

CommonWealth

Resource Management Corporation

22 January 2018

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 First Quarter of 2018

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 **first** quarter of 2018 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.

This letter also refers to reserve funds that are being managed in anticipation of the implementation of agreements between the MRC and Coastal Resources of Maine, LLC (Coastal, which was formed by Fibrigh, LLC, and its equity investor) for management of municipal solid waste (MSW) from municipalities that would continue to be MRC members after expiration of the Extended Agreements on April 1, 2018 (Joining Members). Coastal is constructing a facility in Hampden (the Hampden Facility) at a site owned by the MRC. Costs associated with implementation of such agreements, including the Site Lease and Master Waste Supply Agreement between the MRC and Coastal, and Joinder Agreements between the MRC and Joining Members, are allocated solely to Joining Members.

1.0 FINANCIAL STATEMENTS

Table 1 presents a balance sheet for the start of the first quarter of 2018 and preceding quarters in a format that reflects the financial statements prepared by the MRC's auditor.

As shown, as of January 1, 2018:

- The **Custody Account** balance at Bangor Savings Bank was **\$2,432,394.48**. This balance does not include \$80,172.96 in Net Cash Flow for the fourth quarter of 2017 that was payable to the MRC as of January 1 (and was received shortly thereafter).
- The market value of the **Tip Fee Stabilization Fund**, including accrued income through the end of the four quarter of 2017, was **\$15,253,020.19**, including **\$15,214,132.96** in investments and cash, and **\$38,887.23** in accrued interest. The investments and cash are held in the form of a ladder of money market funds, US Treasury bonds, 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 January 1, 2018, was \$4,815,406.26, which is 31.7 percent of the full value of the fund. The high level of cash reflects the large number of bonds that reached maturity in 2017 and that are being held in money markets and liquid short-term treasury bonds.
- By the end of 2017, the MRC had transferred funds from the Tip Fee Stabilization Account to three other accounts set up and managed by People's United Bank associated with the financing by Coastal of the Hampden facility. All of these transfers were allocated in their entirety to the accounts of Joining Members such that no Departing Municipalities have paid any costs associated with these accounts and have no interest in them. These accounts include:
 - A **Supplemental Cash Collateral Account**, which had a balance of **\$3,773,022.14**. This account was set up on a temporary basis to secure, via an escrow account, certain obligations taken on by the MRC on behalf of the Joining Members. These obligations were satisfied as of December 22, 2017, and the funds will be returned to the Tip Fee Stabilization Fund in 2018.
 - A **Delivery Sufficiency Fund**, which had a balance of **\$3,000,351.38**. This account 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. The fund is controlled by a Direct Account Control Agreement between the MRC and the owners of the Hampden facility.

- **A Cash Sweep Account**, which had a balance of **\$1,007.36**. This account is being used to accept interest earned by the Delivery Sufficiency Fund and Supplemental Cash Account.
- The market value of the **MRC Operating Budget Stabilization Fund** at end of the fourth quarter of 2017 (also managed by People's United Bank), was **\$105,556.79**. The entire balance is being held in a liquid money market fund and is readily available for withdrawal as needed to support MRC activities in oversight on and closing out the Extended Agreements.
- Table 1 shows the value of the site for the Hampden Facility, owned by the MRC, on the basis of past expenditures for site acquisition and infrastructure development. 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. The total value of **\$5,416,173** shown on Table 1 for the value of the Hampden site includes the following expenditures:
 - **\$212,533** released from the Operating Budget Stabilization Fund in the third quarter of 2016 to pay for site development and professional service costs.
 - **\$1,620,173** released from the Tip Fee Stabilization Fund in the fourth quarter of 2016 to pay for the first stage of infrastructure construction.
 - **\$3,379,827** released from the Tip Fee Stabilization Fund on May 1, 2017, to pay for the second stage of infrastructure construction, making a total of \$5.0 million for infrastructure construction.
 - **\$445,875** released from the Tip Fee Stabilization Fund to make certain project-related payments, including payments of \$242,235 to the Maine DOT (being held as a reserve during construction) and \$203,640 to the Hampden Water District.
- Table 1 shows a value of **\$1.5 million** for the shares of the PERC Partnership owned by Equity Charter Municipalities, based on the price offered by the PERC Partnership to repurchase all of the ownership shares in the owned by Equity Charter Municipalities under the terms of the Put Option described in the Settlement Agreement. As of December 31, 2017, all of the Equity Charter Municipalities had exercised the Put Option. The MRC and the PERC Partnership are working to close the exercise of the Put Option in March 2018 in accordance with the Partnership Agreement as amended by the Settlement Agreement.

The share of the bank debt service reserve fund owned by Equity Charter Municipalities and held in reserve by PERC's lender (\$1,333,33.33), which was paid out to the Equity Charter Municipalities in November 2017, is no longer shown as an asset. The MRC distributed the entire amount without the need to offset costs for recovery.

- Cash distributions payable by the MRC to the Charter Municipalities in the quarter are **\$543,818.49**, 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 4 to Table 1 provides an updated estimate of \$11,805,740.13 as the amount allocated to the Departing Municipalities from the Custody Account, Tip Fee Stabilization Account and the Operating Budget Stabilization Account as of the end of 2017.

Table 2 presents the revenues and expenditures of the joint venture, as well as the change in Net Position, for the fourth 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 to the MRC Operating Fund in prior quarters of 2017, including a transfer of \$349,000 from the Tip Fee Stabilization Fund in the second quarter, and transfers of \$120,000 from the Tip Fee Stabilization Fund and \$88,850 from the Operating Budget Stabilization Fund in the fourth quarter, in each case to support the costs of negotiating and implementing the Settlement Agreement and otherwise winding up arrangements between the Charter Municipalities and PERC under the Extended Agreements.

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 **\$543,818.49** to the Charter Municipalities to offset a portion of tip fees paid for MSW delivered in the fourth quarter of 2017 (**\$492,504.38** to Equity Charter Municipalities and **\$51,314.11** 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 **\$79.50**. 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 fourth quarter of 2017, the following sources of cash are available for the distribution as of January 1, 2018, as described in Table 4:

- **\$966,796.88** in Performance Credits distributed by PERC to the MRC on behalf of the Equity Charter Municipalities in the previous quarter.
- **\$238,454.71** in partnership cash distributions (Net Cash Flow) from PERC to the MRC on behalf of the Equity Charter Municipalities in the previous quarter (including \$80,172.96 received in January 2018), 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 \$2,432,394.48 in the Custody Account as of January 1, 2018, is sufficient to provide cash for the total recommended distribution to the Charter Municipalities (which is \$543,818.49). 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 January 17, 2018, PERC had authorized payments that count towards the \$5.4 million guarantee in the amount of **\$5,378,320.43**, which represents **99.6** percent of the \$5.4 million that would be paid pursuant to the Pending Settlement (see Table 6).

4.0 RECOMMENDATIONS

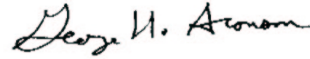
Based on the above, CRMC recommends approval of the following:

1. Make the cash distribution of **\$543,818.49** 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,

A handwritten signature in black ink, appearing to read "George H. Aronson". The signature is fluid and cursive, with the first name "George" being more prominent.

George H. Aronson
Principal

Attachments Tables 1 through 6
Copies: PERC, LP

<p align="center">Table 1</p> <p align="center">Joint Venture of the Charter Municipalities of the</p> <p align="center">Municipal Review Committee, Inc.</p> <p>Governmental Funds Balance Sheet / Statement of Net Position</p> <p align="center">Quarterly Basis, 2017-18, unaudited</p>

				Unaudited	Unaudited	Unaudited	Unaudited	Audited
		Notes	1/1/2018	10/1/2017	7/1/2017	4/1/2017	1/1/2017	
ASSETS								
Cash and cash equivalents								
	Custody Account (Bangor Savings Bank money market fund)		2,432,394.48	1,858,044.90	1,244,588.01	883,100.45	454,455.57	
	Maine DOT escrow account (allocated to Equity Charter Joining Members)	2	242,765.10	242,553.38	242,235.00			
Accounts Receivable								
	Consent Payment receivable						600,000.00	
	Cash distribution (Net Cash Flow from PERC) receivable		80,172.96					
Investments								
	Tip Fee Stabilization Fund (portfolio managed by Peoples UB)							
	Account balance (CDs, money market fund, US agency bonds and Treasury notes)	1,4	15,214,132.96	19,063,980.09	22,021,331.80	26,139,569.11	26,112,661.26	
	Accrued interest income	4	38,887.23	57,290.78	45,663.71	64,304.15	47,994.84	
	Supplemental Cash Collateral Account (Peoples UB subject to temporary acct control agmt)	4	3,773,022.14					
	Delivery Sufficiency Fund (Peoples UB subject to temporary acct control agmt)	4	3,001,351.38	3,000,854.92				
	Cash Sweep Account (Peoples UB)	4	1,007.36					
	MRC Operating Budget Stabilization Fund (Peoples UB)							
	Account balance (CDs, money market fund, US agency bonds and Treasury notes)	1	105,556.79	193,314.13	193,414.59	192,573.88	192,918.49	
	Accrued interest income				-	-	-	
	Value of Hampden site (cost basis, allocated to Equity Charter Joining Members)		5,416,173.00	5,416,173.00	5,416,173.00	1,832,706.00	1,832,706.00	
	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	
TOTAL ASSETS			31,805,463.40	32,665,544.53	31,996,739.44	31,945,586.92	32,074,048.49	
LIABILITIES AND NET POSITION								
Liabilities								
	Cash distributions payable, current quarter		543,818.49	553,363.10	642,906.03	602,602.91	658,519.01	
	Indenture reserves released, awaiting final allocation							
Statement of Net Position held for the benefit of Charter Municipalities			31,261,644.91	32,112,181.43	31,353,833.41	31,342,984.01	31,415,529.48	
TOTAL LIABILITIES AND NET POSITION			31,805,463.40	32,665,544.53	31,996,739.44	31,945,586.92	32,074,048.49	
NOTES								
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 at Katahdin Trust Company, allocated among Joining Members only, would be released upon completion of construction.							
3	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 and 1-1-2018 are as follows:							
			1/1/2018	10/1/2017				
	Custody Account		913,942.98	704,165.30				
	Tip Fee Stabilization Account		10,805,010.99	10,872,733.09				
	Operating Budget Stabilization Account		86,786.16	159,008.03				
			11,805,740.13	11,735,906.42				
4	Funds in the following accounts are treated as if part of the Tip Fee Stabilization Account:							
	Tip Fee Stabilization Fund (including accrued interest)		15,253,020.19	19,121,270.87				
	Supplemental Cash Collateral Account (subject to a direct account control agreement that expired on December 22, 2017). These funds will be returned to the Tip Fee Stabilization Fund in early 2018.		3,773,022.14	0				
	Delivery Sufficiency Fund (subject to a direct account control agreement)		3,001,351.38	3,000,854.92				
	Cash Sweep Account		1,007.36	0				
			22,027,393.71	22,122,125.79				
Note that all funds allocated to Departing Municipalities are being held in the Tip Fee Stabilization Fund. The withdrawals from this funds to create the other accounts were allocated only to Joining Members.								

<p align="center">Table 2</p> <p align="center">Joint Venture of the Charter Municipalities of the</p> <p align="center">Municipal Review Committee, Inc.</p> <p align="center">Statement of Governmental Fund Revenues, Expenditures and</p> <p align="center">Changes in Fund Balance/Statement of Activities</p> <p align="center">Quarterly basis, 2017-18, unaudited</p>

		Unaudited	Unaudited	Unaudited	Unaudited
Period		Fourth quarter	Third quarter	Second quarter	First quarter
from		10/1/2017	7/1/2017	4/1/2017	1/1/2017
to		1/1/2018	10/1/2017	7/1/2017	4/1/2017
ADDITIONS (revenue)					
PERC Performance Credits		966,796.88	1,007,510.91	766,213.74	372,925.49
Net earning from investment in PERC (Net Cash Flow)		238,454.71	247,804.97	197,757.62	114,666.60
Consent Payment		-		-	
Appreciation (depreciation) of investments					
Tip Fee Stabilization Fund		(33,271.42)	2,303.32	(22,207.35)	(22,166.00)
MRC Operating Budget Stabilization Fund		(87.50)	(92.75)	(105.00)	(315.00)
Interest and dividend income					
Tip Fee Stabilization Fund - net earnings		76,074.29	40,344.97	78,672.04	49,073.85
Tip Fee Stabilization Fund - interest accrued		(18,403.55)	11,627.07	(18,640.44)	16,309.31
Op Budget Stabilization Fund - net earnings		1,180.16	(7.71)	945.71	(29.61)
Op Budget Stabilization Fund - interest accrued		-	-	-	-
Escrow account interest		2,087.68	1,173.30		
Custodial Account (interest net of bank fees)		2,634.05	1,047.04	119.11	(428.20)
TOTAL REVENUE (ADDITIONS)		1,235,465.30	1,311,711.12	1,002,755.43	530,036.44
DEDUCTIONS (expenditures)					
Distributions to Charter Municipalities (rebates)		553,363.10	642,906.03	602,602.91	658,519.01
Transfer to Operating Fund for operations		208,850.00		349,000.00	-
Transfer to Operating Fund for Hampden site development					
GAT shortfall penalty payment					
TOTAL EXPENDITURES (DEDUCTIONS)		762,213.10	642,906.03	951,602.91	658,519.01
EXCESS OF ADDITIONS OVER DEDUCTIONS		473,252.20	668,805.09	51,152.52	(128,482.57)
ADJUSTMENTS					
Change in value of ownership position in PERC		(1,333,333.33)	-	-	-
Reserve funds released					
Change in cash distribution payable		9,544.61	89,542.93	(40,303.12)	55,916.10
Total adjustments		(1,323,788.72)	89,542.93	(40,303.12)	55,916.10
Adjusted Excess of Additions over Deductions		(850,536.52)	758,348.02	10,849.40	(72,566.47)
CHANGE IN NET POSITION					
End of period		31,261,623.91	32,112,160.43	31,353,812.41	31,342,963.01
Start of period		32,112,160.43	31,353,812.41	31,342,963.01	31,415,529.48
Change in Net Position over Period		(850,536.52)	758,348.02	10,849.40	(72,566.47)
		-	0.00	0.00	0.00

Table 3				
Distributions to the Charter Municipalities				
in the First Quarter of 2018				
Equity Charter Municipalities				
Tipping Fee, first quarter		\$	79.50	
Target value		\$	(67.00)	
Distributions required to achieve the target value, \$ per ton		\$	12.50	(A)
Waste deliveries, Equity Charter Municipalities, tons			39,400.35	(B)
Distributions required to achieve the target value		\$	492,504.38	(A) x (B)
New Charter Municipalities				
Tipping Fee, first quarter		\$	79.50	
Target value		\$	(67.00)	
Distributions required to achieve the target value, \$ per ton		\$	12.50	(D)
Waste deliveries, New Charter Municipalities, tons			4,105.12	(E)
Distributions required to achieve the target value		\$	51,314.11	(D) x (E)
Summary for all Charter Municipalities				
Equity Charter Municipalities		\$	492,504.38	(A) x (B)
New Charter Municipalities		\$	51,314.11	(D) x (E)
Total		\$	543,818.49	
Table 4				
Uses and Sources of Cash for the Distribution				
in the First Quarter of 2018				
Distributions required to achieve the target values		\$	543,818.49	
Net Cash Flow				
Received in prior quarter	\$	158,281.75		
Receivable from prior quarter	\$	80,172.96	Received January 2	
Distributed previously	\$	-		
Deferred for future distribution				
Distribution		\$	(238,454.71)	
Performance Credits				
Received in prior quarter	\$	966,796.88		
Distributed previously	\$	-		
New Charter Municipalities	\$	(51,314.11)		
Deferred for future distribution	\$	(610,118.99)		
Distribute from Equity Charter Municipality account:	\$	(305,363.78)		
Equity Charter allocation	\$	51,314.11		
New Charter allocation	\$	254,049.67		
	\$	305,363.78		
Subtotal		\$	(543,818.49)	\$ (543,818.49)
Additional funds required			\$	-
		\$	-	\$ -
Recommended cash transfer from the Tip Fee Stabilization Fund			\$	-
Table 5				
Funds Available After Cash Distributions				
Custodial Account balance as of 1/1			\$	2,432,394.48
Deposits				
Performance Credits, 1Q (estimated)			332,899.51	
Net Cash Flow from PERC, 1Q, estimated	\$	157,121.73		
Subtotal	\$	490,021.24	\$	490,021.24
Transfer from the Tip Fee Stabilization Fund			\$	-
Withdrawals				
Distribution to the Charter Municipalities			\$	(543,818.49)
Bank fees				
Projected funds available after distribution			\$	2,378,597.23
Transfer to the Tip Fee Stabilization Fund				

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	306,985.66	75,977.91	382,963.57
Dec-17	325,265.12	-	325,265.12
Jan-18	311,219.94	157,121.73	468,341.67
Feb-18			-
Total	4,283,624.58	1,094,695.85	5,378,320.43
Guarantee			5,400,000.00
% Paid			99.6%
% remaining			0.4%
Amount remaining			21,679.57