

# CommonWealth

Resource Management Corporation

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15 July 2015

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 Third Quarter of 2015

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 2015 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 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 funds 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 third quarter of 2015 and preceding quarters in a format that reflects the financial statements prepared by the MRC's auditor. As shown, as of July 1, 2015:

- The Custody Account balance at Bangor Savings Bank was **\$1,632,013.10**, with the ledger balance adjusted down to account for a pending transfer from the Custody Account to the Tip Fee Stabilization Account of \$1.2 million.
- The market value of the Tip Fee Stabilization Fund, including accrued income through the end of the second quarter of 2015, was **\$23,446,681.57**, including the \$1.2 million transfer into the fund that was pending as of July 1, 2105, as referenced above. 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 July 1, 2015, was \$1,685,888.72, which is 7.2 percent of the full value of the fund. Note that \$700,000 in bonds reached maturity in the second quarter, with an additional \$1.4 million in agency bonds scheduled to reach maturity in the third quarter of 2015. These funds will be reinvested by the investment advisor unless directed otherwise by the MRC Board.
- The market value of the MRC Operating Budget Stabilization Fund, including accrued income through the end of the second quarter of 2015 (also being managed by People's United Bank), was **\$861,692.45**. The balance in liquid money market funds readily available for withdrawal as of July 1, 2015, was \$24,988.87, which is 2.9 percent of the full value of the fund. No corporate bonds or agency bonds are scheduled to reach maturity in the third quarters of 2015. Note that \$100,000 in agency bonds are scheduled to reach maturity in the fourth quarter of 2015, 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 **\$955,141.05** (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 second quarter of 2015 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 2014 and 2015.

## 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 **\$955,141.05** to the Charter Municipalities to offset a portion of tip fees paid for MSW delivered in the second quarter of 2015 (**\$ 854,446.56** to Equity Charter Municipalities and **\$100,694.49** to New Charter Municipalities) based on the tipping fee of **\$79.50** 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 second quarter of 2015, the following sources of cash are available for the distribution as of July 1, 2015, as described in Table 4:

- **\$406,198.82** 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.
- **\$1,636,212.71** 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 July 1, 2015 (which is \$1,632,013.10), is more than sufficient to provide cash for the total recommended distribution to the Charter Municipalities (which is \$955,141.05). Therefore, no transfer of cash from the Tip Fee Stabilization Fund to the Custody Account is needed.

The cash in the Custody Account is not forecasted to be needed to provide cash for the distribution anticipated for the third or fourth quarters of 2015. Therefore, CRMC recommends that the Board consider transferring up to **\$1,200,000** of cash from the Custody Account to the Tip Fee Stabilization Fund, which would leave sufficient cash in the Custody Account at the end of the third quarter to make the distribution in the fourth quarter (see Table 5). 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

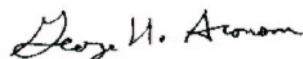
Based on the above, CRMC recommends approval of the following:

1. Distribute **\$955,141.05** to the Charter Municipalities as described herein.
2. Transfer up to **\$1,200,000.00** from the Custody Account to the Tip Fee Stabilization Account.

Neither a bond prepayment nor a transfer to the Custody Account from the Tip Fee Stabilization Account 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, 2014-15, unaudited**

	Notes	Unaudited 7/1/2015	Unaudited 4/1/2015	Unaudited 1/1/2015	Unaudited 10/1/2014	Unaudited 7/1/2014
<b>ASSETS</b>						
<b>Cash and cash equivalents</b>						
Custody Account (Bangor Savings Bank)		\$ 1,632,013.10	\$ 1,608,993.30	1,977,458.06	2,212,299.84	1,397,829.85
<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	1	23,392,988.20	22,162,920.88	22,020,352.74	21,392,799.82	21,401,966.49
Accrued interest income		53,693.37	58,017.94	56,690.11	62,030.55	63,017.98
MRC Operating Budget Stabilization Fund (managed by Peoples United Bank)						
Account balance	1	859,329.12	1,234,161.12	1,526,965.86	1,722,764.39	1,961,571.05
Accrued interest income		2,363.33	3,048.46	4,706.61	3,971.87	5,395.11
Value of ownership share of the PERC Partnership	2	10,200,747.00	10,200,747.00	10,200,747.00	10,200,747.00	10,200,747.00
<b>TOTAL ASSETS</b>		<b>36,141,134.12</b>	<b>35,267,888.70</b>	<b>35,786,920.38</b>	<b>35,594,613.47</b>	<b>35,030,527.48</b>
<b>LIABILITIES AND NET POSITION</b>						
<b>Liabilities</b>						
Cash distributions payable, current quarter	3	955,141.05	818,275.89	976,379.58	1,111,136.40	1,047,899.16
Indenture reserves released, awaiting final allocation						
<b>Statement of Net Position held for the benefit of Charter Municipalities</b>		<b>35,185,993.07</b>	<b>34,449,612.81</b>	<b>34,810,540.80</b>	<b>34,483,477.07</b>	<b>33,982,628.32</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>		<b>36,141,134.12</b>	<b>35,267,888.70</b>	<b>35,786,920.38</b>	<b>35,594,613.47</b>	<b>35,030,527.48</b>
<b>NOTES</b>						
1	Investments valued per market conditions as of date shown to account for unrealized gains and losses, and accrued interest. Balance as of July 1, 2015, includes pending transfer of \$1,200,000.					
2	Charter Municipal share of PERC Partners' capital as of the start of 2014 using results of audit of MRC Joint Venture financials for 2013.					
3	Under gaap, Net Assets do 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.					
	TD Bank Reserve Fund	1,333,333.34	1,333,333.34	1,333,333.34	1,333,333.34	1,333,333.34

**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, 2014-5, unaudited**

		<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
	Period	<b>Second quarter</b>	<b>First quarter</b>	<b>Fourth quarter</b>	<b>Third quarter</b>	<b>Second quarter</b>	<b>First quarter</b>
	from	4/1/2015	1/1/2005	10/1/2014	7/1/2014	4/1/2014	1/1/2014
	to	7/1/2015	4/1/2015	1/1/2005	10/1/2014	7/1/2014	4/1/2014
<b>REVENUE (ADDITIONS)</b>							
	PERC Performance Credits	1,636,212.71	470,676.75	1,176,877.49	1,490,870.57	909,949.02	294,929.38
	Earnings from investment in PERC (Net Cash Flow)	406,198.82	138,478.13	300,695.67	372,812.66	243,373.10	102,103.22
	Charter Municipality GAT payments						
	Appreciation (depreciation) of investments						
	Tip Fee Stabilization Fund	(22,688.71)	82,983.47	(41,012.16)	(57,128.74)	41,326.91	(12,704.14)
	MRC Operating Budget Stabilization Fund	1.37	4,931.55	(3,811.95)	(2,046.00)	6,247.11	(3,577.80)
	Interest and dividend income						
	Tip Fee Stabilization Fund - interest received	52,756.03	59,584.67	68,565.08	47,962.07	49,353.14	65,301.57
	Tip Fee Stabilization Fund - interest accrued	(4,324.57)	1,327.83	(5,340.44)	(987.43)	(362.86)	(7,988.64)
	Op Budget Stabilization Fund - interest received	1,591.63	2,263.71	4,013.42	3,239.34	852.48	7,028.63
	Op Budget Stabilization Fund - interest accrued	(685.13)	(1,658.15)	734.74	(1,423.24)	(467.37)	(544.99)
	Custodial Account (interest net of bank fees)	(1,115.84)	(1,240.06)	(1,278.54)	(958.01)	(790.51)	(1,081.55)
	<b>TOTAL REVENUE (ADDITIONS)</b>	<b>2,067,946.31</b>	<b>757,347.90</b>	<b>1,499,443.31</b>	<b>1,852,341.22</b>	<b>1,249,481.02</b>	<b>443,465.68</b>
<b>EXPENDITURES (DEDUCTIONS)</b>							
	Distributions to Charter Municipalities (rebates)	818,275.89	976,379.58	1,111,136.40	1,048,255.23	912,432.35	1,025,550.86
	Transfer to the MRC Operating Fund	376,425.00	300,000.00	196,000.00	240,000.00		250,000.00
	GAT shortfall penalty payment						
	<b>TOTAL EXPENDITURES (DEDUCTIONS)</b>	<b>1,194,700.89</b>	<b>1,276,379.58</b>	<b>1,307,136.40</b>	<b>1,288,255.23</b>	<b>912,432.35</b>	<b>1,275,550.86</b>
	<b>EXCESS OF ADDITIONS OVER DEDUCTIONS</b>	<b>873,245.42</b>	<b>(519,031.68)</b>	<b>192,306.91</b>	<b>564,085.99</b>	<b>337,048.67</b>	<b>(832,085.18)</b>
<b>ADJUSTMENTS</b>							
	Change in value of ownership position in PERC						(1,030,746.00)
	Reserve funds released						
	Change in cash distribution payable	(136,865.16)	158,103.69	134,756.82	(63,237.24)	(135,110.74)	112,762.44
	Total adjustments	(136,865.16)	158,103.69	134,756.82	(63,237.24)	(135,110.74)	(917,983.56)
	<b>Adjusted Excess of Revenues over Expenses</b>	<b>736,380.26</b>	<b>(360,927.99)</b>	<b>327,063.73</b>	<b>500,848.75</b>	<b>201,937.93</b>	<b>(1,750,068.74)</b>
<b>CHANGE IN NET POSITION</b>							
	End of period	35,185,993.07	34,449,612.81	34,810,540.80	34,483,477.07	33,982,628.32	33,780,690.39
	Start of period	34,449,612.81	34,810,540.80	34,483,477.07	33,982,628.32	33,780,690.39	35,530,759.13
	<b>Change in Net Position over Period</b>	<b>736,380.26</b>	<b>(360,927.99)</b>	<b>327,063.73</b>	<b>500,848.75</b>	<b>201,937.93</b>	<b>(1,750,068.74)</b>

<b>Table 3</b>				
<b>Distributions to the Charter Municipalities</b>				
<b>in the Third Quarter of 2015</b>				
<b>Equity Charter Municipalities</b>				
	Tipping Fee, second quarter		\$ 79.50	
	Target value		\$ (59.00)	
	Distributions required to achieve the target value, \$ per ton		\$ 20.50	(A)
	Waste deliveries, Equity Charter Municipalities, tons		\$ 41,680.32	(B)
	Distributions required to achieve the target value		\$ 854,446.56	(A) x (B)
<b>New Charter Municipalities</b>				
	Tipping Fee, second quarter		\$ 79.50	
	Target value		\$ (59.00)	
	Distributions required to achieve the target value, \$ per ton		\$ 20.50	(D)
	Waste deliveries, New Charter Municipalities, tons		4,911.92	(E)
	Distributions required to achieve the target value		\$ 100,694.49	(D) x (E)
<b>Summary for all Charter Municipalities</b>				
	Equity Charter Municipalities		\$ 854,446.56	(A) x (B)
	New Charter Municipalities		\$ 100,694.49	(D) x (E)
	Total		<b>\$ 955,141.05</b>	
<b>Table 4</b>				
<b>Sources and Uses of Cash Received</b>				
<b>in the Third Quarter of 2015</b>				
<b>Sources of Cash</b>				
	Performance Credits received		\$ 1,636,212.71	
	Net Cash Flow (PERC distribution)		\$ 406,198.82	
	Custody Account balance			
	Interest			
	Total		2,042,411.53	
<b>Uses of Cash</b>				
	Distribution to Equity Charter Municipalities		\$ 854,446.56	
	Distribution to New Charter Municipalities		\$ 100,694.49	
	Reserve for future distributions		1,087,270.48	
	Total		\$ 2,042,411.53	
<b>Allocations</b>				
			Distributed	Reserved
	Performance Credits - Equity Charters		\$ 448,247.74	\$ 1,087,270.48
	Performance Credits - New Charters		\$ 100,694.49	
	Net Cash Flow (PERC distribution)		\$ 406,198.82	\$ -
	Interest			
		\$ 2,042,411.53	\$ 955,141.05	\$ 1,087,270.48

<b>Table 5</b>					
<b>Funds Available After Cash Distributions</b>					
Custodial Account balance as of 7/1					\$ 1,632,013.10
<b>Deposits</b>					
	Net Cash Flow from PERC			\$ 306,907.89	
	Performance Credits, 7/15 (actual)			\$ 490,480.08	
	Performance Credits, 8/15 (estimated)			\$ 327,608.90	
	Performance Credits, 9/15 (estimated)			\$ 404,123.98	
	Subtotal			\$ 1,529,120.85	\$ 1,529,120.85
<b>Withdrawals</b>					
	Distribution to the Charter Municipalities				
		Net Cash Flow distributed		\$ (406,198.82)	
		GAT payment offsets			
		Performance Credits distributed		\$ (548,942.23)	
		Subtotal			\$ (955,141.05)
Projected balance after deposits and withdrawals					\$ 2,205,992.90
Projected funds available after distribution					\$ 2,205,992.90
Reserve for next distribution					\$ (2,205,992.90)
<b>Transfer to the Tip Fee Stabilization Fund</b>					<b>\$ (1,200,000.00)</b>
Projected closing balance as of 9/30					\$ 1,005,992.90