

CommonWealth

Resource Management Corporation

15 April 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 Second 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 **second** 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 \$900,000.00 be transferred from the Custody Account to the Tip Fee Stabilization Fund.

1.0 FINANCIAL STATEMENTS

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

- The Custody Account balance at Bangor Savings Bank was **\$1,743,550.65**.
- The market value of the Tip Fee Stabilization Fund, including accrued income through the end of the first quarter of 2016, was **\$25,420,252.86**. 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 April 1, 2016, was \$4,816,896.46, which is 19.0 percent of the full value of the fund. Note that \$1.250 million in agency bonds and \$850,000 in CDs are scheduled to reach maturity in the quarter, with an additional \$150,000 in agency bonds and \$1.5 million in CDs scheduled to reach maturity in the third quarter of 2016. These funds will be reinvested by the investment advisor unless directed otherwise by the MRC Board. If not reinvested, the total liquid funds available by June 30, 2016, would be \$6.92 million.
- The market value of the MRC Operating Budget Stabilization Fund, including accrued income through the end of the first quarter of 2016 (also being managed by People's United Bank), was **\$686,060.98**. The balance in liquid money market funds readily available for withdrawal as of April 1, 2016, was \$3,215.72, which is 0.5 percent of the full value of the fund. Note that \$100,000 in agency bonds are scheduled to reach maturity in the second quarter of 2016, and another \$100,00 in agency bonds are scheduled to reach maturity in the fourth quarter of 2016, 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 **\$670,743.45** (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 first 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 **\$59 per ton** of solid waste delivered in the prior quarter for all Equity and New Charter Municipalities on a pooled basis.

To achieve these target values, the MRC needs to distribute at least **\$670,743.45** to the Charter Municipalities to offset a portion of tip fees paid for MSW delivered in the first quarter of 2016 (**\$602,623.70** to Equity Charter Municipalities and **\$68,119.75** to New Charter Municipalities) based on the tipping fee of **\$76.50** 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 of \$59 per ton for the net disposal cost to all Equity Charter Municipalities on a system-wide average basis. The value of \$59 per ton became effective on July 1, 2015, in accordance with a schedule of increases in the target values approved previously by the MRC Board of Directors. An increase in the target value to \$63 per ton is scheduled to be effective on July 1, 2016.

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 of \$59 per ton, which difference is multiplied by the actual 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 2016, the following sources of cash are available for the distribution as of April 1, 2016, as described in Table 4:

- **\$163,958.31** 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.

- **\$599,834.19** 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 and the Tip Fee Stabilization Account.
- **Performance Credits** from prior quarters held in the Custody Account of the Tip Fee Stabilization Account.

With these sources, the balance in the Custody Account as of April 1, 2016 (which is **\$1,743,550.65**), is more than sufficient to provide cash for the total recommended distribution to the Charter Municipalities (which is **\$670,743.75**). 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 third quarter of 2016, depending on the amounts and timings of distributions from PERC in the quarter. Therefore, CRMC recommends that the Board authorize transfer of **\$900,000** from the Custody Account to the Tip Fee Stabilization Fund. 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

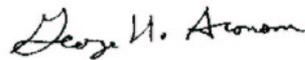
Based on the above, CRMC recommends approval of the following:

1. Distribute **\$670,743.45** to the Charter Municipalities as described herein.
2. **Transfer \$900,000.00** from the Custody Account to the Tip Fee Stabilization Fund.

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 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>Unaudited</i> | <i>Unaudited</i> |
|----------------------------------|---|----------------------|-----------------------|----------------------|-----------------------|----------------------|
| | Period | First quarter | Fourth quarter | Third quarter | Second quarter | First quarter |
| | from | 1/1/2016 | 10/1/2015 | 7/1/2015 | 4/1/2015 | 1/1/2015 |
| | to | 4/1/2016 | 1/1/2016 | 10/1/2015 | 7/1/2015 | 4/1/2015 |
| ADDITIONS (revenue) | | | | | | |
| | PERC Performance Credits | 599,834.19 | 1,721,989.89 | 1,392,449.40 | 1,636,212.71 | 470,676.75 |
| | Share of PERC's net income (Net Cash Flow) | 163,958.31 | 421,711.55 | 346,013.19 | 406,198.82 | 138,478.13 |
| | Charter Municipality GAT payments | | | | | |
| | Appreciation (depreciation) of investments | | | | | |
| | Tip Fee Stabilization Fund | 122,131.25 | (74,875.31) | 12,785.97 | (22,688.71) | 82,983.47 |
| | MRC Operating Budget Stabilization Fund | 1,144.50 | (1,907.61) | 70.50 | 1.37 | - |
| | Interest and dividend income | | | | | |
| | Tip Fee Stabilization Fund - net earnings | 35,341.37 | 41,679.27 | 32,982.85 | 52,756.03 | 59,584.67 |
| | Tip Fee Stabilization Fund - interest accrued | 3,761.40 | (3,563.45) | 3,327.94 | (4,324.57) | 1,327.83 |
| | Op Budget Stabilization Fund - net earnings | 2,280.18 | 649.79 | 2,095.24 | 1,591.63 | - |
| | Op Budget Stabilization Fund - interest accrued | 107.33 | (590.26) | 518.86 | (685.13) | (1,658.15) |
| | Custodial Account (interest net of bank fees) | (1,328.06) | (884.19) | (1,141.69) | (1,115.84) | (1,240.06) |
| | TOTAL REVENUE (ADDITIONS) | 927,230.47 | 2,104,209.68 | 1,789,102.26 | 2,067,946.31 | 750,152.64 |
| DEDUCTIONS (expenditures) | | | | | | |
| | Distributions to Charter Municipalities (rebates) | 795,182.79 | 980,741.20 | 955,141.05 | 818,275.89 | 976,379.58 |
| | Transfer to the MRC Operating Fund | 180,000.00 | | | 376,425.00 | 300,000.00 |
| | GAT shortfall penalty payment | | | | | |
| | TOTAL EXPENDITURES (DEDUCTIONS) | 975,182.79 | 980,741.20 | 955,141.05 | 1,194,700.89 | 1,276,379.58 |
| | EXCESS OF ADDITIONS OVER DEDUCTIONS | (47,952.32) | 1,123,468.48 | 833,961.21 | 873,245.42 | (526,226.94) |
| ADJUSTMENTS | | | | | | |
| | Change in value of ownership position in PERC | | | | | 99,667.00 |
| | Reserve funds released | | | | | |
| | Change in cash distribution payable | 124,439.34 | 185,558.41 | (25,600.15) | (136,865.16) | 158,103.69 |
| | Total adjustments | 124,439.34 | 185,558.41 | (25,600.15) | (136,865.16) | 257,770.69 |
| | Adjusted Excess of Additions over Deductions | 76,487.02 | 1,309,026.89 | 808,361.06 | 736,380.26 | (268,456.25) |
| CHANGE IN NET POSITION | | | | | | |
| | End of period | 37,479,535.04 | 37,403,048.02 | 36,094,021.13 | 35,285,660.07 | 34,549,279.81 |
| | Start of period | 37,403,048.02 | 36,094,021.13 | 35,285,660.07 | 34,549,279.81 | 34,810,540.80 |
| | Change in Net Position over Period | 76,487.02 | 1,309,026.89 | 808,361.06 | 736,380.26 | (261,260.99) |

| Table 3 | | | | |
|--|--|--|----|----------------------|
| Distributions to the Charter Municipalities | | | | |
| in the Second Quarter of 2016 | | | | |
| Equity Charter Municipalities | | | | |
| | Tipping Fee, first quarter | | \$ | 76.50 |
| | Target value | | \$ | (59.00) |
| | Distributions required to achieve the target value, \$ per ton | | \$ | 17.50 (A) |
| | Waste deliveries, Equity Charter Municipalities, tons | | | 34,435.64 (B) |
| | Distributions required to achieve the target value | | \$ | 602,623.70 (A) x (B) |
| New Charter Municipalities | | | | |
| | Tipping Fee, first quarter | | \$ | 76.50 |
| | Target value | | \$ | (59.00) |
| | Distributions required to achieve the target value, \$ per ton | | \$ | 17.50 (D) |
| | Waste deliveries, New Charter Municipalities, tons | | | 3,892.55 (E) |
| | Distributions required to achieve the target value | | \$ | 68,119.75 (D) x (E) |
| Summary for all Charter Municipalities | | | | |
| | Equity Charter Municipalities | | \$ | 602,623.70 (A) x (B) |
| | New Charter Municipalities | | \$ | 68,119.75 (D) x (E) |
| | Total | | \$ | 670,743.45 |

| Table 4 | | | | |
|--|--|----|--------------|------------------------------|
| Uses and Sources of Cash for the Distribution | | | | |
| in the Second Quarter of 2016 | | | | |
| | Distributions required to achieve the target values | | \$ | 670,743.45 |
| Net Cash Flow | | | | |
| | Received in prior quarter | \$ | 163,958.31 | |
| | Distributed previously | \$ | - | |
| | Deferred for future distribution | \$ | - | |
| | Distribution | | \$ | (163,958.31) |
| Performance Credits | | | | |
| | Received in prior quarter | \$ | 599,834.19 | |
| | Distributed previously | | | |
| | New Charter Municipalities | \$ | (68,119.75) | \$ (68,119.75) |
| | Deferred for future distribution | \$ | (93,049.05) | |
| | Equity Charter Municipalities - current distribution | \$ | (438,665.39) | |
| | Subtotal | | \$ | (602,623.70) \$ (602,623.70) |
| | Additional funds required | | \$ | - |
| Other cash available | | | | |
| | From prior Custody Account balance | | | |
| | Equity Charter allocation | | | |
| | New Charter allocation | | | |
| | | | \$ | - \$ - |
| | Recommended cash transfer from the Tip Fee Stabilization Fund | | \$ | - |

| Table 5 | | | |
|---|--|----------------------|------------------------|
| Funds Available After Cash Distributions | | | |
| | | | |
| Custodial Account balance as of 4/1 | | | \$ 1,743,550.65 |
| Deposits | | | |
| | Performance Credits, 2Q (estimated) | 747,468.33 | |
| | Net Cash Flow from PERC, 2Q, estimated | \$ 197,862.57 | |
| | Subtotal | \$ 945,330.90 | \$ 945,330.90 |
| Transfer from the Tip Fee Stabilization Fund | | | |
| | | | \$ - |
| Withdrawals | | | |
| | Distribution to the Charter Municipalities | | \$ (670,743.45) |
| | Bank fees | | |
| Projected funds available after distribution | | | \$ 2,018,138.10 |
| Transfer to the Tip Fee Stabilization Fund | | | \$ (900,000.00) |
| Reserve for next distribution | | | \$ 1,118,138.10 |