

# CommonWealth

Resource Management Corporation

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17 April 2017

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 Second Quarter of 2017

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 **second** quarter of 2017 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 Sixth 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, have now executed a settlement agreement (the Settlement), that provides 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 Settlement are referenced herein as applicable.

## 1.0 FINANCIAL STATEMENTS

Table 1 presents a balance sheet for the start of the second quarter of 2017 and preceding quarters in a format that reflects the financial statements prepared by the MRC's auditor. As shown, as of April 1, 2017:

- The **Custody Account** balance at Bangor Savings Bank was **\$883,100.45**.

- The market value of the **Tip Fee Stabilization Fund**, including accrued income through the end of the first quarter of 2017, was **\$26,203,873.26**. 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 and short-term US Treasury bills readily available for withdrawal as of April 1, 2017, was \$4,687,784.37, which is 17.9 percent of the full value of the fund. Note that \$2.15 million in US treasury notes and federal agency bonds, and \$350,150 in bank CDs, are scheduled to reach maturity in the second quarter of 2018. These funds can be made available to meet MRC liquidity needs in the quarter, which, subject to MRC Board approval, might include (i) payments for development of infrastructure at the Hampden site; and (ii) transfers of funds consistent with anticipated uses of reserve funds and fund distributions through and after the transition to new waste disposal agreements as scheduled for March 31, 2018.

The MRC has proceeded to expend funds for site acquisition and infrastructure development related to the site in Hampden, Maine, where a private company, Fiberight, LLC, is developing a mixed-waste processing facility to accept MSW from a subset of the Charter Municipalities, known as Joining Members, by April 1, 2018. The MRC is tracking such funds separately from the balance of the funds in the Tip Fee Stabilization Fund in order to ensure that all such expenditures are allocated only to Joining Members and not to Departing Municipalities. In the fourth quarter of 2016, the MRC released **\$1,620,173** from the Tip Fee Stabilization Fund to pay for the first stage of infrastructure development. Table 1 includes the Hampden site as an asset that is valued on the basis of the funds released to date.

- The market value of the **MRC Operating Budget Stabilization Fund**, including accrued income through the end of the first quarter of 2017 (also being managed by People's United Bank), was **\$192,573.88**. The balance in liquid money market funds readily available for withdrawal as of April 1, 2017, was \$17,173.13, which is 8.9 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.
- Table 1 incorporates a revised approach to valuing **the shares of the PERC Partnership owned by Equity Charter Municipalities**. Pursuant to the Settlement, the Equity Charter Municipalities would each have a put option to have their ownership shares in the PERC Partnership redeemed by the Partnership in exchange for their pro rata shares of an aggregate purchase price of \$1.5 million for all such shares. 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 that could be redeemed for all such shares if all Equity Charter Municipalities choose to exercise the put option. 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 **\$602,602.91**, 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 **bank debt service reserve fund** owned by the Charter Municipalities and held in reserve by PERC's lender (\$1,333,33.34) is not included in the Net Position of the joint venture, because such share is a contingent asset under generally accepted accounting principles. The MRC anticipates that such funds would be released to the Equity Charter Municipalities (net of any cost of the release) not later than early 2018 upon confirmation that PERC has made its last debt service payment.

Table 2 presents the revenues and expenditures of the joint venture, as well as the change in Net Position, for the first quarter of 2017 and preceding quarters. Revenue for the first quarter of 2017 includes the transfer from an external escrow account into the Custody Account of the \$600,000 Consent Payment as part of the Settlement. 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 in prior quarters of 2016.

## 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 **\$602,602.91** to the Charter Municipalities to offset a portion of tip fees paid for MSW delivered in the first quarter of 2017 (**\$546,431.35** to Equity Charter Municipalities and **\$56,171.56** to New Charter Municipalities) based on the actual tonnages delivered by the Equity and New Charter Municipalities for the previous quarter and the prior tipping fee of **\$79.20**. 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.

Under the Settlement, PERC and USA Energy Group, LLC, are guaranteeing 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 April 1, 2017, the following payments have been made to the MRC, or approved for payment to the MRC, since September 1, 2016, that count towards the \$5.4 million guarantee:

<i>Payment date</i>	<i>Payment type</i>	<i>Amount</i>	<i>Amount to date</i>
Sept. 2016	Performance Credits	\$400,643.45	\$400,643.45
Sept. 2016	Net Cash Flow	\$99,279.84	\$499,923.29
Oct. 2016	Performance Credits	\$357,700.38	\$857,623.67
Oct. 2016	Net Cash Flow	\$89,418.39	\$947,042.06
Nov. 2016	Performance Credits	\$100,613.79	\$1,047,655.85
Nov. 2016	Net Cash Flow	\$25,191.79	\$1,078,020.80
Mar. 2017	Performance Credits	\$372,925.49	\$1,450,946.29
Mar. 2017	Net Cash Flow	\$114,666.60	<b>\$1,565,612.89</b>

The total of \$1,565,612.89 represents 29.0 percent of the \$5.4 million that would be paid pursuant to the Pending Settlement. No payments of Performance Credits or Net Cash were received in December 2016, and none were received in January or February of 2017, because (i) PERC tip fee revenues decline in the winter months due to the seasonal downturn in waste deliveries; and (ii) expenses are elevated in the winter months, because PERC schedules annual maintenance in the winter months to coincide with periods of low waste deliveries.

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 first quarter of 2017, the following sources of cash are available for the distribution as of April 1, 2017, as described in Table 4:

- **\$114,666.60** 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.
- **\$372,925.49** in Performance Credits distributed by PERC to the MRC on behalf of the Equity Charter Municipalities in the previous quarter.
- **Performance Credits** from prior quarters held in the Custody Account and the Tip Fee Stabilization Account.

The balance of \$883,100.45 in the Custody Account as of April 1, 2017, is sufficient to provide cash for the total recommended distribution to the Charter Municipalities (which is \$602,602.91). 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

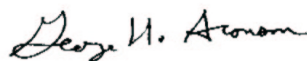
Based on the above, CRMC recommends approval of the following:

1. Make the cash distribution of **\$602,602.91** to the Charter Municipalities.

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, 2016-17, unaudited**

			Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Audited
		Notes	4/1/2017	1/1/2017	10/1/2016	7/1/2016	4/1/2016	1/1/2016
<b>ASSETS</b>								
<b>Cash and cash equivalents</b>								
	Custody Account (Bangor Savings Bank money market fund)		\$ 883,100.45	\$ 454,455.57	\$ 653,658.67	\$ 2,065,162.69	\$ 1,743,550.65	\$ 2,376,269.00
<b>Accounts Receivable</b>								
	PERC partnership distribution (Net Cash Flow) accrued for prior quarter							
<b>Investments</b>								
	Tip Fee Stabilization Fund (portfolio managed by Peoples United Bank)							
	Account balance (CDs, money market fund, US agency bonds and Treasury notes)	1	26,139,569.11	26,112,661.26	27,736,948.18	25,450,097.90	25,363,033.60	24,605,560.98
	Accrued interest income		64,304.15	47,994.84	49,796.92	43,545.67	57,219.26	53,457.86
	MRC Operating Budget Stabilization Fund (managed by Peoples United Bank)							
	Account balance (CDs, money market fund, US agency bonds and Treasury notes)	1	192,573.88	192,918.49	192,179.68	421,122.17	683,661.72	860,237.04
	Accrued interest income		-	-	797.98	1,400.18	2,399.26	2,291.93
	Value of Hampden site (cost basis, allocated to Equity Charter Joining Members)		1,620,173.00	1,620,173.00	-			
	Value of Equity Charter Municipal ownership share of the PERC Partnership	2	1,500,000.00	1,500,000.00	1,500,000.00	9,678,083.00	9,678,083.00	9,678,083.00
<b>TOTAL ASSETS</b>			30,399,720.59	29,928,203.16	30,133,381.43	37,659,411.61	37,527,947.49	37,575,899.81
<b>LIABILITIES AND NET POSITION</b>								
<b>Liabilities</b>								
	Cash distributions payable, current quarter		602,602.91	658,519.01	776,784.96	623,938.56	670,743.45	795,182.79
	Indenture reserves released, awaiting final allocation							
	<b>Statement of Net Position held for the benefit of Charter Municipalities</b>	4	29,797,117.68	29,269,684.15	29,356,596.47	37,035,473.05	36,857,204.04	36,780,717.02
<b>TOTAL LIABILITIES AND NET POSITION</b>			30,399,720.59	29,928,203.16	30,133,381.43	37,659,411.61	37,527,947.49	37,575,899.81
<b>NOTES</b>								
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	1,333,333.34
4	Net Position includes amounts accrued for payment to Charter Municipalities that will end their MRC membership and depart the Joint Venture as of 31 March 2018 (known as Departing Municipalities).							
	Final amounts payable to the Departing Municipalities will be determined after march 31, 2018, when the full basis for payment is known.							
	The amounts accrued for payment to Departing Municipalities from accounts and funds managed by the MRC as of December 31, 2016, are as follows:							
	Custody Account		180,694.37	180,694.37				
	Tip Fee Stabilization Account		11,006,889.68	11,006,889.68				
	Operating Budget Stabilization Account		75,906.97	75,906.97				

**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, 2016-17, unaudited**

	Period from to	Unaudited First quarter 1/1/2017 4/1/2017	Unaudited Fourth quarter 10/1/2016 1/1/2017	Unaudited Third quarter 7/1/2016 10/1/2016	Unaudited Second quarter 4/1/2016 7/1/2016	Unaudited First quarter 1/1/2016 4/1/2016
<b>ADDITIONS (revenue)</b>						
PERC Performance Credits		372,925.49	458,314.17	1,294,405.23	786,570.98	599,834.19
Net earning from investment in PERC (Net Cash Flow)		114,666.60	119,783.34	319,077.36	206,849.53	163,958.31
Consent Payment		600,000.00				
Appreciation (depreciation) of investments						
Tip Fee Stabilization Fund		(22,166.00)	(43,518.63)	(22,395.03)	33,757.65	122,131.25
MRC Operating Budget Stabilization Fund		(315.00)	(290.50)	(516.00)	2,788.36	1,144.50
Interest and dividend income						
Tip Fee Stabilization Fund - net earnings		49,073.85	39,404.71	45,297.31	53,306.65	35,341.37
Tip Fee Stabilization Fund - interest accrued		16,309.31	(1,802.08)	6,251.25	(13,673.59)	3,761.40
Op Budget Stabilization Fund - net earnings		(29.61)	1,144.81	665.51	(807.91)	2,280.18
Op Budget Stabilization Fund - interest accrued			(913.48)	(602.20)	(999.08)	107.33
Custodial Account (interest net of bank fees)		(428.20)	(515.65)	(1,048.05)	(1,065.02)	(1,328.06)
<b>TOTAL REVENUE (ADDITIONS)</b>		<b>1,130,036.44</b>	<b>571,606.69</b>	<b>1,641,135.38</b>	<b>1,066,727.57</b>	<b>927,230.47</b>
<b>DEDUCTIONS (expenditures)</b>						
Distributions to Charter Municipalities (rebates)		658,519.01	776,784.96	623,938.56	670,743.45	795,182.79
Transfer to the MRC Operating Fund		-	-	365,144.00	264,520.00	180,000.00
GAT shortfall penalty payment						
<b>TOTAL EXPENDITURES (DEDUCTIONS)</b>		<b>658,519.01</b>	<b>776,784.96</b>	<b>989,082.56</b>	<b>935,263.45</b>	<b>975,182.79</b>
<b>EXCESS OF ADDITIONS OVER DEDUCTIONS</b>		<b>471,517.43</b>	<b>(205,178.27)</b>	<b>652,052.82</b>	<b>131,464.12</b>	<b>(47,952.32)</b>
<b>ADJUSTMENTS</b>						
Change in value of ownership position in PERC		-	-	(8,178,083.00)	-	-
Reserve funds released						
Change in cash distribution payable		55,916.10	118,265.95	(152,846.40)	46,804.89	124,439.34
Total adjustments		55,916.10	118,265.95	(8,330,929.40)	46,804.89	124,439.34
<b>Adjusted Excess of Additions over Deductions</b>		<b>527,433.53</b>	<b>(86,912.32)</b>	<b>(7,678,876.58)</b>	<b>178,269.01</b>	<b>76,487.02</b>
<b>CHANGE IN NET POSITION</b>						
End of period		29,797,117.68	29,269,684.15	29,356,596.47	37,035,473.05	36,857,204.04
Start of period		29,269,684.15	29,356,596.47	37,035,473.05	36,857,204.04	36,780,717.02
<b>Change in Net Position over Period</b>		<b>527,433.53</b>	<b>(86,912.32)</b>	<b>(7,678,876.58)</b>	<b>178,269.01</b>	<b>76,487.02</b>
		-				

Table 3				
Distributions to the Charter Municipalities				
in the Second Quarter of 2017				
<b>Equity Charter Municipalities</b>				
Tipping Fee, first quarter			\$ 79.20	
Target value			\$ (63.00)	
Distributions required to achieve the target value, \$ per ton			\$ 16.20	(A)
Waste deliveries, Equity Charter Municipalities, tons			33,730.33	(B)
Distributions required to achieve the target value			\$ 546,431.35	(A) x (B)
<b>New Charter Municipalities</b>				
Tipping Fee, first quarter			\$ 79.20	
Target value			\$ (63.00)	
Distributions required to achieve the target value, \$ per ton			\$ 16.20	(D)
Waste deliveries, New Charter Municipalities, tons			3,467.38	(E)
Distributions required to achieve the target value			\$ 56,171.56	(D) x (E)
<b>Summary for all Charter Municipalities</b>				
Equity Charter Municipalities			\$ 546,431.35	(A) x (B)
New Charter Municipalities			\$ 56,171.56	(D) x (E)
Total			\$ 602,602.91	
Table 4				
Uses and Sources of Cash for the Distribution				
in the Second Quarter of 2017				
Distributions required to achieve the target values			\$ 602,602.91	
<b>Net Cash Flow</b>				
Received in prior quarter	\$ 114,666.60			
Distributed previously	\$ -			
Deferred for future distribution	\$ -			
Distribution		\$ (114,666.60)		
<b>Performance Credits</b>				
Received in prior quarter	\$ 372,925.49			
Distributed previously				
New Charter Municipalities			\$ -	
Deferred for future distribution				
Equity Charter Municipalities - current distribution	\$ (372,925.49)			
Subtotal		\$ (487,592.09)	\$ (487,592.09)	
Additional funds required			\$ 115,010.82	
<b>Other cash available</b>				
From prior Custody Account balance				
Equity Charter allocation	\$ 58,839.26			
New Charter allocation	\$ 56,171.56			
		\$ 115,010.82	\$ (115,010.82)	
<b>Recommended cash transfer from the Tip Fee Stabilization Fund</b>			<b>\$ -</b>	



Table 5			
Funds Available After Cash Distributions			
Custodial Account balance as of 4/1			\$ 883,100.45
Deposits			
Performance Credits, 2Q (estimated)		500,134.07	
Net Cash Flow from PERC, 2Q, estimated		\$ 129,381.04	
Subtotal		\$ 629,515.11	\$ 629,515.11
Transfer from the Tip Fee Stabilization Fund			\$ -
Withdrawals			
Distribution to the Charter Municipalities			\$ (602,602.91)
Bank fees			
Projected funds available after distribution			\$ 910,012.65
<b>Transfer to the Tip Fee Stabilization Fund</b>			
Reserve for next distribution			\$ 910,012.65