

# CommonWealth

Resource Management Corporation

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17 October 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 Fourth 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 **fourth** 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 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 fourth quarter of 2017 and preceding quarters in a format that reflects the financial statements prepared by the MRC's auditor.

As shown, as of October 1, 2017:

- The **Custody Account** balance at Bangor Savings Bank was **\$1,858,044.90**.
- The market value of the **Tip Fee Stabilization Fund**, including accrued income through the end of the third quarter of 2017, was **\$19,121,270.87**, including \$57,290.78 in accrued interest. 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 October 1, 2017, was \$1,231,622.32, which is 6.5 percent of the full value of the fund. Note that \$750,000 in US treasury notes and federal agency bonds, and \$3.850 million in bank CDs, are scheduled to reach maturity in the fourth quarter of 2017. These funds can be made available to meet MRC liquidity needs in the quarter, which, subject to MRC Board approval, might include 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 (the Hampden 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. On May 1, 2017, the MRC released an additional **\$3,379,827** from the Tip Fee Stabilization Fund to pay for the second stage of infrastructure development, making a total of \$5.0 million. The MRC also released an additional **\$445,875** from the Tip Fee Stabilization Fund to make certain project-related payments, including payments of \$243,500 to the Maine DOT (of which \$219,150 is being held as a reserve during construction) and \$202,375 to the Hampden Water District. Finally, the MRC transferred **\$349,000** from the Tip Fee Stabilization Fund to the MRC Operating Fund to reimburse legal and other third-party costs to achieve the settlement with PERC. Note that 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 third quarter of 2017 (also being managed by People's United Bank), was **\$193,314.13**. The balance in liquid money market funds readily available for withdrawal as of October 1, 2017, was \$18,226.63, which is 9.4 percent of the full value of the fund. Note that \$175,000 in agency bonds are scheduled to reach maturity in the fourth quarter of 2017. It is anticipated that those

funds will be retained as liquid funds through the termination of the existing arrangements scheduled as of March 31, 2018.

- The market value of the **Delivery Sufficiency Fund** through the end of the third quarter of 2017 (also being managed by People's United Bank), was **\$3,000,378.11**. This fund was funded initially by a transfer of \$3.0 million in August 2017 from the accounts in the Tip Fee Stabilization Fund of the Equity Charter Members that are Joining Members. The funds are segregated as required by Schedule B to the Joinder Agreements, and by the Master Waste Supply Agreement, as security for certain MRC payment obligations under those agreements. Access to the fund will be controlled through a Direct Account Control Agreement between the MRC and the owner of the Hampden Facility, which agreement is being developed as of this writing.
- 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 **\$553,363.10**, 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.

The share of the **bank debt service reserve fund** owned by the Charter Municipalities and held in reserve by PERC's lender (\$1,333,33.33) is now included in the Net Position of the joint venture. Under the Settlement Agreement, Section 9, USAE Energy offered to assist the MRC in securing withdrawal of these funds before PERC's last debt service payment scheduled for December 2017. MRC staff was contacted in September that these funds could be released these funds. The funds were transferred to the MRC early in October 2017. The MRC can now release these funds to the Equity Charter

Municipalities, provide that the basis for offsetting fund allocations by the cost of the release is approved.

Table 2 presents the revenues and expenditures of the joint venture, as well as the change in Net Position, for the third quarter of 2017 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 in prior quarters of 2017.

## 2.0 DISTRIBUTIONS TO THE CHARTER MUNICIPALITIES

The MRC distributes cash to the Equity Charter Municipalities as required to achieve the target value of **\$67 per ton** of solid waste delivered in the prior quarter for all Equity and New Charter Municipalities on a pooled basis. The target value increased to \$67 per ton from \$63 per ton for cash distributions as of July 1, 2017.

To achieve the target value, the MRC needs to distribute at least **\$553,363.10** to the Charter Municipalities to offset a portion of tip fees paid for MSW delivered in the third quarter of 2017 (**\$501,545.02** to Equity Charter Municipalities and **\$51,818.08** 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 **\$78.50**. 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.

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

- **\$1,007,510.91** in Performance Credits distributed by PERC to the MRC on behalf of the Equity Charter Municipalities in the previous quarter.
- **\$247,804.97** 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.
- **Performance Credits** from prior quarters held in the Custody Account and the Tip Fee Stabilization Account.

The balance of \$1,858,044.90 in the Custody Account as of October 1, 2017, is sufficient to provide cash for the total recommended distribution to the Charter Municipalities (which is \$553,363.10). 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 distribution to each Charter Municipality will be available after the Board meeting.

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 October 17, 2017, PERC had made payments that count towards the \$5.4 million guarantee in the amount of \$4,201,750.07, which represents 77.8 percent of the \$5.4 million that would be paid pursuant to the Pending Settlement (see Table 6).

#### 4.0 RECOMMENDATIONS

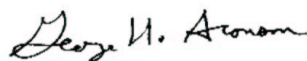
Based on the above, CRMC recommends approval of the following:

1. Make the cash distribution of **\$553,363.10** 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 6  
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, 2017, unaudited**

			Unaudited	Unaudited	Unaudited	Audited	Audited
		Notes	10/1/2017	7/1/2017	4/1/2017	1/1/2017	10/1/2016
<b>ASSETS</b>							
<b>Cash and cash equivalents</b>							
	Custody Account (Bangor Savings Bank money market fund)		\$ 1,858,044.90	\$ 1,244,588.01	\$ 883,100.45	\$ 454,455.57	\$ 653,658.67
	Maine DOT escrow account (allocated to Equity Charter Joining Members)	2	\$ 219,150.00	\$ 219,150.00			
<b>Accounts Receivable</b>							
	Consent Payment receivable					600,000.00	
<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	19,063,980.09	22,021,331.80	26,139,569.11	26,112,661.26	27,736,948.18
	Accrued interest income		57,290.78	45,663.71	64,304.15	47,994.84	49,796.92
	MRC Operating Budget Stabilization Fund (managed by Peoples United Bank)						
	Account balance (CDs, money market fund, US agency bonds and Treasury notes)	1	193,314.13	193,414.59	192,573.88	192,918.49	192,179.68
	Accrued interest income			-	-	-	797.98
	Delivery Sufficiency Fund (i Peoples Untied Bank subject to acct control agrmt		3,000,378.11				
	Value of Hampden site (cost basis, allocated to Equity Charter Joining Members)		5,226,725.00	5,226,725.00	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	1,500,000.00	1,500,000.00
	Value of Equity Charter Municipal ownership share of Debt Service Reserves	3	1,333,333.33	1,333,333.33	1,333,333.33	1,333,333.33	
<b>TOTAL ASSETS</b>			32,452,216.34	31,784,206.44	31,733,053.92	31,861,536.49	30,133,381.43
<b>LIABILITIES AND NET POSITION</b>		3					
<b>Liabilities</b>							
	Cash distributions payable, current quarter		553,363.10	642,906.03	602,602.91	658,519.01	776,784.96
	Indenture reserves released, awaiting final allocation						
	<b>Statement of Net Position held for the benefit of Charter Municipalities</b>	4	31,898,853.24	31,141,300.41	31,130,451.01	31,203,017.48	29,356,596.47
<b>TOTAL LIABILITIES AND NET POSITION</b>			32,452,216.34	31,784,206.44	31,733,053.92	31,861,536.49	30,133,381.43
<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 on and after 10/1/2016 based on the aggregate price for purchase of Equity Charter Municipal interests in PERC Partnership per the settlement agreement.						
	Value held in Maine DOT escrow account, allocated among Joining Members only, would be released upon completion of construction.						
3	Under gaap, Net Position prior to Jan 1, 2017, 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, anticipated for October 2017.						
	Bank Debt Reserve Fund not included above						1,333,333.33
4	Net Position includes amounts accrued for payment to Charter Municipalities that will 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 10-1-2017 are as follows:						
	Custody Account		704,165.30				
	Tip Fee Stabilization Account		10,920,943.15				
	Operating Budget Stabilization Account		159,662.69				

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 Third quarter 7/1/2017 to 10/1/2017	Unaudited Second quarter 4/1/2017 7/1/2017	Unaudited First quarter 1/1/2017 4/1/2017	Audited Fourth quarter 10/1/2016 1/1/2017	Audited Third quarter 7/1/2016 10/1/2016	Audited Second quarter 4/1/2016 7/1/2016	Audited First quarter 1/1/2016 4/1/2016
<b>ADDITIONS (revenue)</b>								
PERC Performance Credits		1,007,510.91	766,213.74	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)		247,804.97	197,757.62	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		2,303.32	(22,207.35)	(22,166.00)	(43,518.63)	(22,395.03)	33,757.65	122,131.25
MRC Operating Budget Stabilization Fund		(92.75)	(105.00)	(315.00)	(290.50)	(516.00)	2,788.36	1,144.50
Interest and dividend income								
Tip Fee Stabilization Fund - net earnings		40,344.97	78,672.04	49,073.85	39,404.71	45,297.31	53,306.65	35,341.37
Tip Fee Stabilization Fund - interest accrued		11,627.07	(18,640.44)	16,309.31	(1,802.08)	6,251.25	(13,673.59)	3,761.40
Op Budget Stabilization Fund - net earnings		(7.71)	945.71	(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
Delivery Sufficiency Fund, interest		378.11						
Custodial Account (interest net of bank fees)		1,047.04	119.11	(428.20)	(515.65)	(1,048.05)	(1,065.02)	(1,328.06)
<b>TOTAL REVENUE (ADDITIONS)</b>		1,310,915.93	1,002,755.43	530,036.44	1,171,606.69	1,641,135.38	1,066,727.57	927,230.47
<b>DEDUCTIONS (expenditures)</b>								
Distributions to Charter Municipalities (rebates)		642,906.03	602,602.91	658,519.01	776,784.96	623,938.56	670,743.45	795,182.79
Transfer to Operating Fund for operations			349,000.00	-	-	152,611.00	264,520.00	180,000.00
Transfer to Operating Fund for Hampden site development						212,533.00		
GAT shortfall penalty payment								
<b>TOTAL EXPENDITURES (DEDUCTIONS)</b>		642,906.03	951,602.91	658,519.01	776,784.96	989,082.56	935,263.45	975,182.79
<b>EXCESS OF ADDITIONS OVER DEDUCTIONS</b>		668,009.90	51,152.52	(128,482.57)	394,821.73	652,052.82	131,464.12	(47,952.32)
<b>ADJUSTMENTS</b>								
Change in value of ownership position in PERC		-	-	-	1,333,333.33	(8,178,083.00)	-	-
Reserve funds released								
Change in cash distribution payable		89,542.93	(40,303.12)	55,916.10	118,265.95	(152,846.40)	46,804.89	124,439.34
Total adjustments		89,542.93	(40,303.12)	55,916.10	1,451,599.28	(8,330,929.40)	46,804.89	124,439.34
<b>Adjusted Excess of Additions over Deductions</b>		<b>757,552.83</b>	<b>10,849.40</b>	<b>(72,566.47)</b>	<b>1,846,421.01</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		31,898,853.24	31,141,300.41	31,130,451.01	31,203,017.48	29,356,596.47	37,035,473.05	36,857,204.04
Start of period		31,141,300.41	31,130,451.01	31,203,017.48	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>757,552.83</b>	<b>10,849.40</b>	<b>(72,566.47)</b>	<b>1,846,421.01</b>	<b>(7,678,876.58)</b>	<b>178,269.01</b>	<b>76,487.02</b>
		-	-	0.00				

Table 3					
Distributions to the Charter Municipalities					
in the Fourth Quarter of 2017					
<b>Equity Charter Municipalities</b>					
	Tipping Fee, third quarter			\$ 78.50	
	Target value			\$ (67.00)	
	Distributions required to achieve the target value, \$ per ton			\$ 11.50	(A)
	Waste deliveries, Equity Charter Municipalities, tons			43,612.61	(B)
	Distributions required to achieve the target value			\$ 501,545.02	(A) x (B)
<b>New Charter Municipalities</b>					
	Tipping Fee, third quarter			\$ 78.50	
	Target value			\$ (67.00)	
	Distributions required to achieve the target value, \$ per ton			\$ 11.50	(D)
	Waste deliveries, new Charter Municipalities, tons			4,505.91	(E)
	Distributions required to achieve the target value			\$ 51,818.08	(D) x (E)
<b>Summary for all Charter Municipalities</b>					
<i>Distributions required to achieve the target values</i>					
	Equity Charter Municipalities			\$ 501,545.02	(A) x (B)
	New Charter Municipalities			\$ 51,818.08	(D) x (E)
	Total			\$ 553,363.10	
Table 4					
Sources and Uses of Cash Received					
in the Fourth Quarter of 2017					
<b>Sources of Cash</b>					
	Performance Credits received, prior quarter		\$ 1,007,510.91		
	Net Cash Flow (PERC LP distributions)		\$ 247,804.97		
	Interest net of fees		\$ 1,047.04		
	Total		1,256,362.92		
<b>Uses of Cash</b>					
	Distribution to Equity Charter Municipalities		\$ 501,545.02		
	Distribution to New Charter Municipalities		\$ 51,818.08		
	Reserve for future distributions		702,999.82		
	Total		\$ 1,256,362.92		
<b>Allocations</b>					
			Distributed	Reserved	
	Performance Credits		\$ 305,558.13	\$ 701,952.78	
	Net Cash Flow (PERC distribution)		\$ 247,804.97	\$ -	
	Interest			\$ 1,047.04	
		\$ 1,256,362.92	\$ 553,363.10	\$ 702,999.82	



Table 5				
Projection of Funds to be Available at End of Quarter				
Custody Account balance as of October 1, 2017				\$ 1,858,044.90
Deposits				
	Net Cash Flow from PERC, 4Q (estimated)		\$ 243,807.52	
	Performance Credits, 10/16 (actual)		\$ 334,546.10	
	Performance Credits, 11/16 (estimated)		\$ 249,358.35	
	Performance Credits, 12/16 (estimated)		\$ 334,921.59	
	Subtotal		\$ 1,162,633.56	\$ 1,162,633.56
Withdrawals				
	Distribution to the Charter Municipalities			
	Net Cash Flow distributed		\$ (247,804.97)	
	Performance Credits distributed		\$ (305,558.13)	
	Subtotal			\$ (553,363.10)
	Reserve Funds to transfer to the Stabilization Funds			
Projected balance after deposits and withdrawals				\$ 2,467,315.36
Projected funds available after distribution				\$ 2,467,315.36
Reserve for next distribution				
Available for transfer to the Tip Fee Stabilization Fund				\$ 2,467,315.36
Recommended for transfer to the Tip Fee Stabilization Fund				
Projected closing balance as of December 31, 2017				\$ 2,467,315.36

Table 6			
PERC Payments on the \$5.4 Million Guarantee			
	Performance		
	Credits	Net Cash Flow	Total
Sep-16	400,643.45	99,279.84	499,923.29
Oct-16	357,700.38	89,418.39	447,118.77
Nov-16	100,613.79	30,364.95	130,978.74
Mar-16	372,925.49	114,666.60	487,592.09
May-17	394,656.08	97,904.85	492,560.93
Jun-17	371,557.66	99,852.77	471,410.43
Jul-17	345,616.00	84,848.05	430,464.05
Aug-17	323,501.72	79,768.64	403,270.36
Sep-17	338,393.19	83,188.28	421,581.47
Oct-17	334,546.10	82,303.84	416,849.94
Nov-17			-
Dec-17			-
Total	3,340,153.86	861,596.21	4,201,750.07
Guarantee			5,400,000.00
% Paid			77.8%
% remaining			22.2%
Amount remaining			1,198,249.93