

July 18, 2015

Mr. Greg Stanton, REHS
Director
County of El Dorado
Community Development Agency
Environmental Management Division
2850 Fairlane Court
Placerville, CA 95667

Subject: **Due Diligence Analysis for Potential Assignment of
Sierra Disposal Service Solid Waste Services Agreement
to Waste Connections**

Enclosed is Crowe Horwath's (Crowe) assessment of a potential assignment of Sierra Disposal Service's Solid Waste Services Agreement with El Dorado County (County) to Waste Connections of California, Inc. (Waste Connections). The County currently has a Solid Waste Services Agreement with South Tahoe Refuse Company Inc., dba Sierra Disposal Service (SDS), which became effective on December 2, 2014 (hereafter referred to as "Agreement"). The Agreement expires in four (4) years, or on December 1, 2018, but the County has the option to extend the term for two (2) additional terms of three (3) years each, or through December 1, 2024.

On May 12, 2015, Waste Connections and SDS jointly submitted a letter to the County requesting the County provide written consent to the assignment of the Agreement. This letter indicated that SDS had agreed to sell certain assets to Waste Connections, including its hauling assets in the western portion of the County (the letter is provided as **Attachment A** to this report).

This report provides the County with selected information to use in performing due diligence related to consideration of the assignment of the SDS Agreement to Waste Connections. The report provides analyses of several factors the County can use to evaluate whether (1) Waste Connections is financially able to perform the contractor's obligations, (2) Waste Connections management has adequate experience in municipal solid waste (MSW) services and (3) Waste Connections has consistently provided similar operations in a satisfactory manner to other municipalities in compliance with laws and regulations.

The County requested that Crowe analyze the following three (3) factors (specified in Section 12G of the Agreement titled "Conditions for Obtaining the County's Consent" [to an Assignment]):

1. Financial statements of the proposed assignee for the immediately preceding five (5) operating years, indicating that the proposed assignee's financial status is sufficient to perform all [of the] Contractor's obligations (Section 12 G(1)(c));
2. Satisfactory proof that the proposed assignee or the management thereof has at least seven (7) years of MSW experience on a scale equal to or exceeding the scale of operations conducted by Contractor and has operated in a manner consistent with its contractual obligations to other municipalities which it serves in respect of Assembly Bill 939 (Section 12 G(1)(d));
3. Satisfactory proof that in the last seven (7) years, the proposed assignee has maintained its waste management operations in a manner satisfactory to other municipalities in which it operates and in compliance with applicable law and regulations (Section 12 G(1)(e)).

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This report is organized into five (5) sections as follows:

- A. *Background*
- B. *Waste Connections Financial Information*
- C. *Waste Connections Management Experience*
- D. *Waste Connections Performance in Other Similar Jurisdictions*
- E. *Conclusions.*

There are three (3) attachments to this report:

- A. *Letter from SDS and Waste Connections Requesting Assignment (May 12, 2015)*
- B. *Waste Connections Letters of Recommendation*
- C. *Survey of Waste Connections Performance in Two Other California Jurisdictions.*

A. Background

In order to assess whether Waste Connections met the three (3) Conditions for Obtaining the County's Consent in Section 12G of the Agreement, Crowe: (1) obtained and reviewed financial statements of Waste Connections from the proceeding five (5) years, (2) obtained background information on the experience of the proposed assignee and assessed whether satisfactory proof existed to show that the proposed assignee or the management had at least (7) years of MSW experience, and (3) reviewed maintenance records provided by the company related to other similar operations and identified violations of laws and regulations of similar companies operated by Waste Connections.

B. Waste Connections Financial Information

The County needs to assess Waste Connections current and future financial stability in order to ensure their financial status is sufficient to perform the Contractor's obligations. Crowe calculated five financial ratios to assess Waste Connection's financial capacity and stability. We compared Waste Connections' financial performance to other similar waste management companies, including those for Republic Services and Waste Management Inc. (see **Tables 1** through **5**).

As shown in Table 1, Waste Connections has consistently held a better asset to liability ratio over the past five operating years than the two other companies. This ratio shows Waste Connections has the ability to meet its short-term operational obligations.

As shown in Table 2, Waste Connections has consistently held a low debt to equity ratio over the past five operating years, well below that of Waste Management and relatively similar to that of Republic Services. This ratio represents Waste Connections ability to finance growth without debt. Waste Connections' continual expansion has put them in a positive financial position in which they can stimulate internal growth with equity rather than borrowing and increasing debt.

As shown in Table 3, Waste Connections had a greater than 0.60 quick ratio over the past five operating years. This shows Waste Connections ability to meet its short-term obligations with its most liquid assets. A quick ratio of above 0.60 for the past five years means that Waste Connections has consistently had more than \$0.60 of liquid assets available to cover each \$1.00 of its current liabilities.

As shown in Table 4, Waste Connection's return on equity (ROE) ratio has been relatively constant at approximately 10 percent over the past five operating years. This ratio shows Waste Connections ability to generate profit with shareholders investments. Waste Connections' ROE ratios fall in between those of the other two companies.

As shown in Table 5, Waste Connections has had a relatively stable, double digit, net profit margin in four of the past five operating years. This double digit ratio shows Waste Connections' ability to produce net income through sales in an efficient manner. Waste Connections profit margin exceeded those of its competitors in all five years which may be an indicator that the company has better control over its expenses than these other companies.

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Table 1
Comparison of Waste Connections “Current” Ratios
(Current Assets / Current Liabilities) to
Similar Waste Management Industry Companies

Year	Waste Connections	Republic Services Inc.	Waste Management Inc.
2014	1.02	0.76	1.04
2013	0.95	0.83	0.83
2012	0.87	0.73	0.80
2011	0.88	0.76	0.78
2010	0.85	0.47	1.00

Table 2
Comparison of Waste Connections “Debt to Equity” Ratios
(Total Liabilities / Shareholders Equity)
to Similar Waste Management Industry Companies

Year	Waste Connections	Republic Services Inc.	Waste Management Inc.
2014	0.89	0.91	1.42
2013	1.01	0.89	1.66
2012	1.19	0.92	1.44
2011	0.84	0.90	1.50
2010	0.67	0.75	1.39

Table 3
Comparison of Waste Connections “Quick” Ratios
(Current Assets – Inventories)/ Current Liabilities to
Similar Waste Management Industry Companies

Year	Waste Connections	Republic Services Inc.	Waste Management Inc.
2014	0.76	0.64	0.93
2013	0.72	0.70	0.68
2012	0.62	0.60	0.67
2011	0.67	0.53	0.66
2010	0.64	0.39	0.88

Table 4
Comparison of Waste Connections Return on Equity Ratios
(Net Income/Shareholders Equity)
to Similar Waste Management Industry Companies

Year	Waste Connections	Republic Services Inc.	Waste Management Inc.
2014	10.89%	7.00%	22.43%
2013	9.98%	7.55%	1.63%
2012	9.72%	7.43%	13.15%
2011	11.97%	7.59%	15.59%
2010	9.93 %	6.57%	15.19%

Table 5
Comparison of Waste Connections Net Profit Margin
(Net Profit/Net Sales)
to Similar Waste Management Industry Companies

Year	Waste Connections	Republic Services Inc.	Waste Management Inc.
2014	11.18%	6.23%	9.27%
2013	10.14%	7.00%	0.70%
2012	9.57%	7.04%	5.99%
2011	10.98%	7.19%	7.18%
2010	10.24%	6.25%	7.61%

C. Waste Connections Management Experience

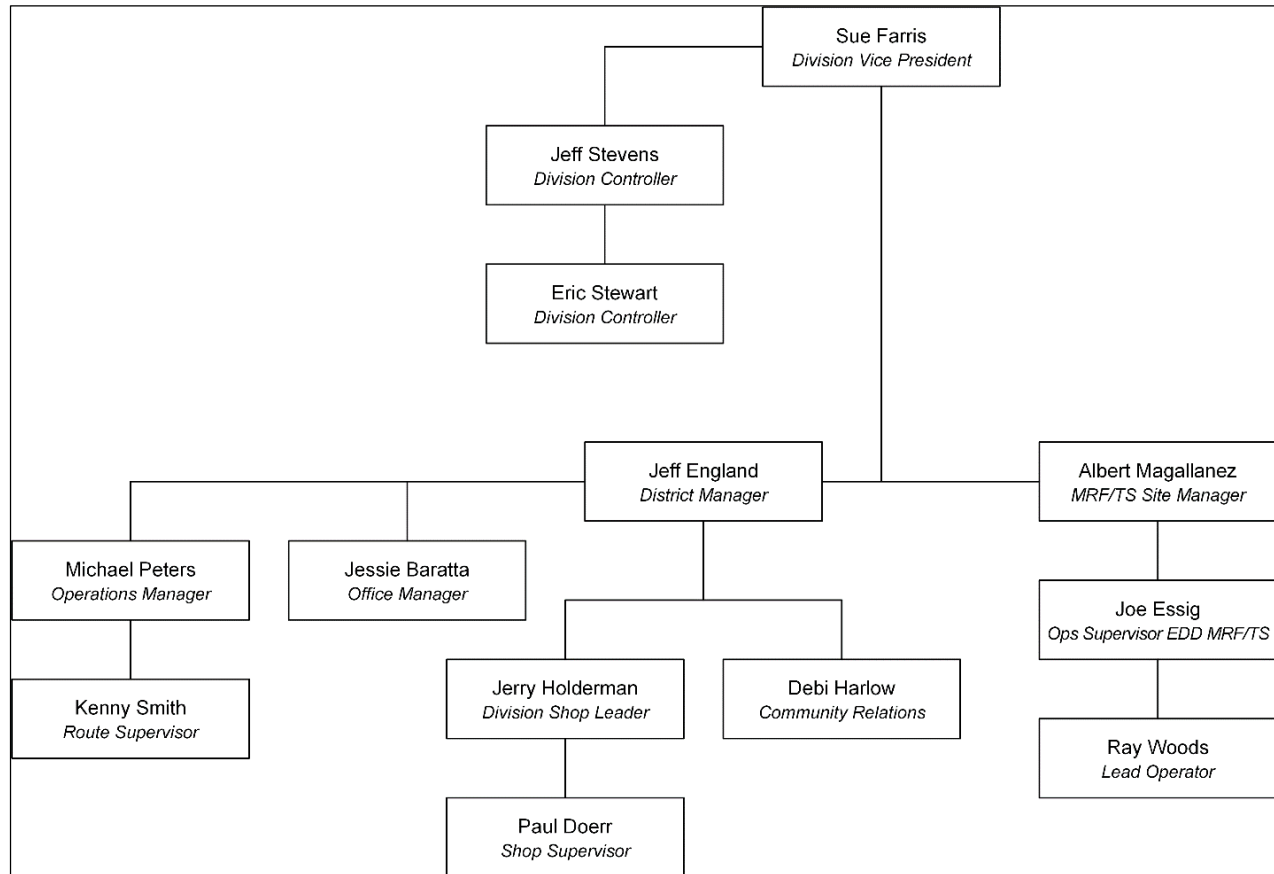
In this section, we assess whether there is satisfactory proof that the Waste Connections or its management has at least seven (7) years of MSW experience on a scale equal to or exceeding the scale of operations conducted by Contractor. We developed an organization chart of the proposed staffing for the SDS franchise under Waste Connections operations (see **Figure 1** on the following page). The proposed team has a sufficient breadth of personnel and skill sets to operate the SDS franchise.

We identified the proposed management structure and determined Waste Connections' proposed franchise management (i.e., the Divisional Vice President and District Manager) had between 10 and 28 years of waste management experience (see **Table 6**). The remainder of the management team had between 13 and 40 years of professional experience and between 5 and 28 years of waste management experience. This proposed team also has been in place serving the City of Placerville, Cameron Park, El Dorado Hills, and other areas of unincorporated El Dorado County, so the team's experience is directly related to similar El Dorado County areas.

Table 6
Waste Connections
Management Experience of Proposed Personnel

	Operations			Administration		
	Divisional Vice President	District Manager	Division Maintenance Manager	Office Manager	Division Controller	Community Relations Manager/HR
Name	Susan Farris	Jeffrey England	Jerry Holderman	Jessie Baratta	Jeff Stevens	Debi Harlow
MSW Experience	1988-2015	2006-2015	2010-2015	2011-2015	2006-2015	1988-2015
MSW Years of Experience	28	10	6	5	10	28
Waste Connections Experience	2004-2015	2008-2015	2010-2015	2012-2015	2006-2015	1988-2015
Qualifications	27+ years of management experience	20+ years of management experience	40 years of maintenance & 20 years of management experience	20+ years of management & customer service experience	Licensed CA CPA since 2006 (13 years of experience)	27+ years of management experience

Figure 1
Waste Connections
Organization Chart of Proposed Team



D. Waste Connections Performance in Other Similar Jurisdictions

Attachment B provides three recent letters of recommendation from areas served by Waste Connections companies within El Dorado County. These included the City of Placerville, Cameron Park Community Services District, and El Dorado Hills Community Services District. These recommendation letters expressed positive experiences with Waste Connections and its present management team and the company's willingness to work with the jurisdictions to implement new programs.

Crowe also conducted telephone calls with the City of San Jose, and San Luis Obispo County, asking five (5) performance related questions (see **Attachment C**).¹ The responses to these questionnaires provide evidence that Waste Connections has maintained its waste management operations in a manner satisfactory to other municipalities and in compliance with applicable law and regulations.

E. Conclusions

Crowe reviewed financial statements of the proposed assignee for the prior five (5) operating years and found Waste Connection's current financial status more than sufficient to be assigned the SDS franchise. This conclusion was based on a financial ratio analysis comparing Waste Connections with two other large similar waste management companies since 2010.

¹ These two jurisdictions represent two of the primary jurisdictions that Waste Connections provides waste collection services to in California.

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We reviewed whether satisfactory proof exists that Waste Connections has sufficient prior experience, by obtaining information on Waste Connections management and staff, including their prior experience, skills and positions. Crowe reviewed whether there was satisfactory proof that Waste Connections maintained its operations in a manner satisfactory to other municipalities and in compliance with applicable laws and regulations by reviewing the experience of other California jurisdictions served by Waste Connections.

We conclude that based on the data we have collected, and as of the time of this writing: (1) Waste Connection's financial status is sufficient to perform the current Contractor's obligations, (2) Waste Connection's management has at least seven (7) years of MSW experience on a scale equal to or exceeding the scale of operations conducted by the current Contractor, and has operated in a manner consistent with its contractual obligations to other municipalities which it serves in respect of AB 939, and (3) Waste Connections has provided satisfactory proof that in the last seven (7) years, the company has maintained waste management operations in a manner satisfactory to other municipalities in which they operated and in compliance with applicable law and regulations.

* * * *

Should you have any questions regarding this report, please do not hesitate to contact Erik Nylund at (415) 230-4963.

Very truly yours,
Crowe Horwath LLP

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Attachment A
Letter from SDS and Waste Connections Requesting Assignment (May 12, 2015)



WASTE CONNECTIONS INC.
Connect with the Future®



May 12, 2015

County of El Dorado
2850 Fairlane Court, Building "C"
Placerville, California 95667
Attention: Greg Stanton

Re: Assignment and Extension of Solid Waste Services Agreement

Dear Greg:

As you may be aware, South Tahoe Refuse Co. doing business as Sierra Disposal Service ("Sierra Disposal"), recently agreed to sell (the "Sale") to Waste Connections of California, Inc. ("Waste Connections") certain of its hauling assets in the western El Dorado County market. The Solid Waste Services Agreement, dated December 2, 2014 (the "Agreement"), by and between Sierra Disposal and the County of El Dorado (the "County"), is among the assets proposed to be transferred as part of the Sale. As a valued business partner, Sierra Disposal wants to assure you that the determination to consummate the Sale was undertaken only after the most serious consideration. We believe that Waste Connections will continue the business relationship embodied in the Agreement in accordance with the highest professional standards.

Pursuant to the requirements of Section 12 of the Agreement, the written consent of the County is required prior to an assignment of the Agreement. Accordingly, we kindly ask that the County's Board of Supervisors adopt resolutions that: (i) grant the aforementioned required written consent; (ii) incorporate the Franchise Area set forth in the Agreement into the WC Agreement; (iii) confirm that, following the closing of the Sale, the WC Agreement, will remain in full force and effect in accordance with their respective terms; and (iv) confirm the release of Sierra Disposal from any obligation under the Agreement arising after the closing of the Sale, in each case effective upon such closing. If the Sale is not consummated for any reason, this letter will cease to have effect and the Agreement will remain in place between Sierra Disposal and the County in accordance with its current terms.

In addition to the foregoing, Waste Connections would also like to direct the County's attention to Schedule A attached, which sets forth all of the additional benefits the County and the residents currently serviced pursuant to the Agreement will receive upon approving the assignment of the Agreement to Waste Connections. These additional benefits will be provided

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Attachment A
Letter from SDS and Waste Connections Requesting Assignment (May 12, 2015) (continued)

to the County and/or its residents in the Franchise Area covered by the Agreement at no additional charge to the County or its residents.

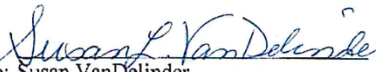
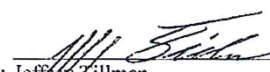
If you have any questions, please do not hesitate to directly contact either Sue VanDelinder at 530-295-2816 or Jeff Tillman at 530-542-8300

Thank you for your continued support and cooperation.

Very truly yours,

Waste Connections of California, Inc.

**South Tahoe Refuse Co. doing business as
Sierra Disposal Service**

By: 	By: 
Name: Susan VanDelinder	Name: Jeff Tillman
Title: Division Vice President	Title: President

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Attachment A
Letter from SDS and Waste Connections Requesting Assignment (May 12, 2015) (continued)

Schedule A
Additional Contract Benefits

Benefits of Contract Consolidation

(1) MSW Carts (35-gal., 64-gal. or 96-gal.).

EDDS supplied carts for garbage and recyclables, Rolled out by 12/31/2015; eliminates need for customers to provide their own containers and maintain those containers at the customer's expense.

(2) 35-gal. Recycle Cart in Group Areas.

Provide carts in lieu of bags to encourage more recycling, cut down on litter, and provide for ease of use.

(3) Increased Economies of Scale.

Increase economies of scale for operations and for administration, including consolidation of accounting, annual reporting and elimination of SDS specific external financial audits thereby providing significant savings to the smaller SDS customer base.

(4) MRF Vouchers.

Vouchers for free disposal of solid waste and green waste at the Material Recovery Facility.

(5) Curbside Unlimited Green Waste Pickup Event.

One (1) curbside unlimited green waste pick-up to be scheduled during peak green waste seasons in both spring and fall.

(6) Curbside Voucher Expansion of Services.

Curbside voucher for free pick-up of bulky waste, paint, fluorescent tubes or bulbs, electronic waste, and green waste.

(7) Operational Efficiencies.

Operationally more efficient by having trucks in neighboring service areas that can assist when necessary, thereby cutting down on potential down time and disruption of service in the event of a break-down.

(8) Contract Administrative Benefit to County Staff.

The County also will benefit from a single consolidated agreement and will realize the efficiencies through a streamlined process (example: single rate application, Board preparation and presentation) as opposed to two separate agreements and associated terms.

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Attachment B – Waste Connections Letters of Recommendation

(1) Cameron park Community Services District, June 17, 2015



June 17, 2015

To Whom It May Concern:

I represent the Cameron Park Community Services District (CSD) as the General Manager. In this capacity I manage the franchise agreement between El Dorado Disposal, a Waste Connections of California company and the Cameron Park CSD. I have had the pleasure of working with Sue VanDelinder and her team for over three years in the capacity.

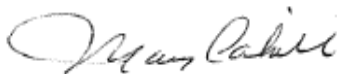
The Waste Connections philosophy is one of a community based partnership. They have become an integral part of this community. They believe in doing what they say they will do. They are dependable and reliable. If I or any of our constituents have an issue, they resolve it promptly and always look for a win-win resolution.

Waste Connections has implemented new programs in this community, increasing diversion from the landfill. Every year Sue and her team have come before us with new suggestions about how to get the customer base to recycle more and it has been beneficial to the residents as well, typically creating more value for the customer. Just this past year, they rolled out a new feature to their existing green waste program to facilitate more green waste recycling, keeping it out of the waste stream. This year they have taken commercial recycling to a new level, putting more emphasis on outreach and waste audits for companies to reduce their trash bills. Commercial customers love it. They have also rolled out a new free curbside battery collection program. Due in part to the high level of customer service, the District has signed an extension of their contract.

Waste Connections is involved in our community. They partner with us for our featured events, including a community clean-up and swap meet (which promote the recycle message). They look for ways to get involved through civic organizations, non-profits, the Chamber, the schools, the Senior Centers, and more. They donate time, talent and money to what's important in our community.

Waste Connections does the right things for the right reasons at the right time.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mary Cahill".

Mary Cahill
General Manager

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Attachment B – Waste Connections Letters of Recommendation (*continued*)

(2) El Dorado Hills Community Services District, June 18, 2015



June 18, 2015

To Whom It May Concern;

I represent the El Dorado Hills Community Services District as the General Manager. In this capacity I manage the franchise agreement between El Dorado Disposal, a Waste Connections of California company and the El Dorado Hills CSD. I have had the pleasure of working with Sue VanDelinder and her team for over three years in this capacity.

The Waste Connections philosophy is one of a community based partnership. They have become an integral part of this community. They believe in doing what they say they will do. They are dependable and reliable. If I or any of our constituents have an issue, they resolve it promptly and always look for a win-win resolution.

Waste Connections has implemented new programs in this community, increasing diversion from the landfill. Every year Sue and her team have come before us with new suggestions about how to get the customer base to recycle more and it has been beneficial to the residents as well, typically creating more value for the customer. This year they have taken commercial recycling to a new level, putting more emphasis on outreach and waste audits for companies to reduce their trash bills. Commercial customers love it. They have also rolled out a new free curbside battery collection program. It's no wonder that we signed an extension with them, providing for ten more years of service.

Waste Connections is involved in our community. They partner with us for our featured events for the public; they look for ways to get involved through Rotary, the Chamber, the schools, the Senior Centers, CASA and more. They donate time, talent and money to what's important in our community.

Waste Connections does the right things for the right reasons at the right time.

Sincerely,

A handwritten signature in black ink that reads "Brent Dennis".

Brent Dennis

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Attachment B – Waste Connections Letters of Recommendation (*continued*)

(3) City of Placerville, June 18, 2015



City of Placerville
3101 Center Street
Placerville, California 95667
(530) 621-CITY, Fax: (530) 642-5538

June 18, 2015

To whom it may concern:

I am the Placerville City Manager. In this capacity I manage the franchise agreement between El Dorado Disposal, a Waste Connections of California company, and the City of Placerville. I have had the pleasure of working with Sue VanDelinder and her team for over two years now.

The Waste Connections philosophy is one of a community based partnership. They have become an integral part of this community. They believe in doing what they say they will do. They are dependable and reliable. If I or any of our constituents have an issue, they resolve it promptly and always look for a win-win resolution.

Waste Connections has implemented new programs in this community, increasing diversion from the landfill. Every year, Sue and her team have come before us with new suggestions about how to get the customer base to recycle more and it has been beneficial to the residents as well, typically creating more value for the customer. Just a few years back, they were able to demonstrate through a pilot program how the City could benefit from a mandatory 3-cart collection program. The recycling and green waste programs have been tremendously successful. For the past year and a half, they have been focused on our commercial and multi-family customer base, putting more emphasis on outreach and waste audits for companies to reduce their trash bills. Commercial customers love it. They have rolled out a new free curbside battery collection program. They continue to exceed our expectations.

Waste Connections is involved in our community. They partner with us for our featured events for the public; they look for ways to get involved through Rotary, the Chamber, the schools, the Downtown Merchants Association, MORE, Snowline Hospice, and many other worthy organizations vital to our community. They donate time, talent and money to what's important in our community.

Waste Connections does the right things for the right reasons at the right time.

Sincerely,



M. Cleve Morris

Attachment C
Survey of Waste Connections Performance in Two Other California Jurisdictions

City of San Jose Questionnaire and Results:

1. **How has Waste Connections performed with respect to complying with terms and conditions of its franchise agreement?**

Answer: Waste Connections has performed very well with respect to complying with the terms and conditions of its franchise agreement. 8 out of 10 on a 1-10 scale.

2. **Has Waste Connections violated any laws and regulations in operating the franchise in your area?**

Answer: No.

3. **Can you identify specific areas where Waste Connections exceeded expectations?**

Answer: There is new management at Waste Connections. However, previous management was timely and made large efforts to meet community needs. The company often provides free or discounted services and puts on events.

4. **Can you identify specific areas where Waste Connections has not met expectations?**

Answer: Waste Connections did not always provide San Jose with the promised monthly reports.

5. **Are you satisfied with Waste Connections overall services?**

Answer: Yes.

San Luis Obispo County Questionnaire and Results:

1. **How has Waste Connections performed with respect to complying with terms and conditions of its franchise agreement?**

Answer: Full compliance.

2. **Has Waste Connections violated any laws and regulations in operating the franchise in your area?**

Answer: No.

3. **Can you identify specific areas where Waste Connections exceeded expectations?**

Answer: They are working to implement a new anaerobic digester facility. They have leased back some land to use for this facility at a very reasonable price. They also are implementing a foodwaste program. Rates currently are very reasonable.

4. **Can you identify specific areas where Waste Connections has not met expectations?**

Answer: They have met expectations. An area that has changed recently is that the general manager retired. He had been the owner of the business prior to its sale to Waste Connections. Since this time, the company has become more corporate. The company has argued on rate setting matters more than in the past.

5. **Are you satisfied with Waste Connections overall services?**

Answer: Yes, satisfied.