

# CommonWealth

Resource Management Corporation

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19 July 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 Third 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 **third** 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.

In this quarter, CRMC recommends that \$1,500,000.00 be transferred from the Custody Account to the Tip Fee Stabilization Fund, which recommendation is subject to revision based on the discussion of the change in the target value.

## 1.0 FINANCIAL STATEMENTS

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

- The Custody Account balance at Bangor Savings Bank was **\$2,056,162.69**, which includes \$900,000 that had been authorized for transfer to the Tip Fee Stabilization Fund at the last Board meeting, but were not transferred until after July 1.
- The market value of the Tip Fee Stabilization Fund, including accrued income through the end of the second quarter of 2016, was **\$25,493,643.57**. 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 July 1, 2016, was \$6,984,820.42, which is 27.4 percent of the full value of the fund. These totals do not include \$900,000 that had been authorized for transfer to the Tip Fee Stabilization Fund at the last Board meeting, but were not transferred until after July 1. Note that \$150,000 in agency bonds and \$1,750,000 in CDs 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 market value of the MRC Operating Budget Stabilization Fund, including accrued income through the end of the second quarter of 2016 (also being managed by People's United Bank), was **\$422,522.35**. The balance in liquid money market funds readily available for withdrawal as of July 1, 2016, was \$41,905.17, which is 10.0 percent of the full value of the fund. Note that \$100,000 in agency bonds are scheduled to reach maturity in the first quarter of 2017, which funds will be reinvested by the investment advisor unless directed otherwise by the MRC Board.
- Cash distributions payable by the MRC to the Charter Municipalities in the quarter are **\$623,938.56**, 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 second 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 **\$623,938.56** to the Charter Municipalities to offset a portion of tip fees paid for MSW delivered in the second quarter of 2016 (**\$560,343.70** to Equity Charter Municipalities and **\$63,594.86** to New Charter Municipalities) based on the tipping fee of **\$77.00** 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.

In the prior meeting, the MRC Board discussed whether to adjust the increase in the target value from \$59 per ton to \$63 per ton that is scheduled to take place effective July 1, 2016. If that change were to occur effective July 1, 2016, then the distributions would need to change accordingly. Then, as shown in Table 3, the MRC would need to distribute at least **\$802,206.72** to the Charter Municipalities to offset a portion of tip fees paid for MSW delivered in the second quarter of 2016 (**\$720,441.80** to Equity Charter Municipalities and **\$81,764.82** to New Charter Municipalities)

## 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.

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 second quarter of 2016, the following sources of cash are available for the distribution as of July 1, 2016, as described in Table 4:

- **\$206,849.53** 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.
- **\$786,570.98** in Performance Credits distributed by PERC to the MRC on behalf of the Equity Charter Municipalities in the previous quarter, which are also 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 in the Custody Account as of July 1, 2016 net of the previously-authorized transfer (which net balance is **\$1,165,162.69**), is more than sufficient to provide cash for the total recommended distribution to the Charter Municipalities (which is \$623,938.56 if the target value is not adjusted, and \$802,206.72 if the target value is adjusted). Therefore, no transfer of cash from the Tip Fee Stabilization Fund to the Custody Account is needed to make the distribution.

The cash in the Custody Account is unlikely to be needed to provide cash for the distribution anticipated for the fourth quarter of 2016. Therefore, CRMC recommends that the Board authorize transfer of **\$1,500,000** from the Custody Account to the Tip Fee Stabilization Fund (\$1,320,000 if the target value is adjusted to \$59 per ton). 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

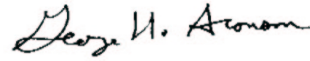
Based on the above, CRMC recommends approval of the following:

1. Make the cash distribution of **\$670.743.45** to the Charter Municipalities as described herein (or \$802,206.72 if the target value is adjusted to \$59 per ton).
2. Transfer an additional **\$1,500,000.00** from the Custody Account to the Tip Fee Stabilization Fund (or \$1.320,000 if the target value is adjusted to \$59 per ton).

No additional bond prepayment is recommended at this time.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "George H. Aronson".

George H. Aronson  
Principal

Attachments   Tables 1 through 5  
Copies:        PERC, LP

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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					
	Period	Unaudited	Unaudited	Draft audit	Draft audit
	from	Second quarter	First quarter	Fourth quarter	Third quarter
	to	4/1/2016	1/1/2016	10/1/2015	7/1/2015
		7/1/2016	4/1/2016	1/1/2016	10/1/2015
<b>ADDITIONS (revenue)</b>					
PERC Performance Credits		786,570.98	599,834.19	1,721,989.89	1,392,449.40
Net earning from investment in PERC (Net Cash Flow)		206,849.53	163,958.31	421,711.55	346,013.19
Charter Municipality GAT payments					
Appreciation (depreciation) of investments					
Tip Fee Stabilization Fund		33,757.65	122,131.25	(74,875.31)	12,785.97
MRC Operating Budget Stabilization Fund		2,788.36	1,144.50	(1,907.61)	70.50
Interest and dividend income					
Tip Fee Stabilization Fund - net earnings		53,306.65	35,341.37	41,679.27	32,982.85
Tip Fee Stabilization Fund - interest accrued		(13,673.59)	3,761.40	(3,563.45)	3,327.94
Op Budget Stabilization Fund - net earnings		(807.91)	2,280.18	649.79	2,095.24
Op Budget Stabilization Fund - interest accrued		(999.08)	107.33	(590.26)	518.86
Custodial Account (interest net of bank fees)		(1,065.02)	(1,328.06)	(884.19)	(1,141.69)
<b>TOTAL REVENUE (ADDITIONS)</b>		<b>1,066,727.57</b>	<b>927,230.47</b>	<b>2,104,209.68</b>	<b>1,789,102.26</b>
<b>DEDUCTIONS (expenditures)</b>					
Distributions to Charter Municipalities (rebates)		670,743.45	795,182.79	980,741.20	955,141.05
Transfer to the MRC Operating Fund		264,520.00	180,000.00		
GAT shortfall penalty payment					
<b>TOTAL EXPENDITURES (DEDUCTIONS)</b>		<b>935,263.45</b>	<b>975,182.79</b>	<b>980,741.20</b>	<b>955,141.05</b>
<b>EXCESS OF ADDITIONS OVER DEDUCTIONS</b>		<b>131,464.12</b>	<b>(47,952.32)</b>	<b>1,123,468.48</b>	<b>833,961.21</b>
<b>ADJUSTMENTS</b>					
Change in value of ownership position in PERC		-	-	(622,331.00)	-
Reserve funds released					
Change in cash distribution payable		46,804.89	124,439.34	185,558.41	(25,600.15)
Total adjustments		46,804.89	124,439.34	(436,772.59)	(25,600.15)
<b>Adjusted Excess of Additions over Deductions</b>		<b>178,269.01</b>	<b>76,487.02</b>	<b>686,695.89</b>	<b>808,361.06</b>
<b>CHANGE IN NET POSITION</b>					
End of period		37,035,473.05	36,857,204.04	36,780,717.02	36,094,021.13
Start of period		36,857,204.04	36,780,717.02	36,094,021.13	35,285,660.07
<b>Change in Net Position over Period</b>		<b>178,269.01</b>	<b>76,487.02</b>	<b>686,695.89</b>	<b>808,361.06</b>

Table 3						
Distributions to the Charter Municipalities						
in the Third Quarter of 2016						
				Scheduled target value		Adjusted target value
<b>Equity Charter Municipalities</b>						
	Tipping Fee, second quarter			\$ 77.00		\$ 77.00
	Target value			\$ (63.00)		\$ (59.00)
	Distributions required to achieve the target value, \$ per ton			\$ 14.00	(A)	\$ 18.00
	Waste deliveries, Equity Charter Municipalities, tons			\$ 40,024.55	(B)	\$ 40,024.55
	Distributions required to achieve the target value			\$ 560,343.70	(A) x (B)	\$ 720,441.90
<b>New Charter Municipalities</b>						
	Tipping Fee, second quarter			\$ 77.00		\$ 77.00
	Target value			\$ (63.00)		\$ (59.00)
	Distributions required to achieve the target value, \$ per ton			\$ 14.00	(D)	\$ 18.00
	Waste deliveries, New Charter Municipalities, tons			4,542.49	(E)	4,542.49
	Distributions required to achieve the target value			\$ 63,594.86	(D) x (E)	\$ 81,764.82
<b>Summary for all Charter Municipalities</b>						
	Equity Charter Municipalities			\$ 560,343.70	(A) x (B)	\$ 720,441.90
	New Charter Municipalities			\$ 63,594.86	(D) x (E)	\$ 81,764.82
	Total			\$ 623,938.56		\$ 802,206.72
Table 4						
Sources and Uses of Cash Received						
in the Third Quarter of 2016						
<b>Sources of Cash</b>						
	Performance Credits received		\$ 786,570.98		Scheduled target value	Adjusted target value
	Net Cash Flow (PERC distribution)		\$ 206,849.53		\$ 786,570.98	\$ 786,570.98
	Custody Account balance				\$ 206,849.53	\$ 206,849.53
	Interest					
	Total		993,420.51		\$ 993,420.51	\$ 993,420.51
<b>Uses of Cash</b>						
	Distribution to Equity Charter Municipalities		\$ 560,343.70		\$ 560,343.70	\$ 720,441.90
	Distribution to New Charter Municipalities		\$ 63,594.86		\$ 63,594.86	\$ 81,764.82
	Reserve for future distributions		369,481.95		369,481.95	191,213.79
	Total		\$ 993,420.51		\$ 993,420.51	\$ 993,420.51
<b>Allocations</b>						
				Scheduled target value	Scheduled target value	Adjusted target value
				Distributed	Reserved	Distributed
	Performance Credits - Equity Charters		\$ 353,494.17	\$ 369,481.95		\$ 513,592.37
	Performance Credits - New Charters		\$ 63,594.86			\$ 81,764.82
	Net Cash Flow (PERC distribution)		\$ 206,849.53	\$ -		\$ 206,849.53
	Interest					\$ -
		\$ 993,420.51	\$ 623,938.56	\$ 369,481.95		\$ 802,206.72
						\$ 191,213.79



Table 5						
Funds Available After Cash Distributions						
				Scheduled target value		Adjusted target value
Custodial Account balance as of 7/1				\$ 1,165,162.69		\$ 1,165,162.69
Deposits						
	Net Cash Flow from PERC		\$ 381,667.41		\$ 381,667.41	
	Performance Credits, 7/15 (estimated)		\$ 398,763.00		\$ 398,763.00	
	Performance Credits, 8/15 (estimated)		\$ 564,152.67		\$ 564,152.67	
	Performance Credits, 9/15 (estimated)		\$ 604,009.67		\$ 604,009.67	
	Subtotal		\$ 1,948,592.75	\$ 1,948,592.75	\$ 1,948,592.75	\$ 1,948,592.75
Withdrawals						
	Distribution to the Charter Municipalities					
	Net Cash Flow distributed		\$ (206,849.53)		\$ (206,849.53)	
	GAT payment offsets					
	Performance Credits distributed		\$ (417,089.03)		\$ (595,357.19)	
	Subtotal			\$ (623,938.56)		\$ (802,206.72)
Projected balance after deposits and withdrawals				\$ 2,489,816.88		\$ 2,311,548.72
Projected funds available after distribution				\$ 2,489,816.88		\$ 2,311,548.72
Reserve for next distribution				\$ (2,489,816.88)		\$ (2,311,548.72)
Transfer to the Tip Fee Stabilization Fund				\$ (1,500,000.00)		\$ (1,320,000.00)
Projected closing balance as of 9/30				\$ 989,816.88		\$ 991,548.72