

CommonWealth

Resource Management Corporation

18 October 2016

The Municipal Review Committee, Inc. (the MRC)
Attn.: Greg Louder, Executive Director
395 State Street
Ellsworth, Maine 04605

RE: Charter Municipality Assets Managed by the MRC:
Financial Statements, Distributions and Management of
Available Funds in the Fourth Quarter of 2016

Dear Members of the Committee:

In this letter, CommonWealth Resource Management Corporation (CRMC) provides financial statements, information and recommendations regarding the distribution and management of available funds by the MRC in the **fourth** quarter of 2016 under the Second Amended, Restated and Extended Waste Disposal Agreements (the Extended Agreements). In carrying out its duties, the MRC is also bound by the terms of the MRC Administration Authorization (that is, the MRC By-Laws); as well as various agreements that govern the flow of funds associated with the Facility among MRC, PERC and Bangor Hydro-Electric Company (Bangor Hydro).

This letter provides information and recommendations regarding Performance Credits and Net Cash Flow receivable by virtue of prior ownership of the Equity Charter Municipalities' limited partnership shares in PERC. The MRC manages such proceeds in accordance with the Extended Agreements, as amended, the Fifth Amended and Restated Agreement of Limited Partnership of PERC (the Partnership Agreement), and related agreements. Note also that the MRC and USA Energy Group, LLC, which is the private general partner of the PERC partnership, are in the process of finalizing the details of an additional amendment to the Partnership Agreement, and a related settlement agreement (the Pending Settlement), that would provide a guarantee of the total amount of Performance Credits and Net Cash Flow that PERC would pay to the MRC for the Charter Municipalities through March 31, 2018. Applicable details of the Pending Settlement as referenced herein as applicable.

1.0 FINANCIAL STATEMENTS

Table 1 presents a balance sheet for the start of the fourth quarter of 2016 and preceding quarters in a format that reflects the financial statements prepared by the MRC's auditor. As shown, as of October 1, 2016:

- The Custody Account balance at Bangor Savings Bank was **\$653,658.67**.
- The market value of the Tip Fee Stabilization Fund, including accrued income through the end of the third quarter of 2016, was **\$27,786,745.10**. This fund is held in the form of a ladder of agency bonds and bank CDs of varying maturities as invested by the MRC's investment advisor, People's United Bank, in accordance with the approved Investment Policy. The balance in liquid money market funds readily available for withdrawal as of October 1, 2016, was \$11,195,878.68, which is 40.4 percent of the full value of the fund. Note that \$1.6 million in agency bonds and \$350,000 in corporate bonds are scheduled to reach maturity in the quarter. These funds will be reinvested by the investment advisor unless directed otherwise by the MRC Board.

The Joinder Agreements contemplate that the MRC would spend up to \$5.0 million for site acquisition and related infrastructure and expenses. The MRC has committed to track such expenditures separately from the balance of the funds in the Tip Fee Stabilization Fund in order to ensure that all such expenditures are allocated to Joining Members and not to Departing Municipalities. At its meeting on September 30, 2016, the MRC Board voted to authorize expenditures of up to \$1,620,673 of such funds to acquire a site in Hampden, Maine, for development of a mixed-waste processing facility by a private company, Fiberight, LLC, and for development of infrastructure related to the Hampden site. None of such funds had been disbursed from the Tip Fee Stabilization Fund as of October 1, 2016.

- The market value of the MRC Operating Budget Stabilization Fund, including accrued income through the end of the third quarter of 2016 (also being managed by People's United Bank), was **\$192,977.66**. The balance in liquid money market funds readily available for withdrawal as of October 1, 2016, was \$16,057.93, which is 8.4 percent of the full value of the fund. Note that \$175,000 in agency bonds are scheduled to reach maturity in the third quarter of 2017, which funds will be reinvested by the investment advisor unless directed otherwise by the MRC Board.
- Pursuant to the Pending Settlement, the Equity Charter Municipalities would each have an option to sell their ownership shares in the PERC Partnership to USA Energy Group, LLC, for their pro rata shares of an aggregate purchase price of \$1.5 million for all such shares. Although the Pending Settlement has not been signed and countersigned as of this writing, the balance sheet provided in Table 1 shows a total value for the Equity Charter Municipality ownership shares in the PERC Partnership of \$1.5 million, which is the aggregate purchase price for such shares. This value represents a substantial reduction in asset value from the prior valuation, which was the equity method for valuation as based on the Equity Charter Municipalities' share of the total PERC Partners' capital stake in the PERC Partnership. By using the aggregate purchase price of \$1.5 million (rather than the prior value of \$9,678,083 for the end of 2015 based on application of the equity method), the value of such asset has been marked down to a market-based value.

- Cash distributions payable by the MRC to the Charter Municipalities in the quarter are **\$776,784.96**, which is based on the existing approved target value increase schedule without adjustment (see Table 3).

The Net Position of the joint venture includes the amounts in the accounts listed above, along with the value of the ownership shares of the Charter Municipalities in PERC, net of the cash distributions payable. Note that the share of the funds owned by the Charter Municipalities and held in reserve by PERC's lender is not included in the Net Position, because such share is a contingent asset under generally accepted accounting principles.

Table 2 presents the revenues and expenditures of the joint venture, as well as the change in Net Position, for the third quarter of 2016 and preceding quarters. The excess of revenues over expenditures, as adjusted for changes in balance sheet items (the investment in PERC and in cash distributions payable) is reconciled with the change in the Net Position over each quarter. Table 2 also shows transfers from the Operating Budget Stabilization Fund to the MRC Operating Fund.

2.0 DISTRIBUTIONS TO THE CHARTER MUNICIPALITIES

The MRC distributes cash to the Equity Charter Municipalities as required to achieve the target value of **\$63 per ton** of solid waste delivered in the prior quarter for all Equity and New Charter Municipalities on a pooled basis.

To achieve the target value, the MRC needs to distribute at least **\$776,784.96** to the Charter Municipalities to offset a portion of tip fees paid for MSW delivered in the third quarter of 2016 (**\$703,050.88** to Equity Charter Municipalities and **\$73,734.08** to New Charter Municipalities) based on the tipping fee of **\$79.00** and the actual tonnages delivered by the Equity and New Charter Municipalities for the previous quarter. The basis for this requirement is provided in Table 3.

3.0 SOURCES OF CASH FOR THE DISTRIBUTIONS

The MRC distributes Net Cash Flow and Performance Credits to the Equity Charter Municipalities on a quarterly basis. The Performance Credits are allocated and distributed among the individual Equity Charter Municipalities based on the pro rata share of actual tons at the end of the prior quarter (Extended Agreements, Article XVIII,B, pages 50-51). Net Cash Flow is distributed on the basis of ownership shares in the PERC partnership. Additional cash is distributed to the extent necessary to achieve the target value for the net disposal cost to all Equity Charter Municipalities on a system-wide average basis. The target value of \$63 per ton became effective on July 1, 2016, in

accordance with a schedule of increases in the target values approved previously by the MRC Board of Directors.

Note that the Pending Settlement would have PERC and USA Energy Group, LLC, guarantee to pay the MRC for the Charter Municipalities an aggregate amount of \$5.4 million in Performance Credits and Net Cash Flow stemming from partnership performance over the period from September 1, 2016, to March 31, 2018, as well as an additional payment of \$600,000 within 15 days of execution of a settlement agreement. As of October 18, 2016, the following payments have been made to the MRC, or approved for payment to the MRC, since September 1, 2016, that would count towards the \$5.4 million guarantee:

<i>Payment date</i>	<i>Payment type</i>	<i>Amount</i>	<i>Amount to date</i>
Sept. 16, 2016	Performance Credits	\$400,643.45	\$400,643.45
Sept. 28, 2016	Net Cash Flow	\$99,279.84	\$499,923.29
Oct. 17, 2016	Performance Credits	\$357,700.38	\$857,623.67
Oct. 18, 2016	Net Cash Flow	\$89,418.39	\$947,042.06

The total of \$947,042.06 represents 17.54 percent of the \$5.4 million that would be paid pursuant to the Pending Settlement.

The MRC distributes Performance Credits to New Charter Municipalities on a quarterly basis in the amount of the difference between the Tipping Fee in the prior quarter and the target value, which difference is multiplied by the actual tons of waste delivered by each New Charter Municipality.

To the extent that the MRC has not received payments of Performance Credits or Net Cash Flow during the quarter in sufficient amounts to make the cash distribution payments, the MRC can call on (a) the prior balance of cash available in the Custody Account; and (b) transfers of cash from the Tip Fee Stabilization Fund.

For the distribution required to achieve the target values for the fourth quarter of 2016, the following sources of cash are available for the distribution as of October 1, 2016, as described in Table 4:

- **\$319,077.36** in partnership cash distributions (Net Cash Flow) from PERC to the MRC on behalf of the Equity Charter Municipalities in the previous quarter, which are being held in the Custody Account.
- **\$1,294,405.23** in Performance Credits distributed by PERC to the MRC on behalf of the Equity Charter Municipalities in the previous quarter, a portion of which have been transferred to the Tip Fee Stabilization Account and the balance of which are being held in the Custody Account.

- **Performance Credits** from prior quarters held in the Custody Account and the Tip Fee Stabilization Account.

With these sources, the balance of \$653,658.67 in the Custody Account as of October 1, 2016, when added to the \$357,700.38 in Performance Credits and \$89,418.39 in Net Cash Flow to be received in October 2016, together are sufficient to provide cash for the total recommended distribution to the Charter Municipalities (which is \$776,784.96). Therefore, no transfer of cash from the Tip Fee Stabilization Fund to the Custody Account is needed to make the distribution.

A full allocation of the Note Payments and Performance Credits to be distributed to each Charter Municipality will be available after the Board meeting.

4.0 RECOMMENDATIONS

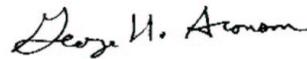
Based on the above, CRMC recommends approval of the following:

1. Make the cash distribution of **\$776.784.96** to the Charter Municipalities as described herein.

No additional bond prepayment is recommended at this time.

If you have any further questions, please feel free to contact me.

Sincerely,



George H. Aronson
Principal

Attachments Tables 1 through 5
Copies: PERC, LP

Table 1
Joint Venture of the Charter Municipalities of the
Municipal Review Committee, Inc.
Governmental Funds Balance Sheet / Statement of Net Position
Quarterly Basis, 2015-16, unaudited

	Notes	Unaudited 10/1/2016	Unaudited 7/1/2016	Unaudited 4/1/2016	Audited 1/1/2016	Audited 10/1/2015
ASSETS						
Cash and cash equivalents						
Custody Account (Bangor Savings Bank money market fund)		\$ 653,658.67	\$ 2,065,162.69	\$ 1,743,550.65	\$ 2,376,269.00	\$ 1,214,192.95
Accounts Receivable						
PERC partnership distribution (Net Cash Flow) accrued for prior quarter						
Investments						
Tip Fee Stabilization Fund (portfolio managed by Peoples United Bank)						
Account balance (CDs, money market fund, US agency bonds and Treasury notes)	1	27,736,948.18	25,450,097.90	25,363,033.60	24,605,560.98	24,638,757.02
Accrued interest income		49,796.92	43,545.67	57,219.26	53,457.86	57,021.31
MRC Operating Budget Stabilization Fund (managed by Peoples United Bank)						
Account balance (CDs, money market fund, US agency bonds and Treasury notes)	1	192,179.68	421,122.17	683,661.72	860,237.04	861,494.86
Accrued interest income		797.98	1,400.18	2,399.26	2,291.93	2,882.19
Value of Hampden site (cost basis)		-				
Value of Equity Charter Municipal ownership share of the PERC Partnership	2	1,500,000.00	9,678,083.00	9,678,083.00	9,678,083.00	10,300,414.00
TOTAL ASSETS		30,133,381.43	37,659,411.61	37,527,947.49	37,575,899.81	37,074,762.33
LIABILITIES AND NET POSITION						
Liabilities						
Cash distributions payable, current quarter		776,784.96	623,938.56	670,743.45	795,182.79	980,741.20
Indenture reserves released, awaiting final allocation						
Statement of Net Position held for the benefit of Charter Municipalities		29,356,596.47	37,035,473.05	36,857,204.04	36,780,717.02	36,094,021.13
TOTAL LIABILITIES AND NET POSITION		30,133,381.43	37,659,411.61	37,527,947.49	37,575,899.81	37,074,762.33
NOTES						
1	Investments valued per market conditions as of date shown to account for unrealized gains and losses, and accrued interest.					
2	Value through 7/1/2016 based on Charter Municipal share of PERC Partners' capital as of the start of 2016 (or 2015) using results of audit of MRC Joint Venture financials for 2015 (or 2014) . Value on 10/1/2016 based on the aggregate price for purchase of Equity Charter Municipal interests in PERC Partnership as proposed in the draft settlement agreement.					
3	Under gaap, Net Position does not include the contingent assets shown below, which are the MRC's share of funds held in reserve by PERC's lender for distribution to the MRC when the debt is retired or when the reserve requirement is waived.					
	Bank Debt Reserve Fund	1,333,333.34	1,333,333.34	1,333,333.34	1,333,333.34	1,333,333.34

Table 2
Joint Venture of the Charter Municipalities of the
Municipal Review Committee, Inc.
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities
Quarterly basis, 2015-16, unaudited

	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
Period	Third quarter	Second quarter	First quarter	Fourth quarter
from	7/1/2016	4/1/2016	1/1/2016	10/1/2015
to	10/1/2016	7/1/2016	4/1/2016	1/1/2016
ADDITIONS (revenue)				
PERC Performance Credits	1,294,405.23	786,570.98	599,834.19	1,721,989.89
Net earning from investment in PERC (Net Cash Flow)	319,077.36	206,849.53	163,958.31	421,711.55
Charter Municipality GAT payments				
Appreciation (depreciation) of investments				
Tip Fee Stabilization Fund	(22,395.03)	33,757.65	122,131.25	(74,875.31)
MRC Operating Budget Stabilization Fund	(516.00)	2,788.36	1,144.50	(1,907.61)
Interest and dividend income				
Tip Fee Stabilization Fund - net earnings	45,297.31	53,306.65	35,341.37	41,679.27
Tip Fee Stabilization Fund - interest accrued	6,251.25	(13,673.59)	3,761.40	(3,563.45)
Op Budget Stabilization Fund - net earnings	665.51	(807.91)	2,280.18	649.79
Op Budget Stabilization Fund - interest accrued	(602.20)	(999.08)	107.33	(590.26)
Custodial Account (interest net of bank fees)	(1,048.05)	(1,065.02)	(1,328.06)	(884.19)
TOTAL REVENUE (ADDITIONS)	1,641,135.38	1,066,727.57	927,230.47	2,104,209.68
DEDUCTIONS (expenditures)				
Distributions to Charter Municipalities (rebates)	623,938.56	670,743.45	795,182.79	980,741.20
Transfer to the MRC Operating Fund	365,144.00	264,520.00	180,000.00	
GAT shortfall penalty payment				
TOTAL EXPENDITURES (DEDUCTIONS)	989,082.56	935,263.45	975,182.79	980,741.20
EXCESS OF ADDITIONS OVER DEDUCTIONS	652,052.82	131,464.12	(47,952.32)	1,123,468.48
ADJUSTMENTS				
Change in value of ownership position in PERC	(8,178,083.00)	-	-	(622,331.00)
Reserve funds released				
Change in cash distribution payable	(152,846.40)	46,804.89	124,439.34	185,558.41
Total adjustments	(8,330,929.40)	46,804.89	124,439.34	(436,772.59)
Adjusted Excess of Additions over Deductions	(7,678,876.58)	178,269.01	76,487.02	686,695.89
CHANGE IN NET POSITION				
End of period	29,356,596.47	37,035,473.05	36,857,204.04	36,780,717.02
Start of period	37,035,473.05	36,857,204.04	36,780,717.02	36,094,021.13
Change in Net Position over Period	(7,678,876.58)	178,269.01	76,487.02	686,695.89

Table 3
Distributions to the Charter Municipalities
in the Fourth Quarter of 2016

Equity Charter Municipalities			
Tipping Fee, third quarter		\$	79.00
Target value		\$	(63.00)
Distributions required to achieve the target value, \$ per ton		\$	16.00 (A)
Waste deliveries, Equity Charter Municipalities, tons			43,940.68 (B)
Distributions required to achieve the target value		\$	703,050.88 (A) x (B)
New Charter Municipalities			
Tipping Fee, third quarter		\$	79.00
Target value		\$	(63.00)
Distributions required to achieve the target value, \$ per ton		\$	16.00 (D)
Waste deliveries, new Charter Municipalities, tons			4,608.38 (E)
Distributions required to achieve the target value		\$	73,734.08 (D) x (E)
Summary for all Charter Municipalities			
<i>Distributions required to achieve the target values</i>			
Equity Charter Municipalities		\$	703,050.88 (A) x (B)
New Charter Municipalities		\$	73,734.08 (D) x (E)
Total		\$	776,784.96

Table 4
Sources and Uses of Cash Received
in the Fourth Quarter of 2016

Sources of Cash			
Performance Credits received, prior quarter		\$	1,294,405.23
Net Cash Flow (PERC LP distributions)		\$	319,077.36
Interest net of fees		\$	(1,048.05)
Total			1,612,434.54
Uses of Cash			
Distribution to Equity Charter Municipalities		\$	703,050.88
Distribution to New Charter Municipalities		\$	73,734.08
Reserve for future distributions			835,649.58
Total		\$	1,612,434.54
Allocations			
			Distributed Reserved
Performance Credits		\$	457,707.60 \$ 836,697.63
Net Cash Flow (PERC distribution)		\$	319,077.36 \$ -
Interest		\$	(1,048.05)
	\$ 1,612,434.54	\$	776,784.96 \$ 835,649.58

