurface, or even air space. They range from archaeological sites to contamination in soil and groundwater to asbestos containing materials (ACMs), radon, or lead-based paints. Contamination can result from a variety of pollutants being emitted in a number of ways. Some contaminants are released into the air through factory or vehicular emissions. Others are discharged or spilled onto the ground or directly into oceans, lakes, or rivers.

Modern society depends upon many hazardous substances. Fuels are needed for automobiles and to heat buildings. Solvents are necessary for manufacturing processes and also to dry-clean clothes. Other chemicals are needed to control agricultural pests and weeds, to ensure that paint goes onto surfaces smoothly, or to make a plastic bag that keeps food fresh. In years past, society was largely ignorant of the health effects of hazardous materials, but as more was learned, it became apparent that contaminants are directly responsible for a variety of serious diseases and health problems. These, and other revelations, have prompted new laws and regulations, many of which impose severe financial burdens on property owners, lenders, and tenants.

(Source: *Real Estate Damages, An Analysis of Detrimental Conditions*, Pages 122-153; Randall Bell, MAI; © The Appraisal Institute 1999.)

In regard to air quality, drainage and groundwater issues, hazardous waste, odors, and pollution in general several questions were posed by the appraiser. In response, Mr. Dell Jaggers stated that, "ECEP will employ clean coal technology for this generation facility."

When asked to comment about hazardous waste, Mr. Jaggers said, "The power plant will likely use minor amounts of hazardous substances, and will not dispose of any hazardous substances on site." As for pollution in general, Mr. Jaggers went on to say, "Over the long term, neighbors should see improvement of the general area with the grading of the refuse disposal areas and reclamation. During the short term, there will be some surface disturbance during recovery of refuse for fueling the plant. There will also be some disturbance while constructing the plant, but neighbors will not experience deliterious effects from the plant emissions."

(Source Dell Jaggers, *Response to your questions,* CBC Fax [Lexington, KY] 02/28/2003.)

Class IX – Natural Conditions

Class IX detrimental conditions involve curable natural conditions that may be economically and physically repaired. These would include earthquakes, naturally occurring geotechnical problems, landslides, floods, wetlands, volcanoes, infestation, and other natural disasters.

As in Class VI and Class VII detrimental conditions, it would not be anticipated that Class IX conditions would be relevant to this report for this would be an existing condition with no impact from the site preparation, construction, or operation of the proposed power plant.

(Source: *Real Estate Damages, An Analysis of Detrimental Conditions*, Pages 155-189; Randall Bell, MAI; © The Appraisal Institute 1999.)

Class X – Incurable Conditions

Some detrimental conditions can render a property useless and without value. Class X represents the most serious detrimental conditions, where the property may not be economically or physically remedied and as a result the property has lost considerable or all value. In addition, there may be a risk of physical harm if the property is occupied. In some conditions, a property may be a liability to own if the condition creates a serious hazard or if the cost of repair exceeds the property's value. Examples of Class X detrimental conditions include sites of massive natural disasters that are perceived to reoccur, or toxic or hazardous waste issues where the contamination is so serious that it poses a serious health hazard or where the costs to remediate the site exceed the property's *unimpaired value*.

As in Class VI, Class VII, and Class IX detrimental conditions, it would not be anticipated that Class X conditions would be relevant to this report for this would be an existing condition with no impact from the site preparation, construction, or operation of the proposed power plant.

(Source: *Real Estate Damages, An Analysis of Detrimental Conditions*, Pages 190-197; Randall Bell, MAI; © The Appraisal Institute 1999.)

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Sales Comparison Approach

In the Sales Comparison Approach the appraiser used the sales prices of comparable properties to indicate the value of the subject property. Sales were selected that:

- conveyed the same property rights;
- involved typically motivated buyers and sellers;
- were for cash or terms that were equivalent to cash;
- occurred recently;
- have physical and locational characteristics essentially the same as those of the subject, and;
- have the same *highest and best use* as the subject property.

Typically, the units of comparison used in the sales comparison approach to value, are ratios of the sale price of a property to some physical or financial characteristics of the property. The value of unimproved properties is usually related to the gross area or the frontage. However, in the case of improved properties, most have some fundamental characteristic that is related to the value of the property. Examples are gross or rentable building area. The corresponding units of comparison are sales per square foot or sales per square rentable square foot. In this case, all reasonable units of comparison that had a likelihood of being related to the value of the property were considered to determine which appear to be most related to the sales price of properties. The units of comparison could be calculated by *paired sales analysis, averaging, or linear regression.*

The appraiser set out to compare the sale prices of properties within the sight and sound of the old Southeast Coal Processing Plant to the prices paid for similar properties that are outside the boundaries of sight and sound. What the appraiser discovered was that within the Estill County there are several factors that have the most bearing upon the prices that properties sale for. They are as follows:

Sewage Disposal. Though location, as always, is the most apparent variable in the valuation of property, there are several other factors which impact upon the desirability of one lot over another. In Estill County, the most valuable property typically is that which is adjacent to the municipal sewage treatment systems. Approximately half of the subject area is connected to the municipal sewage treatment system.

Natural Gas Supplies. A second utility which has an apparent impact upon land prices within the Irvine/Estill County market area is the availability of natural gas supplies. Within the Irvine City Limits most residents have access to the natural gas supplies through Columbia Gas Company; however, the areas outside Irvine for the most part do not have that access. Approximately half of the subject area does have access to natural gas supplies.

Electric Suppliers. The reason for this noticeable impact which natural gas supplies has leads us to the third utility which causes a price difference between unimproved land prices; that being electricity supplies. Electricity tends to be more expensive than natural gas as a source of heat and power.

Local Schools. Utilities are not the only factors which can impact upon the price of residential lots within a given area. A heavy impact upon lot prices is the easy access to schools, in particular elementary schools, and the reputations of the various schools. The subject area is served by the Estill County Schools.

Employment. The prospect of employment and employment stability is a strong variable in the pricing of residential lots and new home starts. If there are jobs, and the prospect of stable employment within a given area, then the housing market tends to be strong. This has been the driving force behind the market in Irvine, Ky. for about 5 years now. The industrial parks of Berea and Richmond have become home to several new factories in the past 8 years, and while driving the market value of real estate in Madison County, to a great extent this variable has been a force upon Estill County prices as well. The properties along the border with Madison County have been drawing higher prices typically than those further away from the border.

Retirement. The Central Kentucky area, and especially the Berea area has long been a desireable location for retirees. Many of the "Baby Boomers" who escaped to the northern job market in the 1950's and 1960's have reached retirement age and are returning in ever increasing numbers to the south to escape winter weather, high housing costs, stifling utility bills, and especially the fast paced life of the bigger cities. Most retirees are looking for the best of both worlds-convenience and solitude. Irvine is within a one days drive of approximately 66.7% of the USA population.

Location. While the factors listed above have a very noticable impact upon property values in the Irvine/Estill County market area, surrounding property values and uses do not appear to have much of an impact at all. It is quite common to find $100,000, $200,000, and even $300,000 homes sitting next to $30,000 houses and low priced mobile homes. This is a phenomenon that is characteristic to Eastern Kentucky communities. Though the Southeast Coal Processing Facility was in full operation for about 30 years, this appraiser has appraised homes within sight and sound of the plant for $100,000, $200,000, $300,000, and even $400,000.

There is another home belonging to the former COO of Carhartt that is of even higher value. All of these homes were constructed within the past 10 years.

Many of the residents of Estill County travel to surrounding communities for employment. The addition of 40 jobs with the construction and eventual operation of a power plant appears to out-weigh any inconvenience created by that plant.

The proposed site will be accessed from Highway 499, a newly constructed bypass around the town of Irvine, KY. Highway 499 serves as a bypass connecting Highways 89 and 52 while bridging the Kentucky River. One of the main purposes of the new bypass was to create access to the Estill County Industrial Development site where the power plant is to be built; however, another reason was to reroute large garbage trucks out of the downtown area as they haul solid waste to the BFI solid waste storage facility which is located approximately one mile north of the power plant site. Other industrial sites are contemplated with one factory already constructed on the location.

Highway 499 was designed and built with the industrial development in mind, and bypasses downtown Irvine reducing the threat of traffic congestion. According to the Department of Transportation, the hourly design volume is rated at 924 vehicles per hour and 8,400 vehicles per day. Presently, Highway 499 handles between 4,000 and 5,000 vehicles per day. The proposed power plant will employ as many as 400 during construction and about 46 during operation. Construction employees would not all be working at the same time with as many as three shifts per day. No more than 150 construction workers would be on site during any shift, which could be easily accommodated by Highway 499. After construction, the total number of employees traveling to and from work could easily be handled by the existing road infrastructure.

(Source Dell Jaggers, *Response to your questions,* CBC "e" mail [Lexington, KY] 02/28/2003.)

Cost Approach. In the Cost Approach evaluation for improved properties the potential purchaser is assumed to consider producing a substitute building with the same utility as the property being appraised building and site improvements. The Cost Approach was not considered in the preparation of this report.

Income Approach. There was not enough income information available to utilize the Income Approach to value in this particular report.

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Conclusion

The appraiser was requested to assess "the potential changes in property values resulting from the siting, construction, and operation of the proposed facility for property owners adjacent to the facility" (KRS 278.708 {3}{C}) in Irvine, Kentucky.

Estill County is a bedroom community. It provides workers for numerous counties in central and southeastern Kentucky. There are 12,067 residents of Estill County who are age 16 years or older. Of those 5,928, or 49.1%, are in the labor force. Per US Census Bureau data 5,351 commute to work. The mean travel time for those commuters is 34.9 minutes each way. Those commuters could choose to live in the communities where they work; however, they choose to live in Estill County and commute.

(Source: US Census Bureau, *Quick Tables,* http://factfinder.census.gov/home/en/datanotes/expsf3.htm 09/02/2003.)

The economy of Estill County has long revolved around various industries that are loud, sometimes very dirty, and most often are not that pleasing to the sight. The CSX railway yard was constructed in Ravenna before the town was. With its constant movement of coal and timber trains, the railroad provided jobs for several generations of Estill County natives. Many of these workers lived within sight, sound, and walking distance of their jobs. Southeast Coal Company, which operated at the site of the proposed power plant, was one of the largest and best paying industries in the community up until its demise. Its constant moving and processing of coal was loud, as well as dirty; however, most of the more expensive homes in Estill County were built within sight and sound of the facility.

Even today, with the decline of the coal business and the cut-backs by the railroad, the industries that continue to flourish in Estill County include: cutting and processing of timber; hauling and disposal of solid waste; and manufacturing. Of the 5,928 residents of Estill County in the labor force, 1,671 are employed in production, transportation, and material moving occupations; 918 are employed in construction, extraction, and maintenance occupations; and 59 are employed in farming, fishing, and forestry occupations. This leads us back to a phrase from the appraiser's introduction. Most often the three most important factors mentioned when describing the value of real property are: *location, location, location;* when perhaps it could be better described as: *perception, perception, perception.*

(Source: US Census Bureau, *Quick Tables,* http://factfinder.census.gov/home/en/datanotes/expsf3.htm 09/02/2003.)

In conclusion, from information gathered by the appraiser over the course of nine plus years of appraising real property in Estill County, KY (including more than 1,700 appraisal assignments), it is the professional opinion of this appraiser that the preparation, construction, and operation of a power plant on the proposed site will have little, or no impact upon real property values in the market area. There is the distinct possibility that any measurable impact would be positive, as opposed to negative - that real property values might even increase in value as a result of increased employment opportunities directly and indirectly resulting from the power plant and related services.

Therefore, this appraiser rates the impact upon real property values as a *Class I No Detrimental Conditions or Benign Condition;* or, as described by Randall Bell in his book, Real Estate Damages, An Analysis of Detrimental Conditions*, little or no noticeable effect upon market values.*

(Source: *Real Estate Damages, An Analysis of Detrimental Conditions*, Pages 49-54; Randall Bell, MAI; © The Appraisal Institute 1999.)

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Assumptions And Limiting Conditions:

1. Per prior agreement with the client, the appraiser did not use the income or cost approaches to value. Although these approaches would generally be considered meaningful in appraising property, the appraiser believes the only approach to value is the sales comparison approach. Since the Cost and Income Approaches were not applicable in this particular report, the appraisal process therefore involved departure from Standards Rule 1-4(b)i, ii, iv, v, and vi, and 1-4(c)i, ii, iii, & iv of the *Uniform Standards of Professional Appraisal Practice.* Departure from these rules is allowed when there is not enough information to apply an approach to value.

   (Source: *USPAP 2003, Uniform Standards of Appraisal Practice,* 2003 Edition, Pages 18-19; Effective: January 1, 2003 – December 31, 2003 © The Appraisal Institute 2003.)

2. This is a Restricted Appraisal Report which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it may not include discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is contained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.

3. No responsibility is assumed for legal or title considerations. Title to the properties is assumed to be good and marketable unless otherwise stated in this report.

4. The properties are appraised free and clear of any or all liens and encumberances unless otherwise stated in this report.

5. Responsible ownership and competent property management are assumed unless otherwise stated in this report.

6. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.

7. All engineering is assumed to be correct. Any plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.

8. It is assumed that there are no hidden or unapparent conditions of the properties, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.

9. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in this report.

10. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined, and considered in this appraisal report.

11. It is assumed that all required licenses, certificates of occupancy, or other legislative or administrative authority from any local, state, or national government, or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.

12. Any sketch in this report may show approximate dimensions and is included to assist the reader in visualizing the property. Maps and exhibits found in this report are provided for the reader reference purposes only. No guarantee as to the accuracy is expressed or implied unless otherwise stated in this report. No survey has been made for the purpose of this report

13. It is assumed that the utilization of the land and improvements is within the boundaries of property lines of the properties described and that there is no encroachment or trespass unless otherwise stated in this report.

14. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert in the field of environmental assessment. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may effect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that could cause a loss in conditions, or any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.

15. Unless otherwise stated in this report, the subject properties are appraised without a specific compliance survey having been conducted to determine if the property is or is not in conformance with the requirements of the Americans with Disabilities Act. The presence of architectural and communications barriers that are structural in nature that would restrict access by disabled individuals may adversely affect the property's value, marketability, or utility.

16. Any proposed improvements are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.

17. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.

18. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event, only with proper written qualification and only in its entirety.

Certification:

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.

2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.

3. I have no present or prospective interest in the properties that are the subject of this report and I have no personal interest or bias with respect to the parties involved.

4. My compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

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5. This appraisal was not based upon a requested minimum valuation, a specific valuation, or the approval of a loan.

6. My analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice.

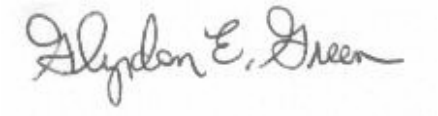
7. I have made a personal inspection of the market area that is the subject of this report

8. No one provided significant professional assistance to the person signing this report.

9. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and the Standards of Professional Appraisal Appraisal Practice of the Appraisal Institute.

10. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

11. As of the date of this report, I have completed the requirements of the continuing education program of the Appraisal Institute.



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Glyndon E. Green
Certified General Appraiser
State Certificate #2897
FHA #001560
Expires: 06/30/2004

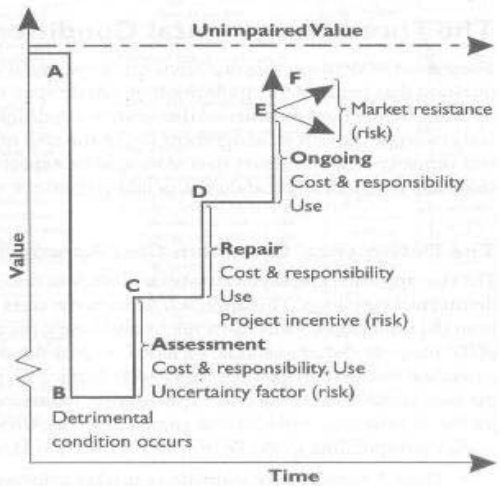
with the detrimental condition. For example, a construction defect could have resulted in an accident where tenants were injured. As a result, the property owner may have the risk of potential legal exposure in personal injury suits brought by the tenants. Another situation where this kind of risk can occur is in environmental cases where the contamination has migrated from the source site to neighboring properties. Here the source site property owner may face considerable liability with respect to suits brought by neighboring property owners.

In other situations, there may have been no assessment stage or repair stage, but only a pure market resistance that is attributable to a negative event that occurred on the property, such as a crime scene. In all these situations, market resistance reflects any risks associated with the historical problems of the property. In the example of a car, this would be like any resistance by buyers toward a car that was damaged in an accident and later repaired. Depending upon the situation, the market may require a discount as an incentive to purchase the car, given its history.

The Detrimental Condition Model

Each detrimental condition is analyzed on a case-by-case basis because each can have any of a variety of impacts on value. The Detrimental Condition Model illustrates the fundamental issues graphically, from which a wide variety of additional illustrations may be derived. While the Detrimental Condition Model includes all possible stages, many detrimental conditions do not include all of the stages. The first step with any detrimental condition analysis is to consider the value of the property as if there is no detrimental condition, i.e., the *unimpaired value*. This is reflected as Point A in Exhibit 0.8. Upon the occurrence or discovery of the detrimental condition, the value may fall to Point B, if the facts and market data support such a decline. Some detrimental conditions require an assessment, such as conducting a soil, environmental, or engineering study. The value during this period is often the lowest, or the property is even unmarketable, as a potential buyer would likely require a significant discount as an enticement to purchase a property where the extent of damage is uncharacterized. However, in a retrospective

Exhibit 0.8 The Detrimental Condition Model



Source: *Bell's Guide: The Real Estate Encyclopedia*

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Exhibit 0.6 Detrimental Condition Matrix

Detrimental Condition Issues	Detrimental Condition Stages: Assessment	Repair	Ongoing
Cost	Cost to assess and responsibility Engineering Phase I, II, III studies	Repair costs and responsibility Repairs Remediation Contingencies	Ongoing costs and responsibility Operations and maintenance (O&M) monitoring
Use	All loss of utility while assessed Disruptions Safety concerns Use restrictions	All loss of utility while repaired Income loss Expense increase Use restrictions	Ongoing use disruptions Alterations to highest and best use
Risk	*Uncertainty factor* Discount, if any, where extent of damage is unknown	*Project incentive* Financial incentive, if any, to complete repairs	*Market resistance* Residual resistance, if any, due to situation

Source: *Bell's Guide: The Real Estate Encyclopedia*

1. Costs and responsibility for payment of those costs
2. Use and any restrictions on use
3. Risks

While all valuation assignments depend critically on the date of valuation, a property impacted by a detrimental condition has an even more important issue in this regard because the property's value can vary considerably over these potential stages.

Assessment Stage

If applicable, the assessment stage is when the damage is assessed, usually by engineers, contractors, or other qualified experts, and includes all the costs, use issues, and risks associated with monitoring and assessing the detrimental condition before any repairs are made.

If the problem is self-evident, there may not be an assessment stage at all. For example, if a tornado destroys a tool shed, there is no question as to what the damage is; the only question is what will be the cost to repair or replace it. With other detrimental conditions, the assessment stage may be very involved, as the extent of the problem may

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Exhibit 0.9 The Bell Chart

Class		Detrimental Conditions	Analysis	Result
I	**No Detrimental Condition (DC) or Benign Condition**	Any DC if No Impact Sales Arrangement at Market (If Over Market: II or If Under: IV) Buke-in-Sale/Tenant Purchase Threat of Condemnation/Eminent First Right of Refusal/Double Escrow	There are hundreds of Detrimental Conditions (DCs) that may impact property values. The analysis of property damages starts with the DC Model, which illustrates the array of related issues. All six elements of the DC Model should be considered in every analysis. This can yield a variety of valuation patterns based upon the exclusion, inclusion, and timing of each element. **Detrimental Condition Model** Damages are benchmarked against the Unimpaired Value. In determining the impact on value, it is critical that a distinction be made between the DC and unrelated issues. For example, market conditions may be responsible for a change in value that is unrelated to the condition being studied. The impact of DCs on property values is ultimately an empirical question that requires the application of one or more of the three traditional approaches to value: 1. The sales comparison approach utilizing market data with and without the DC. 2. The income capitalization approach utilizing income and risk factors with and without the DC. 3. The cost approach utilizing data with and without the costs and losses associated with a DC. The DC Model, coupled with the three approaches to value, provides the fundamental framework for the analysis of DCs.	DCs have a variety of impacts upon analysis, vary on a case-by-case basis.
II	**Nonmarket Premium**	Special Buyer Motivation Assemblage/Expansion Redevelopment Project Feng Shui Short-Term Windfall		
III	**Market Condition**	Economy/Supply & Demand Recession/Depression Lease Option/Rolling Option Exercise of Option/Takedown		
IV	**Temporary Condition**	Distress Sale*/Tragedy** Bulk Portfolio Sale/Business Inc. High Vacancy/Temp. Easement Deferred Maintenance/Legal * Bankruptcy/Probate-Estate-Short Sale IRS Mandated/REO/Private REO/FDIC/RTC ** Crime Scene/Accident/Disease/Stigma/Fire		
V	**Imposed Condition**	Neighboring Issue* Eminent Domain/Bond/Tax Deed Reconstruction/Ground Lease Leasehold/Leasehold Fee Physical Depreciation/Historical *Sewage-Power Nuclear Plant/Right Illegal Use/Jail/EMF/Traffic-Report Noise		
VI	**Building Construction Condition**	Construction Defect Building Code Violations Poor Workmanship/Leaks ADA Noncompliance Functional Depreciation		
VII	**Soil or Geotechnical Constuction Condition**	Soil Construction Drainage/Tunneling Foundation/Cut & Fill Retaining Wall or Slope Grading/Soil Compaction		
VIII	**Environmental Condition**	Soil Contamination Building Contamination Hydrocarbons/Metals/Solvents Asbestos/Radiation Groundwater/Landfill/LUST		
IX	**Natural Condition**	Natural Disasters Natural Habitat Flood/Earthquake/Volcano Terrrade/Landslide/Soil Types Infestation/Sulfates/Wetlands		
X	**Incurable Condition**	Applicable to many DCs in severe situations where a complete loss or net liability exists		

Source: *Bell's Guide: The Real Estate Encyclopedia*

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COMMUNITY DATA
Irvine, KY

Irvine, the county seat of Estill County, located at the junction of KY 52 and KY 89, was built on land once owned by General Green Clay. Established on January 28, 1812, and named in honor of Colonel William Irvine, who was wounded during "Estill's Defeat" on March 22, 1782. The town was not incorporated until February 24, 1849.

By 1870, Irvine's population was 224, rising to about three hundred by mid-decade. During the coal boom era of the late ninteenth and early twentieth centuries, the area in and around Irvine experienced rapid growth. One mile southeast of Irvine, the town of Ravenna (incorporated on January 18, 1921) became the headquarters of the North Fork Division of the Louisville and Nashville Railroad (L&N) in 1915. Irvine and Ravenna are often referred to as "twin cities".

Railroads facilitated the exploitation of natural resources. Not only did Irvine lie on the L&N line, but it previously served as the southeastern terminal of the Richmond, Nicholasville, Irvine, and Beattyville Railroad, more commonly known as the "Riney-B", which traveled northwest to Versailles. In 1909 the line was bought by the L&N and closed after a new line from Winchester to Irvine was constructed in 1916.

Agricultural products such as beef, pork, hay, and tobacco from the surrounding county are shipped through Irvine regularly, and the coal fields to the south and east employ many residents. Clothing manufacture is also an important industrial concern in Irvine.

The first Estill County courthouse was constructed in May 1808, on land in Irvine that belonged to Benjamin Holliday. When this courthouse collapsed in October 1864, it was replaced by a Greek Revival structure in 1867. This building was dismantled in 1939, and the third edifice was completed on May 19, 1941. The fourth-class city had a population of 2,918 in 1970, 2,894 in 1980, and 2,836 in 1990. (Ron D. Bryant)

* Ron D. Bryant, *The Kentucky Encyclopedia*. John E. Kleber - Editor in Chief, The University Press of Kentucky; 1992.

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COMMUNITY DATA

Estill County

Estill County, the fiftieth in order of formation, was established on February 19, 1808, from parts of Clark and Madison counties. It was named in honor of Captain James Estill, who was killed by Indians during Estill's Defeat on March 22, 1782. The county is located in Eastern Kentucky and comprises an area of 256 square miles, bordered by Clark, Jackson, Lee, Madison, and Powell counties. The county seat is Irvine.

Although mostly hilly, the fertile bottomlands are highly productive agricultural areas. Large crops of tobacco and alfalfa are grown, and there is limited livestock production. Extensive quantities of coal and smaller deposits of oil, iron ore, and lead are also found in the county. Approximately 75% of Estill County is forest, of which 4,458 acres lie within the Daniel Boone National Forest. Along with the Kentucky River, the principal streams of the county are the Red River and the Station Camp, Beech, Cow, Drowning, and Miller's Creeks.

Among the towns, villages, and communities in Estill County are the communities of Ravenna, Fitchburg, North Irvine, Sand Hill, South Irvine, and West Irvine. Estill County has one weekly newspaper, "The Citizen Voice and Times", and one radio station, "WIRV". The population of Estill County was 12,752 in 1970, 14,495 in 1980, and 14,614 in 1990.*

*Ron D. Bryant, *The Kentucky Encyclopedia*. John E. Kleber - Editor in Chief, The University Press of Kentucky; 1992.

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PHOTO ADDENDUM

Cedar Grove – Within Eye-Sight of Proposed Plant

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PHOTO ADDENDUM

Calmes Road – Within Eye-Sight of Proposed Plant

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PHOTO ADDENDUM

Calmes Road – Within Eye-Sight of Proposed Plant

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MAP ADDENDUM – COMMUNITY MAP

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Glyndon E. Green

Objective

To provide independent real estate appraisals for your firm.

Experience

April 2000 – Present Commonwealth Guaranty, Inc. Berea, KY
Appraiser/Co-Owner
- Certified General Appraiser
- FHA/HUD Approved Appraiser

March 1997– April 2000 Citizens Guaranty Bank Richmond, KY
President/Staff Appraiser
- President of Madison County.
- Member – Board of Directors.
- Staff Appraiser.

March 1994– Present Green Properties Berea, KY
Appraiser/Real Estate Broker/Owner
- Certified Real Estate Appraiser.
- Licensed Real Estate Broker.

1988-1994 Pennington Realty, Inc. Berea, KY
Appraiser/Associate Broker
- Real Estate Appraiser.
- Licensed Real Estate Broker.
- Home Builder.

Education 1968–1978 Eastern Kentucky University Richmond, KY
- BS Education, MA Education, Rank I (30 Hours above Masters)
- LSU Graduate School of Banking 1999.
- Educational Training Systems 340 Classroom Hours Real Estate Courses

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Interests

Business & Personal.

- Board of Directors Hospice Care 2002-2003
- Member of Madison County Schools Facilities Committee 1997-2002
- Board of Directors Berea Chamber of Commerce 1999-2001
- Board of Directors Citizens Guaranty Bank 1997-2000
- Budget Committee Madison Southern High School 1994-1996
- Staffing Committee Madison Southern High School 1994-1996
- Site Based Decision Making Team MSHS 1996-1997
- Who's Who American Business 1998-1999
- Attended National Security Forum Air Force War College 1997.

Customer Base

Lenders

- Community Trust Bank – Richmond, Lexington, Berea, & Mount Vernon
- Citizens Guaranty Bank – Richmond, Irvine, Berea, & Winchester
- Cumberland Valley Bank – Richmond & Berea
- Citizens Bank – Mount Vernon, Brodhead, & McKee
- Peoples Bank of Madison County – Richmond, Waco, & Berea
- Berea National Bank – Berea & Mount Vernon
- National City Bank – Richmond
- Madison Bank – Richmond
- Eagle Mortgage Company – Richmond
- Linville Mortgage, LLC – Berea & Richmond
- Gateway Mortgage – Cincinnati, OH
- Liberty Bank – Jacksonville, FL
- North American Mortgage – Pittsburgh, PA
- Farmer's National Bank – Frankfort
- Dove Mortgage, LLC – Richmond
- Equity Direct Mortgage Co. – Sacramento, CA
- American General Financial – Richmond
- Cresleigh Bancorp – Mount Clemmons, MI
- KY Employee's Credit Union – Frankfort
- Park Federal Credit Union – Richmond
- Sunset Mortgage Co. – Pasadena, CA
- Decision One Mortgage – Lexington
- Limestone Mortgage Co. – Maysville
- United Capital Mortgage, LLC – Lexington
- Madison Mortgage, LLC – Richmond
- MYMORTGAGEPRO – Lexington
- U.S. Bank, N.A. – Irvine, Berea, Richmond, Clay City, Stanton, Lancaster, Stanford, Winchester, & Lexington
- B. B. & T. Bank – Irvine
- Kentucky River Foothills Development Council, Inc. – Irvine, Clay City & Stanton
- Farm Credit Services – Mt. Sterling & Irvine
- U.S. Bank Home Mortgage – Richmond, Berea, & Irvine

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References Business References

Mrs. Marcia Newton
Exec. Vice President – Senior Loan Officer
Citizens Guaranty Bank
25 River Drive
Irvine, KY 40336

Mrs. Donna Grey
Residential Loan Officer
American General Financial
Richmond Bypass/Carriage Gate Shopping Center
Richmond, KY 40475

Hon. Ken Duerson
Attorney at Law
Clay Drive
Berea, KY 40403

Hon. Burgess Doan
Attorney at Law
5710 Wooster Pike, Suite 307
Cincinnati, OH 45227

Mr. George Clark
Vice President – Loan Officer
Peoples Bank & Trust Co. of Madison County
419 Chestnut Street
Berea, KY 40403

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Kentucky Real Estate Appraisers Board

2003-04

Hereby grants a *Certified General Real Property Appraiser Certificate* License No. 002897

To *Glyndon E. Green*
Commonwealth Guaranty, Inc.
120 Rolling Ridge Drive
Berea, KY 40403

who has complied with the provisions of Chapter 324A of the Kentucky Revised Statutes IN WITNESS WHEREOF, we have caused the official seal to be affixed and attested for the year shown above.

REAL ESTATE APPRAISERS BOARD
Commonwealth of Kentucky

Maxine L. Smith

Maxine L. Smith, Chairman
Judy Walters, V. Chairman
Carol Dupont
C.W. Wilson
Jennifer Nickles

June 30, 2004

THIS CERTIFICATE EXPIRES

Control No. 18089