

CommonWealth

Resource Management Corporation

17 October 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 Fourth 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 **fourth** 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In this quarter, CRMC does not recommend that funds be withdrawn from the Tip Fee Stabilization Fund for transfer to the Custody Account.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 April 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 October 1, 2011:

- The Custody Account balance at Bangor Savings Bank was **\$4,292,110.36**, which includes \$2,666,666.67 released from reserve funds, and \$552.70 released from other funds, to the MRC by the Trustee to the PERC bond financing in the prior quarter (see details below). The MRC Board is scheduled to make a decision on the management of these funds at its next Board meeting in October 2011.
- The market value of the Tip Fee Stabilization Fund, including accrued income through the end of the third quarter of 2011, was **\$20,905,874.88**. 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 October 1, 2011, was \$2,201,375.08, which is 10.6 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 third quarter of 2011 (also being managed by People's United Bank), was **\$700,299.57**.
- Cash distributions payable in the quarter are **\$1,251,168.02** (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, for the third 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 shows revenue of **\$34,237.56** from payments of the GAT shortfall penalty by Charter Municipalities to the MRC as reimbursement for their shares of the payment of \$98,326.82 made by the MRC to PERC in the second quarter. The revenue includes a

payment of \$796.26 received from one Charter Municipality on July 13, 2011, as well as credits against cash distributions and offsets against shares of fund balances assessed in the quarter. For one New Charter Municipalities (Cranberry Isles), the offsets outstanding exceed the third quarter cash distribution by a total of \$301.17. That remaining offset will be rolled over to subsequent quarters as required until the entire credit is taken.

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.

To achieve these target values, the MRC needs to distribute at least **\$1,251,168.02** to the Charter Municipalities for the third quarter of 2011 (**\$1,163,829.50** to Equity Charter Municipalities and **\$87,338.52** to New Charter Municipalities) based on a tipping fee of **\$71.00** 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 third quarter of 2011, the following sources of cash are available for the distribution as of October 1, 2011, as described in Table 4:

- **\$1,273,802.58** in Performance Credits distributed by PERC to the MRC on behalf of the Equity Charter Municipalities in the previous quarter.

- **\$334,337.35** 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 October 1, 2011, even after excluding the \$2,666,666.67 and \$552.70 released from reserve funds and not yet re-allocated, 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 closed on the refinancing of its outstanding FAME bonds in July, 2011, through a bank loan from TD Bank. Note that the trustee to the FAME bond financing had held \$10.0 million in reserve funds since 1998, of which one-third, or \$3,333,333.33, was 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 negotiated the release of \$8.0 million of the reserve funds. Of that amount, one-third, or \$2,666,666.67, was owned by and paid to the MRC on behalf of the Equity Charter Municipalities. In addition, \$552.70 represents the MRC share of interest earnings in various other funds related to the financing that was released by the Trustee and paid to the MRC on behalf of the Equity Charter Municipalities. A total of \$2.0 million remains 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.

At its last meeting, the Board indicated that it would decide at the October meeting whether to transfer a portion of the released reserve funds to the Operating Budget Stabilization Fund rather than the Tip Fee Stabilization Fund. That decision is the subject of a separate agenda item for the Board meeting.

Table 5 is included to show that funds in the Custody Account, in all likelihood, are projected to be adequate to pay for the next round of cash distributions to the Charter Municipalities in the first quarter of 2011 without the need for additional withdrawal from the Tip Fee Stabilization Fund at this time or at the next Board meeting.

5.0 RECOMMENDATIONS

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

1. Distribute **\$1,251,168.02** to the Charter Municipalities as described herein and as adjusted for offsets based on GAT shortfall penalty amounts for individual Charter Municipalities.

No withdrawal from the Tip Fee Stabilization Account or bond prepayment is recommended at this time. No transfer to 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 Assets
Quarterly Basis, 2010-11, unaudited

	Notes	10/1/2011	7/1/2011	4/1/2011	1/1/2011	10/1/2010
ASSETS						
Cash and cash equivalents						
Custody Account (Bangor Savings Bank)		4,292,110.36	1,144,775.52	191,807.66	858,826.64	1,088,421.86
Accounts Receivable						
PERC partnership distribution (Net Cash Flow) accrued for prior quarter						
Investments						
Tip Fee Stabilization Fund (portfolio managed by Merrill Bank)						
Account balance	1	20,797,846.08	20,613,062.77	21,245,080.17	21,700,556.69	21,729,124.78
Accrued interest income		108,028.80	123,093.61	117,883.34	139,670.64	146,324.22
MRC Operating Budget Stabilization Fund (managed by Merrill Bank)						
Account balance	1	696,192.37	694,121.63	686,276.03	687,978.10	686,828.96
Accrued interest income		4,107.20	3,147.89	4,837.90	3,355.90	5,010.14
Investment in PERC	2	13,259,694.00	13,259,694.00	13,259,694.00	13,259,694.00	13,273,239.00
TOTAL ASSETS		39,157,978.81	35,837,895.42	35,505,579.10	36,650,081.97	36,928,948.96
LIABILITIES AND NET ASSETS						
Liabilities						
Cash distributions payable, current quarter	3	1,251,168.02	1,160,594.26	1,113,992.66	1,267,530.14	1,399,961.61
Net Assets		37,906,810.79	34,677,301.16	34,391,586.44	35,382,551.83	35,528,987.35
TOTAL LIABILITIES AND NET ASSETS	4	39,157,978.81	35,837,895.42	35,505,579.10	36,650,081.97	36,928,948.96
NOTES						
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, 2011, using results of audit of MRC Joint Venture financials for calendar year 2010. 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 asset, which is the MRC's share of Equity Reserves held in reserve for to the PERC financing, and would be distributed to the MRC upon the retirement of the bonds.					
	Capital Improvement Fund	-	333,333.33	333,333.33	333,333.33	333,333.33
	Operating Reserve Account	-	1,000,000.00	1,000,000.00	1,000,000.00	1,000,000.00
	Capital Reserve Fund	-	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00
	Subtotal	-	3,333,333.33	3,333,333.33	3,333,333.33	3,333,333.33
	Held by TD Bank	666,666.67				
	Total	666,666.67	3,333,333.33	3,333,333.33	3,333,333.33	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	Audited
	Period		Third quarter	Second quarter	First quarter	Fourth quarter
	from		7/1/2011	4/1/2011	1/1/2011	10/1/2010
	to		10/1/2011	7/1/2011	4/1/2011	1/1/2011
REVENUES						
	Performance Credits		1,273,802.58	1,007,048.99	47,665.38	917,637.45
	Partnership distributions (Net Cash Flow)		334,337.35	274,072.80	53,690.95	253,554.21
	Charter Municipality GAT payments		34,237.56	34,546.61	1	
	Reserve funds released	2	2,667,219.37			
	Appreciation (depreciation) of investments					
	Tip Fee Stabilization Fund		70,638.17	98,317.89	(47,747.86)	(161,998.29)
	MRC Operating Budget Stabilization Fund		(980.55)	3,328.71	(3,999.71)	(3,895.35)
	Interest income					
	Tip Fee Stabilization Fund - interest received		114,145.14	119,664.71	92,271.34	133,430.20
	Tip Fee Stabilization Fund - interest accrued		(15,064.81)	5,210.27	(21,787.30)	(6,653.58)
	Op Budget Stabilization Fund - interest received		3,051.29	4,516.89	2,297.64	5,044.49
	Op Budget Stabilization Fund - interest accrued		959.31	(1,690.01)	1,482.00	(1,654.24)
	Custodial Account (interest net of bank fees)		(1,667.76)	(381.06)	(845.17)	(825.27)
	TOTAL REVENUE		4,480,677.65	1,544,635.80	123,027.27	1,134,639.62
EXPENDITURES						
	Distributions to Charter Municipalities		1,160,594.26	1,113,992.66	1,267,530.14	1,399,961.61
	GAT shortfall penalty payment			98,326.82	1	
	TOTAL EXPENDITURES		1,160,594.26	1,212,319.48	1,267,530.14	1,399,961.61
	EXCESS OF REVENUES OVER EXPENDITURES		3,320,083.39	332,316.32	(1,144,502.87)	(265,321.99)
ADJUSTMENTS						
	Change in investment in PERC					(13,545.00)
	Change in cash distribution payable		(90,573.76)	(46,601.60)	153,537.48	132,431.47
	Total adjustments		(90,573.76)	(46,601.60)	153,537.48	118,886.47
	Adjusted Excess of Revenues over Expenses		3,229,509.63	285,714.72	(990,965.39)	(146,435.52)
CHANGE IN NET ASSETS						
	End of period		37,906,810.79	34,677,301.16	34,391,586.44	35,382,551.83
	Start of period		34,677,301.16	34,391,586.44	35,382,551.83	35,528,987.35
	Change in Net Assets over Period		3,229,509.63	285,714.72	(990,965.39)	(146,435.52)
	Note 1	MRC paid the GAT fine to PERC of \$98,326.82.				
		As of June 30, 2011, the MRC had received cash reimbursements for the GAT fines of \$34,546.61 from Charter Municipalities.				
	Note 2	Includes \$2,666,666.67 and \$552.70 released to the Custody Account pending final direction by the MRC Board.				

Table 3				
Distributions to the Charter Municipalities				
in the Fourth Quarter of 2011				
Equity Charter Municipalities				
	Tipping Fee, third quarter 2011		\$	71.00
	Target value		\$	(46.00)
	Distributions required to achieve the target value, \$ per ton		\$	25.00 (A)
	Waste deliveries, Equity Charter Municipalities, tons			46,553.18 (B)
	Distributions required to achieve the target value		\$	1,163,829.50 (A) x (B)
New Charter Municipalities				
	Tipping Fee, third quarter 2011		\$	71.00
	Target value		\$	(54.00)
	Distributions required to achieve the target value, \$ per ton		\$	17.00 (D)
	Waste deliveries, new Charter Municipalities, tons			5,137.56 (E)
	Distributions required to achieve the target value		\$	87,338.52 (D) x (E)
Summary for all Charter Municipalities				
<i>Distributions required to achieve the target values</i>				
	Equity Charter Municipalities		\$	1,163,829.50 (A) x (B)
	New Charter Municipalities		\$	87,338.52 (D) x (E)
	Total		\$	1,251,168.02
Table 4				
Sources and Uses of Cash Received				
in the Fourth Quarter of 2011				
Sources of Cash				
	Performance Credits received, prior quarter		\$	1,273,802.58
	Net Cash Flow (PERC distribution)		\$	334,337.35
	Interest net of fees			
	Total			1,608,139.93
Uses of Cash				
	Distribution to Equity Charter Municipalities		\$	1,163,829.50
	Distribution to New Charter Municipalities		\$	87,338.52
	Reserve for future distributions			356,971.91
	Total		\$	1,608,139.93
Allocations				
			Distributed	Reserved
	Performance Credits		\$ 916,830.67	\$ 356,971.91
	Net Cash Flow (PERC distribution)		\$ 334,337.35	\$ -
	Interest		\$ -	\$ -
		\$ 1,608,139.93	\$ 1,251,168.02	\$ 356,971.91

