

# CommonWealth

Resource Management Corporation

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18 July 2011

The Municipal Review Committee, Inc. (the MRC)  
Attn.: Greg Louder, Executive Director  
40 Harlow Street  
Bangor, Maine 04401

RE: Charter Municipality Assets Managed by the MRC:  
Financial Statements, Distributions and Management of  
Available Funds in the Third Quarter of 2011

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 2011 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); the Trust Indenture, which governs the flow of funds associated with the Facility and the permitted uses of reserve funds; and the Surplus Cash Agreement, as amended, which governs the flow of funds among PERC, the MRC and Bangor Hydro-Electric Company (Bangor Hydro) after such funds have been released by the Trustee.

This letter provides information and recommendations regarding Net Cash Flow receivable by virtue of prior ownership of limited partnership shares in PERC. The MRC manages such proceeds in accordance with the Extended Agreements, the Surplus Cash Agreement, as amended, and the Fourth Amended and Restated Agreement of Limited Partnership of PERC (the Partnership Agreement).

This letter also provides updated information on (a) payment of GAT shortfall penalties by the Charter Municipalities; and (b) PERC's refinancing of the outstanding FAME bonds.

In this quarter, CRMC does not recommend that funds be withdrawn from the Tip Fee Stabilization Fund for transfer to the Custody Account. CRMC does not anticipate the need for further withdrawals from the Tip Fee Stabilization Fund until January 2012.

## 1.0 FINANCIAL STATEMENTS

Table 1 presents a balance sheet for the start of the third quarter of 2011 and four preceding quarters in a format that reflects the financial statements prepared by the MRC's auditor. As shown, as of July 1, 2011:

- The Custody Account balance at Bangor Savings Bank was **\$1,144,775.52**.
- The market value of the Tip Fee Stabilization Fund, including accrued income through the end of the second quarter of 2011, was **\$20,736,156.38**. This fund is held in the form of a ladder of bonds 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, 2011, was \$1,426,140.77, which is 6.9 percent of the full value of the fund.
- The market value of the MRC Operating Budget Stabilization Fund, including accrued income through the end of the second quarter of 2011 (also being managed by People's United Bank), was **\$697,269.52**.
- Cash distributions payable in the quarter are **\$1,160,594.26** (see Table 3).

The General Fund Balance includes the amount in the Tip Fee Stabilization Fund; the amount in the MRC Operating Budget Stabilization Fund; and other amounts that are classified as undesignated.

The Net Assets of the joint venture include the General Fund Balance, as well as the ownership shares in PERC. Note that the Equity Charter Municipalities' share of Equity Reserves is not included in Net Assets, because such share is considered 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 the Fund Balance, in the second quarter of 2011 and four preceding quarters. Note that 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 Net Assets over each quarter.

Table 2 contains two line-items related to the payment of the GAT shortfall penalty to PERC. The actual payment of **\$98,326.82** made by the MRC to PERC in the quarter is shown as an expenditure. The amount of \$34,546.61 received by the MRC from the 17 Charter Municipalities that made payments of their share of the GAT shortfall penalty to the MRC before June 30, 2011, is shown as a revenue item. One additional Charter Municipality made a payment of \$796.26 on July 13, 2011, which will be shown as a revenue item in the third quarter. That amount is not included in accounts receivable,

because that Charter Municipality had not made a commitment to make the payment to the MRC until after the start of the third quarter of 2011. The revenue for the third quarter will also include \$43,150.07 attributable to offsets against cash distributions for the 31 Charter Municipalities that made that election effective after July 1, 2011. For three of these Charter Municipalities, the offset will exceed the anticipated third quarter cash distribution by a total of \$1,163.60. Those offsets will be rolled over to subsequent quarters as required until the entire credit is taken. Note that five of the Charter Municipalities, which together owe a total amount of \$18,670.28, elected to pay their fines through credits to their balances in the Custody Account. Those credit balances, which will be applied in the third quarter of 2011, do not give rise to any new line-items on the balance sheet or on the statements of governmental revenues and expenditures.

## 2.0 DISTRIBUTIONS TO THE CHARTER MUNICIPALITIES

The MRC distributes cash to the Equity Charter Municipalities as required to achieve (a) the target value of **\$46 per ton** of solid waste delivered in the prior quarter for all Equity Charter Municipalities on a pooled basis; and (b) the target value of **\$54 per ton** of solid waste delivered in the prior quarter for all New Charter Municipalities. In this quarter, for the first time, the cash distributed to the Equity Charter Municipalities will be calculated on the basis of a target value of \$46 per ton in accordance with the Target Value Increase Plan approved previously by the Board.

To achieve these target values, the MRC needs to distribute at least **\$1,160,594.26** to the Charter Municipalities for the second quarter of 2011 (**\$1,076,224.19** to Equity Charter Municipalities and **\$84,370.07** to New Charter Municipalities) based on a tipping fee of **\$71.50** 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.

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 \$54 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) other 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 2011, the following sources of cash are available for the distribution as of July 1, 2011, as described in Table 4:

- **\$886,521.46** in Performance Credits distributed by PERC to the MRC on behalf of the Equity Charter Municipalities in the previous quarter.
- **\$274,072.80** in partnership cash distributions from PERC to the MRC on behalf of the Equity Charter Municipalities in the previous quarter.

With these deposits, the balance in the Custody Account as of July 1, 2011, in conjunction with cash received in July, 2011, was sufficient to provide cash for the recommended distribution to the Charter Municipalities. Therefore, CRMC does not recommend a transfer of cash from the Tip Fee Stabilization Fund to the Custody Account at this time,

A full allocation of the Note Payments and Performance Credits to be distributed to each individual Equity Charter Municipality will be available subsequent to the Board meeting.

#### 4.0 RELEASE OF RESERVE FUNDS UPON REFINANCING

PERC is scheduled to close on the refinancing of its outstanding FAME bonds during the week of July 18, 2011, through a bank loan from TD Bank. Note that the trustee to the FAME bond financing has been holding \$10.0 million in reserve funds since 1998, of which one-third, or \$3,333,333.33, is payable to the MRC on behalf of the Equity Charter Municipalities upon retirement of the bonds (see Table 1, Note 4). As part of the refinancing, PERC has negotiated the release of \$8.0 million of the reserve funds. Of that amount, one-third, or \$2,666,666.66, is owned by and payable to the MRC on behalf of the Equity Charter Municipalities. A total of \$2.0 million would remain in reserve for the new TD Bank loan financing, of which one-third, or \$666,666.67, is ultimately payable to the MRC on behalf of the Equity Charter Municipalities.

The Board faces two decisions related to the release of the reserve funds as follows:

- Whether to transfer of a portion of the released reserve funds from the Tip Fee Stabilization Fund to the Operating Budget Stabilization Fund, consideration of which has been discussed at a prior Board meeting.
- The method for allocating the reserve funds among the Equity Charter Municipalities. There is language in the Waste Disposal Agreements to support an

allocation based solely on the pro rata share of tonnage delivered in the second quarter of 2011, but authorizing the MRC Board to vote to change the methods of allocation. It would seem to be more equitable to allocate the reserve funds pro rata with tonnage delivered over the full term of the FAME bonds (since 1998), rather than pro rata with deliveries over a single calendar quarter that might not be representative of the longer time-frame. This issue is the subject of a separate agenda item for the Board meeting and is addressed in a separate memorandum.

## 5.0 RECOMMENDATIONS

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

1. Distribute **\$1,160,594.26** to the Charter Municipalities as described herein.

No withdrawal from the Tip Fee Stabilization Account or 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 Assets Quarterly Basis, 2010-11, unaudited						
	Notes	7/1/2011	4/1/2011	1/1/2011	10/1/2010	7/1/2010
<b>ASSETS</b>						
<b>Cash and cash equivalents</b>						
Custody Account (Bangor Savings Bank)		1,144,775.52	191,807.66	858,826.64	1,088,421.86	715,881.50
<b>Accounts Receivable</b>						
PERC partnership distribution (Net Cash Flow) accrued for prior quarter						
<b>Investments</b>						
Tip Fee Stabilization Fund (portfolio managed by Merrill Bank)						
Account balance	1	20,613,062.77	21,245,080.17	21,700,556.69	21,729,124.78	21,588,711.19
Accrued interest income		123,093.61	117,883.34	139,670.64	146,324.22	152,627.72
MRC Operating Budget Stabilization Fund (managed by Merrill Bank)						
Account balance	1	694,121.63	686,276.03	687,978.10	686,828.96	682,808.83
Accrued interest income		3,147.89	4,837.90	3,355.90	5,010.14	3,401.08
Investment in PERC	2	13,273,239.00	13,273,239.00	13,273,239.00	13,273,239.00	13,273,239.00
<b>TOTAL ASSETS</b>		35,851,440.42	35,519,124.10	36,663,626.97	36,928,948.96	36,416,669.32
<b>LIABILITIES AND NET ASSETS</b>						
<b>Liabilities</b>						
Cash distributions payable, current quarter	3	1,160,594.26	1,113,992.66	1,267,530.14	1,399,961.61	1,209,257.20
<b>Net Assets</b>		34,690,846.16	34,405,131.44	35,396,096.83	35,528,987.35	35,207,412.12
<b>TOTAL LIABILITIES AND NET ASSETS</b>	4	35,851,440.42	35,519,124.10	36,663,626.97	36,928,948.96	36,416,669.32
<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 of Charter Municipal share of PERC Partners' capital as of January 1, 2010, using results of audit of MRC Joint Venture financials for calendar year 2009						
3 Cash received from Charter Municipalities in advance of general						
4 Under gaap, Net Assets do not include the following contingent assets, which are the MRC's share of Equity Reserves held by the Trustee to the PERC financing, and would be distributed to the MRC upon the retirement of the bonds.						
			333,333.33			
			1,000,000.00			
			2,000,000.00			
			3,333,333.33			

**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, 2010-11, unaudited**

	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Period	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	Second quarter
from	4/1/2011	1/1/2011	10/1/2010	7/1/2010	4/1/2010	4/1/2010
to	7/1/2011	4/1/2011	1/1/2011	10/1/2010	7/1/2010	7/1/2010
<b>REVENUES</b>						
Performance Credits	1,007,048.99	47,665.38	917,637.45	1,252,089.76	698,571.47	698,571.47
Partnership distributions (Net Cash Flow)	274,072.80	53,690.95	253,554.21	330,375.27	246,003.40	246,003.40
Charter Municipality GAT payments	34,546.61					
Reserve funds released						
Appreciation (depreciation) of investments						
Tip Fee Stabilization Fund	98,317.89	(47,747.86)	(161,998.29)	(31,408.88)	54,317.86	54,317.86
MRC Operating Budget Stabilization Fund	3,328.71	(3,999.71)	(3,895.35)	749.12	6,390.77	6,390.77
Interest income						
Tip Fee Stabilization Fund - interest received	119,664.71	92,271.34	133,430.20	171,822.47	178,534.38	178,534.38
Tip Fee Stabilization Fund - interest accrued	5,210.27	(21,787.30)	(6,653.58)	(6,303.50)	(234.44)	(234.44)
Op Budget Stabilization Fund - interest received	4,516.89	2,297.64	5,044.49	3,271.01	5,010.51	5,010.51
Op Budget Stabilization Fund - interest accrued	(1,690.01)	1,482.00	(1,654.24)	1,609.06	(1,569.66)	(1,569.66)
Custodial Account (interest net of bank fees)	(381.06)	(845.17)	(825.27)	(667.47)	(379.87)	(379.87)
<b>TOTAL REVENUE</b>	<b>1,544,635.80</b>	<b>123,027.27</b>	<b>1,134,639.62</b>	<b>1,721,536.84</b>	<b>1,186,644.42</b>	<b>1,186,644.42</b>
<b>EXPENDITURES</b>						
Distributions to Charter Municipalities	1,113,992.66	1,267,530.14	1,399,961.61	1,209,257.20	1,082,932.08	1,082,932.08
GAT shortfall penalty payment	98,326.82					
<b>TOTAL EXPENDITURES</b>	<b>1,212,319.48</b>	<b>1,267,530.14</b>	<b>1,399,961.61</b>	<b>1,209,257.20</b>	<b>1,082,932.08</b>	<b>1,082,932.08</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>332,316.32</b>	<b>(1,144,502.87)</b>	<b>(265,321.99)</b>	<b>512,279.64</b>	<b>103,712.34</b>	<b>103,712.34</b>
<b>ADJUSTMENTS</b>						
Change in investment in PERC						
Change in cash distribution payable	(46,601.60)	153,537.48	132,431.47	(190,704.41)	(126,325.12)	(126,325.12)
Total adjustments	(46,601.60)	153,537.48	132,431.47	(190,704.41)	(126,325.12)	(126,325.12)
<b>Adjusted Excess of Revenues over Expenses</b>	<b>285,714.72</b>	<b>(990,965.39)</b>	<b>(132,890.52)</b>	<b>321,575.23</b>	<b>(22,612.78)</b>	<b>(22,612.78)</b>
<b>CHANGE IN NET ASSETS</b>						
End of period	34,690,846.16	34,405,131.44	35,396,096.83	35,528,987.35	35,207,412.12	35,207,412.12
Start of period	34,405,131.44	35,396,096.83	35,528,987.35	35,207,412.12	35,230,024.90	35,230,024.90
<b>Change in Net Assets over Period</b>	<b>285,714.72</b>	<b>(990,965.39)</b>	<b>(132,890.52)</b>	<b>321,575.23</b>	<b>(22,612.78)</b>	<b>(22,612.78)</b>

**Note 1** MRC paid the GAT fine to PERC of \$98,326.82 AS of June 30, 2011, the MRC had received cash reimbursements of \$34,546.61 from Charter Municipalities.

**Table 3**  
**Distributions to the Charter Municipalities**  
**in the Third Quarter of 2011**

<b>Equity Charter Municipalities</b>				
Tipping Fee, second quarter		\$	71.50	
Target value		\$	(46.00)	
Distributions required to achieve the target value, \$ per ton		\$	25.50	(A)
Waste deliveries, Equity Charter Municipalities, tons			42,204.87	(B)
Distributions required to achieve the target value		\$	1,076,224.19	(A) x (B)
<b>New Charter Municipalities</b>				
Tipping Fee, second quarter		\$	71.50	
Target value		\$	(54.00)	
Distributions required to achieve the target value, \$ per ton		\$	17.50	(D)
Waste deliveries, New Charter Municipalities, tons			4,821.14	(E)
Distributions required to achieve the target value		\$	84,370.07	(D) x (E)
<b>Summary for all Charter Municipalities</b>				
Equity Charter Municipalities		\$	1,076,224.19	(A) x (B)
New Charter Municipalities		\$	84,370.07	(D) x (E)
Total		\$	<b>1,160,594.26</b>	

**Table 4**  
**Sources and Uses of Cash Received**  
**in the Third Quarter of 2011**

<b>Sources of Cash</b>			
Performance Credits received	\$	1,007,048.99	Apr, May&Jun
Net Cash Flow (PERC distribution)	\$	274,072.80	Apr, May&Jun
Custody Account balance			
Interest			
Total		1,281,121.79	
<b>Uses of Cash</b>			
Distribution to Equity Charter Municipalities	\$	1,076,224.19	
Distribution to New Charter Municipalities	\$	84,370.07	
Reserve for future distributions		120,527.53	
Total	\$	1,281,121.79	
<b>Allocations</b>			
		Distributed	Reserved
Performance Credits	\$	886,521.46	\$ 120,527.53
Net Cash Flow (PERC distribution)	\$	274,072.80	\$ -
Interest			
	\$	1,281,121.79	\$ 1,160,594.26
			\$ 120,527.53



**Table 5  
Funds Available After Cash Distributions**

Custodial Account balance as of 7/1		\$ 1,144,775.52
<b>Deposits</b>		
Net Cash Flow from PERC	\$ 259,977.62	
Performance Credits, 7/15 (actual)	\$ 414,659.80	
Performance Credits, 8/15 (estimated)	\$ 200,531.42	
Performance Credits, 9/15 (estimated)	\$ 334,945.22	
<b>Subtotal</b>	<b>\$ 1,210,114.06</b>	<b>\$ 1,210,114.06</b>
<b>Withdrawals</b>		
Distribution to the Charter Municipalities		
Net Cash Flow distributed	\$ (274,072.80)	
GAT payment offsets	\$ 45,109.93	
Performance Credits distributed	\$ (886,521.46)	
<b>Subtotal</b>		<b>\$ (1,115,484.33)</b>
Projected balance after deposits and withdrawals		\$ 1,239,405.25
Projected funds available after distribution		\$ 1,239,405.25
Reserve for next distribution		\$ (1,239,405.25)
<b>Transfer to the Tip Fee Stabilization Fund</b>		<b>\$ -</b>
Projected closing balance as of 9/30		\$ 1,239,405.25