WASTE CONNECTIONS INC.
Connect with the Future

Waste Connections of California, Inc. d/b/a
El Dorado Disposal Services (EDDS)
P.O. Box 1270
Diamond Springs, CA 95619
(530) 626-4141

Mr. Greg Stanton
Director, Environmental Services
County of El Dorado
2850 Fairlane Court, Bldg. C
Placerville, CA 95667

Re: Base Year Rate Application

December 1, 2017

Dear Mr. Stanton,

Pursuant to Appendix D of the El Dorado Disposal Service Franchise Agreement, dated October 21st, 2014, we are requesting a base year rate adjustment to all services provided by El Dorado Disposal Services (EDDS) in Areas A, B and C. The calculated rate adjustment is based on the 2018 Base Year Rate Application. We are providing the information in the format as requested along with a copy of the 2016 audited financial statements (included in this email). We will also be providing supporting documentation regarding the changes from the 2016 financials to 2017 estimates and finally 2018 projections. The 2018 projections are based on our budget for 2018, which was completed earlier in November.

We would like to highlight a few factors related to the changes from 2016 to 2018. First, we've experienced solid market growth. Secondly, we've seen increased regulation. Thirdly, we've gone from draught conditions to a more normal rain pattern in California. The following paragraphs add additional detail to these factors.

Solid Market Growth: Our revenue stream has grown in conjunction with increased consumption and building construction in El Dorado County. We operate as lean as we can in terms of human and capital assets, utilizing only what we absolutely need in order to perform at a high standard. As the additional volume comes on we then methodically layer on headcount and deploy assets in order to absorb the added work. As a result, we've added four driver headcount between 2016 and 2017 (one specific to the County and the others shared). Additionally, we've added three CSRs (customer service reps) to accommodate call volume increases between 2016 and 2017 (again, shared). Between 2017 and 2018, we added one CSR and another driver (driver and CSR are specific to the County); in addition to part of a container repair person and mechanic (these last two positions are allocated as they cover more than the County alone). In addition to the labor adds our insurance costs (medical, dental, etc., provided to our employees) are increasing 20% from 2017 to 2018 as a result of higher premiums.

In terms of capital expenditures, we added one roll-off truck (shared amongst all contracts). We also added one split-body truck specific to the County. In 2018 we're adding two satellite trucks (coming on in Dec 2017) specific to the County. In 2018, we're adding two fully automated trucks specific to the County. In 2017 we added $135k in new fencing and paving and we'll do an additional $130k in 2018 to secure our new truck shop facility (allocated across all jurisdictions). Additionally, as a result of growth we did a complete renovation and move of our truck shop with more repair/maintenance capacity for $450k (allocated across all jurisdictions).

Regulation: We saw increases in General & Administrative expenses from 2016 to 2017 for support costs at our Corporate and Region headquarters, primarily related to regulation on many fronts. We rolled out a new payroll/HR platform in order to track and comply with labor laws associated with wage and hiring practice requirements. We instituted a revamped billing system to meet customer demand for improved technology. We're in the process of upgrading our local phone system. We've installed 60 tablets in our hauling trucks in order to communicate and react to customer needs in a more efficient and flexible manner, and to provide real-time data. CARB, storm water and other environmental compliance required additional engineering and safety support. The $.20/gal diesel fuel state tax (implemented 11/17) is adding $45k in cost for 2018 in addition to the overall increase in fuel pricing (in 2016 our average price was $2.23/gal vs. our current price of $3.09/gal).

Weather: Significant weather changes from 2016 to 2017, in addition to the overall volume from growth, contributed to an increase in disposal expense. In 2016 our County tonnage disposed was 41,700 tons, 2017 will be approximately 46,500 tons and 2018 is projected at 48,400 tons.

We will be preparing a proposed rate schedule showing the percentage changes and potential rates as of 7/1/18. We utilized the same allocation methodology for 2017 and 2018 that was used to prepare the audited 2016 financials. Additional backup documentation is available and given this is our first base year adjustment period; we would like to understand what you may be looking for in terms of support. We value our partnership with the County very much and our goal, as always, is to agree on reasonable rates for our customers. We appreciate your consideration and look forward to hearing from you.

Sincerely,

Jeffrey L Stevens

Divisional Controller
Waste Connections of California, Inc. d/b/a
El Dorado Disposal Services

Cc: Sue VanDelinder
Brent Ditton
John Perkey

COUNTY OF EL DORADO FRANCHISE AGREEMENT

with

WASTE CONNECTIONS OF CALIFORNIA, INC.
(A WHOLLY OWNED SUBSIDIARY OF WASTE CONNECTIONS, INC.)
d/b/a
EL DORADO DISPOSAL SERVICE

FINANCIAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2016

KEMPER CPA GROUP LLP

Certified Public Accountants and Consultants

COUNTY OF EL DORADO FRANCHISE AGREEMENT
with
WASTE CONNECTIONS OF CALIFORNIA, INC.
d/b/a
EL DORADO DISPOSAL SERVICE

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KEMPER CPA GROUP LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Waste Connections of California, Inc. d/b/a
El Dorado Disposal Service

We have audited the accompanying statement of revenues and expenses of County of El Dorado Franchise Agreement with Waste Connections of California, Inc. (a wholly owned subsidiary of Waste Connections, Inc.) d/b/a El Dorado Disposal Service for the year ended December 31, 2016.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of this schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As discussed in Note 4 to the financial statement, the current and deferred provision for income taxes is not calculated in accordance with generally accepted accounting principles. The Current provision is calculated on book income using agreed upon rates and there is no provision for deferred income taxes. In our opinion the current provision should be calculated using actual rates and a provision for deferred taxes should provide for temporary differences between taxable bases of assets and liabilities and their financial reporting amounts. The impact on the statement of revenues and expenses is not reasonably determinable.

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Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the provision for income taxes as discussed in the Basis for Qualified Opinion paragraph, the statement of revenues and expenses presents fairly, in all material respects, the results of its operations of the County of El Dorado Franchise Agreement with Waste Connections of California, Inc. (a wholly owned subsidiary of Waste Connections, Inc.) d/b/a El Dorado Disposal Service for the year ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the statement of revenues and expenses. The supplementary information on pages 8-9 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statement as a whole.

Kemper CPA Group LLP

Kemper CPA Group LLP
Certified Public Accountants and Consultants

Modesto, California
August 23, 2017

COUNTY OF EL DORADO FRANCHISE AGREEMENT
with
WASTE CONNECTIONS OF CALIFORNIA, INC.
d/b/a
EL DORADO DISPOSAL SERVICE

STATEMENT OF REVENUES AND EXPENSES
FOR YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUE	
Hauling	$ 11,803,179
Material recovery facility charges	32,355
Corporate revenue	25,658
Total operating revenue	11,861,192
OPERATING EXPENSES (See schedule of operating expenses)	10,790,820
INCOME FROM OPERATIONS	1,070,372
OTHER INCOME (EXPENSE):	
Interest income	262
Gain/(loss) on sale of asset	1,575
Other expense	(763)
Total other expense	1,074
NET INCOME BEFORE INCOME TAXES	1,071,446
Provision for income taxes	436,614
NET INCOME	$ 634,832

The accompanying notes are an integral part of this financial statement.

1. ORGANIZATION

Waste Connections of California, Inc. d/b/a El Dorado Disposal Service ("the Company") (a wholly owned subsidiary of Waste Connections, Inc.) is an integrated, non-hazardous solid waste services company that provides collection, transfer, disposal and recycling services to commercial, industrial and residential customers. El Dorado Disposal Service serves El Dorado Hills, Placerville, Cameron Park, and Unincorporated El Dorado County. These services are all under exclusive franchise agreements with their respective municipality.

The statement of revenues and expenses present the results of operations of the franchise agreement with the County of El Dorado.

While the Company uses shared resources to service the individual entities more efficiently, the Company is able to generate financial data for each operating entity or franchise agreement. The narrative outlined in Note 3 describes the methodology in which this information is isolated for financial reporting purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting
The financial statements of the Company have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America.

Property, Plant, and Equipment
Expenditures for maintenance and repair costs, including planned major maintenance activities, are charged to expense as incurred. Gains and losses resulting from disposals of property and equipment are recognized in the period in which the property and equipment is disposed. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or the lease term, whichever is shorter.

The estimated useful lives are as follows:

Buildings	20 Years
Land improvements	3 - 20 Years
Machinery and equipment	3 - 12 Years
Rolling stock (vehicles)	5 - 10 Years
Containers	5 - 12 Years

Allocated depreciation expense for the year ended December 31, 2016, was $961,688.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and Indefinite-Lived Intangible Assets
The Company acquired indefinite-lived intangible assets in connection with certain acquisitions. The amounts assigned to indefinite-lived intangible assets consist of the value of certain perpetual rights to provide solid waste collection and transportation services in specified territories. The estimated fair value of the acquired indefinite-lived intangible assets was determined by management of the Parent company based on the discounted cash flows associated with the rights, agreements and contracts.

Indefinite-lived intangible assets are not amortized. Goodwill represents the excess of the purchase price over the estimated fair value of the net tangible and intangible assets of the acquired entities. Goodwill and intangible assets, deemed to have indefinite lives, are subject to annual impairment analysis.

As a result of performing the tests for potential impairment, the Company determined that no impairment existed as of December 31, 2016, and therefore, there were no write-downs of any goodwill or indefinite-lived intangible assets.

Long-term contract
The Company is amortizing a long-term contract of ten years.

Revenue Recognition and Allowance for Doubtful Accounts
Revenues are recognized when persuasive evidence of an arrangement exists, the service has been provided, the price is fixed or determinable and collection is reasonably assured. Certain customers are billed in advance and, accordingly recognition of the related revenues is deferred until the services are provided.

The Company estimates its allowance for doubtful accounts based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past-due receivable balances are written off when the Company's internal collection efforts have been unsuccessful in collecting the amount due.

Income Taxes
Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial and tax reporting. The deferred taxes represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company is a member of a group that files consolidated returns for federal and state income tax. When the members of a consolidated group issue separate financial statements, accounting principles generally accepted in the United States of America require the consolidated amounts of current and deferred tax expenses to be allocated among the members of the group. Guidance relative to the method of allocation simply states that it shall be systematic, rational, and consistent with the broad principles of accounting for income taxes. Allocating the consolidated amounts of current and deferred taxes by applying the liability method to each member of the group as if the member were a separate taxpayer is considered to meet the necessary criteria.

The Company files income tax return in the U.S. federal jurisdiction and state of California jurisdiction. The Company is no longer subject to U.S. federal and state income tax examinations by tax authorities generally three and four years after filing, respectively.

See note 4 for disclosure regarding ways the accounting for income taxes in these financial statements differs from generally accepted accounting principles.

Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and it is at least reasonably possible that the significant estimates used will change within the next year.

Advertising
The Company expenses advertising costs as they are incurred. Allocated advertising expense for the year ended December 31, 2016 is $64,622.

Date of Management's Review
Management has evaluated subsequent events through August 23, 2017, the date which the financial statements were available to be issued.

3. SUMMARY OF ALLOCATION METHODOLOGY

Revenues
Revenues are specifically identified to each reporting entity based upon information from the Company's billing computer system. Customers are segregated into bill areas corresponding to reporting entities, thus making specific identification possible for revenue.

3. SUMMARY OF ALLOCATION METHODOLOGY (continued)

Expenses
Expenses that can be specifically assigned to a reporting entity are identified and reported under that entity.

Disposal landfill costs are specifically identified to each reporting entity based upon information from the Company's scale computer system. The Materials Recycling Facility (MRF) entity charges the Company's hauling entities via this system. Material origins are tracked on each load for all vehicles crossing the scale, making specific identification for disposal possible.

Direct labor costs are allocated to each reporting entity. The allocation is based upon each reporting entities route time allocation. Statistical information (specifically the detailed route sheets for all routes showing all customers) from the Company's computer billing system, allows for a calculation of total route time allocation by entity to be calculated. This percentage is then applied to all labor costs for the Company, including wages, benefits.

Franchise fee expenses are specifically identified to each reporting entity based upon the information from the Company's billing computer system.

Maintenance and direct route supervisory expenses are allocated based upon the same methodology as the direct labor route time allocation.

The Company's general and administrative expenses are allocated based upon customer counts from the computer billing system for the respective reporting entities. These costs include customer service and management wages and expenses.

4. PROVISION FOR INCOME TAXES

Generally accepted accounting principles requires a current provision for income taxes calculated using enacted tax law to the excess of taxable revenues over expenses. Because amounts reported in the financial statements differs from those reported in the tax return, generally accepted accounting principles also requires a provision for deferred taxes to adjust for the difference between the tax basis and the financial basis of assets and liabilities. The current provision for income taxes in the statement of revenues and expenses is calculated using a federal rate of 35% and a state rate of 5.75%, instead of the enacted rates. Also, the financial statement does not include a provision for deferred taxes.

SUPPLEMENTAL INFORMATION

COUNTY OF EL DORADO FRANCHISE AGREEMENT
with
WASTE CONNECTIONS OF CALIFORNIA, INC.
d/b/a
EL DORADO DISPOSAL SERVICE

SCHEDULE OF OPERATING EXPENSES
FOR YEAR ENDED DECEMBER 31, 2016

Advertising fees	$	64,622
Corporate overhead allocations		173,349
Amortization expense		72,917
Bad debts		23,564
Bank fees		44,617
Bonds expense		517
Bonuses and commissions		31,055
Brokerage fees		56,629
Building and property maintenance		62,669
Communications		26,184
Computer supplies		2,431
Contributions		559
Credit collections		4,351
Data processing		52,487
Depreciation expense		961,688
Disposal		3,230,773
Drive cam fees		28,286
Dues and subscriptions		22,408
Employee and community activity		11,938
Entertainment		1,506
Equipment and vehicle rental		13,662
Equipment maintenance and repair		27,098
Excursions and meetings		13,199
Freight		4,647
Fuel expense		491,902
Group insurance		472,118
Insurance		127,078
Legal and professional		74,979
Licenses		73,685
Lodging		1,504

COUNTY OF EL DORADO FRANCHISE AGREEMENT
with
WASTE CONNECTIONS OF CALIFORNIA, INC.
d/b/a
EL DORADO DISPOSAL SERVICE

SCHEDULE OF OPERATING EXPENSES
FOR YEAR ENDED DECEMBER 31, 2016

Meals and entertainment	4,948
Miscellaneous	(5,539)
Office supplies	26,590
Oil and grease	29,034
Operating supplies	101,205
Outside repairs	64,886
Overtime wages	449,226
Parts and materials	270,369
Payroll processing fees	1,676
Payroll taxes	227,347
Pension and profit sharing	39,459
Permits	1,714
Property taxes	47,705
Safety and training	18,422
Safety bonuses	55,540
Salaries	660,942
Taxes	590,159
Telephone	11,377
Tires	102,012
Towing	9,572
Travel	3,681
Uniforms	16,503
Utilities	21,834
Vacation and sick pay	209,138
Wages	1,660,598
Total operating expenses	**$ 10,790,820**