



Crowe LLP
Independent Member Crowe Global Network
575 Market Street, Suite 3300
San Francisco, California 94105-5829
Tel 415.576.1100
Fax 415.576.1110
www.crowe.com

March 4, 2020

Ms. Deidra Dingman
Conservation Programs Manager
Contra Costa County
Department of Conservation and Community Development
30 Muir Road
Martinez, California 94553-4601

Subject: Final Report - Review of Garaventa Enterprises Base Year Rate Application

Dear Ms. Dingman:

This report represents results of Crowe LLP's (Crowe) review of the rate application (Application) submitted by Garaventa Enterprises (Garaventa) to Contra Costa County (County) for rates effective in 2020. Garaventa provides refuse and recycling collection services in unincorporated Central and East Contra Costa County. This letter report is organized into nine (9) sections as follows:

- A. Purpose of Analysis
- B. Summary
- C. Background of Analysis
- D. Goals and Objectives of Analysis
- E. Scope of Analysis
- F. History of Collection Rates
- G. Base Year Rate Application
- H. Results of Analysis
- I. Comparison of Rates and Services to Other Neighboring Jurisdictions.

There are six (6) attachments to this report, as follows:

- A. Rate Application
- B. Audited Financial Statements
- C. Exhibit III-1 From Manual
- D. Adjusted Base Year Rate Model
- E. Consumer Price Index Applicable for 2020
- F. Comparative Rate Survey.

A. Purpose of Analysis

The purpose of the Base Year Rate Analysis of Garaventa Enterprises (Analysis) is to assist the County and Garaventa with establishing rates for refuse and recycling collection with Garaventa in accordance with the County's *Rate Setting Process and Methodology Manual for Residential Solid Waste Charges* (Manual), dated July 2011.

The information in this Analysis is based on estimates, assumptions and other data developed by Crowe from information provided by Garaventa, knowledge of and participation in other studies, data supplied by the County, and other sources deemed to be reliable.

In the course of preparing this Analysis, we have not conducted an audit, review, or compilation of any financial or supplemental data used in the accompanying Analysis. We have made certain projections of calculations based on projected data which may vary from actual results because events and circumstances frequently do not occur as expected and such variances may be material. We have no responsibility to update this Analysis for events or circumstances occurring after the date above.

Our procedures and work product are intended for the benefit and use of the County. This engagement was not planned or conducted in contemplation of reliance by any other party or with respect to any specific transaction and is not intended to benefit or influence any other party. Therefore, items of possible interest to a third party may not be specifically addressed or matters may exist that could be assessed differently by a third party.

B. Summary

In its Application, Garaventa requested a rate increase of 4.22 percent. **Table 1** below shows our recommended rate increase which would provide Garaventa the target profit level allowed by the Rate Manual. Based on our review of Garaventa’s rate application, and applying the methodology contained in the Rate Manual, we calculate a rate increase of 4.45 percent for 2020. For residential customers, this rate increase corresponds to an increase of between \$1.35 and \$2.32 per customer, per month, depending on the residential service level.

Table 1
Unincorporated Contra Costa County
Calculated Residential Collection Rates, Per Customer, Per Month

Calculated Rate Increase (+4.45%)			
Service Level	2018 Collection Rate	Rate Increase	2020 Collection Rate ¹
20 Gallon	\$30.27	\$1.35	\$31.62
32 Gallon	\$37.77	\$1.68	\$39.45
64 Gallon	\$43.81	\$1.95	\$45.76
96 Gallon	\$52.12	\$2.32	\$54.44

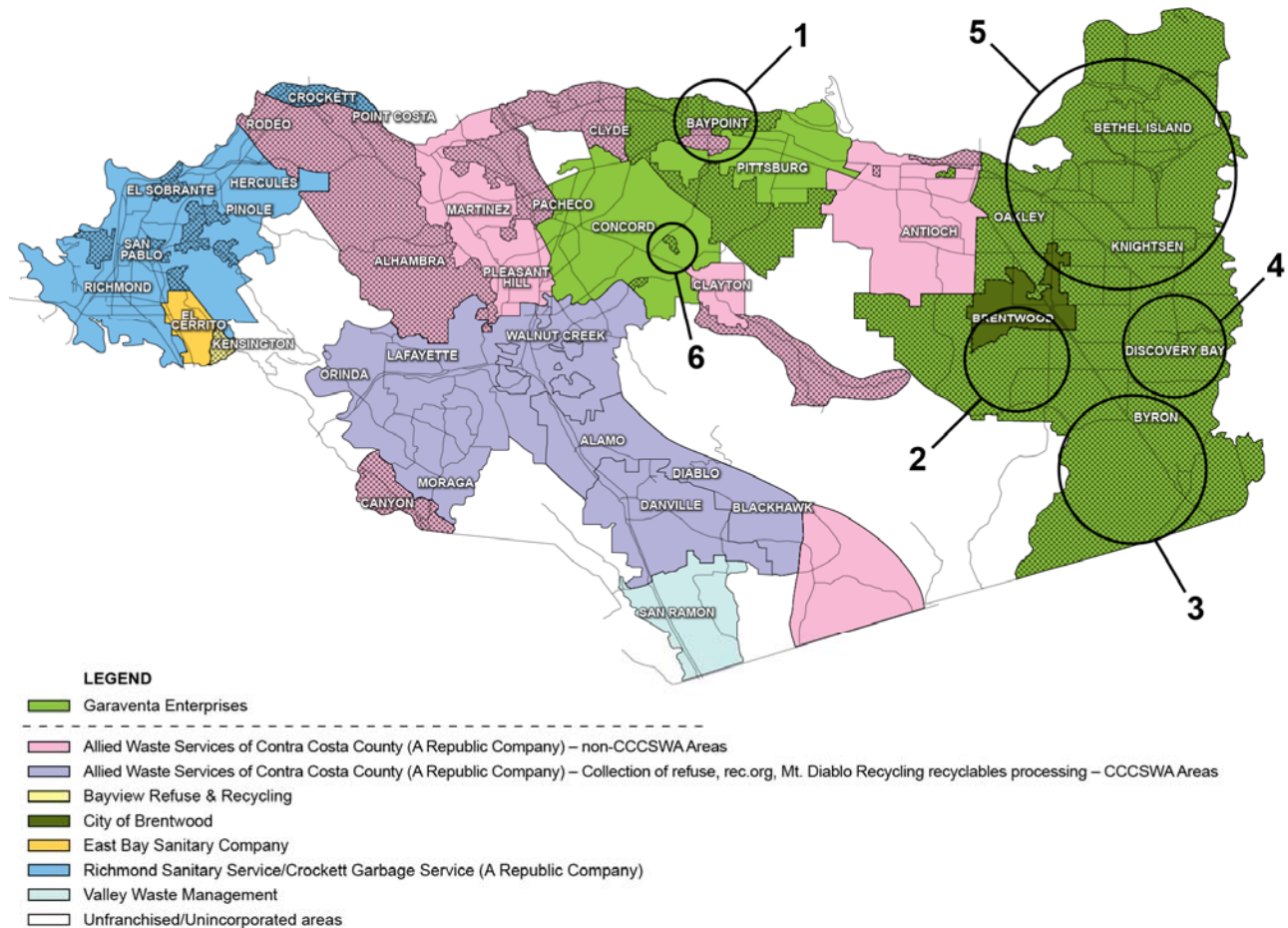
C. Background of Analysis

Garaventa operates under an exclusive franchise with the County to collect, and remove for disposal and recycling, residential, commercial, and light industrial solid waste, recyclable materials, and green waste (organics). On May 9, 1995, the County signed a twenty (20) year franchise agreement with Garaventa. On August 9, 2011, the County approved the Third Amendment to the Franchise Agreement which extended the franchise term an additional ten (10) years through May 8, 2025 or until termination of the 3-cart system, whichever is shortest. The Garaventa franchise includes the following six (6) service areas in unincorporated Contra Costa County (**Exhibit 1** shows the location of each service area):

¹ Note that there was no rate change in 2019.

1. Bay Point
2. Brentwood, unincorporated
3. Byron
4. Discovery Bay
5. Bethel Island, Knightsen & Oakley, unincorporated
6. North Concord, unincorporated.

Exhibit 1
Unincorporated Contra Costa County
Map of Garaventa Enterprises Service Areas



Garaventa consolidates refuse collected from unincorporated County areas at the Recycling Center and Transfer Station (RCTS) in Pittsburg, California. Garaventa then transports the refuse to Keller Canyon Landfill (located in unincorporated Contra Costa County) for disposal.

Garaventa provides curbside recycling services to unincorporated County areas. Garaventa accepts the following recyclable material types:

- Glass bottles and jars (clean)
- Metals, clean (aluminum cans, aluminum foil, aluminum pie plates, food cans, pet food cans, steel cans, tin cans)
- Paper products, including boxes; cardboard; catalogs; colored paper; construction paper; copy paper; coupons; envelopes; junk mail; loose newspaper; magazines; manila folders; newspaper inserts; office paper; paper bags; paper packaging; paper towel tubes; shredded paper; telephone books; and white paper
- Plastic products (clean), including: CA redemption types #1 through #7); HDPE #2, detergent bottles, 5-gallon buckets; juice jugs/cartons; milk jugs/cartons; plastic bags; plastic laundry baskets; plastic water jugs; plastic plant pots; rinsed salad dressing bottles; rinsed yogurt and margarine containers; shampoo and bleach bottles; soda bottles; soft drink bottles (PET #1); and toys.
- Used motor oil and filters (on-call)

Residential customers commingle all of their recyclable materials into one 96-gallon cart (except customers located on Marsh Creek Road who place their recyclables out for collection in special company issued blue bags). Garaventa collects residential curbside recyclables weekly. Garaventa takes recyclable materials to its RCTS facility where they are separated on a Materials Recovery Facility (MRF) sort line. Garaventa also provides residential customers with bi-weekly green waste collection service.

D. Goals and Objectives of Analysis

The Manual specifies that the primary goal of the rate setting process and methodology is to determine fair and equitable residential refuse collection charges that provide a reasonable profit level to Garaventa. Fairness is demonstrated through a rigorous review of Garaventa's actual revenues and expenses. Residential charges also must be justifiable and supportable.

Rate setting is prospective. The County sets rates in advance of when actual results occur. The County must therefore base rates on careful projections.

To set rates, the County reviews trends in prior, current, and projected revenues, costs, and profits. The County sets rates that are intended to cover Garaventa's costs of operations and allow a reasonable profit.

The County uses the operating ratio (OR) method to project the profit level allowed to Garaventa in a base year. The actual OR level, or profit, received by Garaventa in a base year, and in subsequent interim years, is not however, guaranteed.

E. Scope of Analysis

The County based the scope of work for this review on the requirements in the Manual. The base year process has eleven (11) steps, seven (7) of which are the County's responsibility. Garaventa is responsible for the other four (4) steps.

We conducted our review in accordance with procedures described in the Manual. Crowe, as the Consultant, assisted the "County" with six steps of the rate review process (#2, #3, #5, #6, #9, and #10). We completed the following activities during our review:

- Verified the Application was complete
- Determined data presented in the Application were mathematically correct and consistent
- Reviewed the reconciliation of calendar year 2017 financial information provided in the Application to the 2017 financial audit
- Compared actual 2017 results with estimated 2018 and projected 2019 financial results
- Analyzed significant historical fluctuations in major cost categories
- Examined the relationships between financial and operating information for reasonableness
- Reviewed Garaventa franchise fee payments to the County
- Presented a survey of rates of other similar neighboring communities.

Crowe submitted two formal data requests to Garaventa on September 19, 2018 and November 16, 2018. Crowe received Garaventa's responses to the data requests on December 5, 2018. Crowe also met with Garaventa management on November 16, 2018 and January 10, 2019 to ask Application-related questions and provide Garaventa with an opportunity to provide additional context and explain responses to the data requests.

Following our initial analysis of the Application in late 2019 and early 2020, Crowe calculated that there was no need for a rate change for 2019. We based this determination on the financial information provided by Garaventa at the time the company submitted the 2019 Application. Due to the significant ongoing uncertainty with recycling commodity prices, and a desire by the County to incorporate some minor program changes to the franchise, the County and Garaventa agreed that the company would submit additional supplemental financial data during 2019 that the County would evaluate as part of this base year process to determine whether a rate change was merited for 2020. Due to the time that passed between submission of the 2019 Application and now, we also included the impact of the CPI-based rate change for 2020 (allowed during "interim years" in accordance with the Manual) as part of this analysis.

We received supplemental financial information related to the Application on November 12, 2019. On November 21, 2019, we met with Garaventa to review this information and ask for additional clarification and supporting documentation.

F. History of Collection Rates

Rate changes, since the County adopted the Manual in 1999, increased on a compounded basis by approximately 4.5 percent per year over the nineteen years since 1999, and are shown in **Table 2** on the following page. This includes implementation of various new programs, including the green waste program and a cart-based refuse collection program. During this same timeframe the San Francisco-San Jose-Hayward CPI increased on a compounded basis by approximately 2.9 percent.

G. Base Year Rate Application

The County received Garaventa's Base Year Rate Change Application (Application) on July 10, 2018. A copy of the Application is provided in **Attachment A**, at the end of this report. Garaventa used year-to-date information to estimate 2018 financial results. Year 2019 results were entirely projected in the Application.

Garaventa requested a 4.22 percent rate increase effective for 2019. This request corresponds to a \$1.85 per customer, per month, increase in the 64-gallon rate, the most common service level in this County franchise area.

Our review did not represent a financial audit of Garaventa. VT Accounting Associates, LLP prepared a 2016 and 2017 financial audit of the four (4) Garaventa companies serving unincorporated County areas, including Brentwood Disposal Service, Inc., Delta Debris Box Service, Inc., Discovery Bay Disposal, Inc., and Pittsburg Disposal & Debris Box Service, Inc., (provided in **Attachment B**). We reconciled 2017 audited results from these companies to results presented in the Application. Portions of these companies' financial results (with the exception of Discovery Bay Disposal) also included services provided by these companies to non-unincorporated County franchised areas. For example, in addition to unincorporated areas around Pittsburg served under the County franchise, Pittsburg Disposal & Debris Box Service also serves the City of Pittsburg.

Table 2
Unincorporated Contra Costa County
Historical Garaventa Residential Refuse Collection Rate Changes
(1999 to 2018)

Year	Percent Change in Rate
1999	None
2000	+7.7 to 8.5% (new green waste program)
2001	None
2002	+7.66% (implemented in 2003)
2003	None
2004 (base)	+0.00% residential +11.79% commercial
2005	+3.89% (interim year)
2006	+2.69% (interim year)
2007	+6.44% percent (interim year)
2008	+6.71% percent (base year)
2009	None
2010	None
2011 (base)	13.88% (base year)
2012	New variable can rate structure (varied from reductions of 8% to increase of 11.5% depending on rate category)
2013	2.06% (interim year)
2014	2.38% (interim year)
2015	2.78% (interim year)
2016	5.93% (base year)
2017	3.48% (interim year)
2018	None

H. Results of Analysis

This section details findings from Crowe’s analysis of Garaventa’s Application. We identified the impact of each finding in terms of a dollar value increase or a decrease in the “revenue requirement” shown in the Application. The revenue requirement is the amount of revenue that Garaventa needs to collect, through rates charged to customers, to cover the costs of providing the service plus a reasonable financial return. Increasing the revenue requirement results in an increase in rates and decreasing the revenue requirement results in a decrease in rates.

Crowe analyzed the Application for consistency with the Manual, County policies, and waste management industry practices. In our assessment of Garaventa financial results, we compared year-to-year changes in revenues and costs for reasonableness and solicited explanations from Garaventa for material changes. We examined actual results from 2017, estimated results for 2018, and projected results for 2019. Our adjusted rate model is provided in **Exhibit D-1**, of **Attachment D**.

1. Garaventa Financial and Operating Results Since the 2016 Base Year

In **Table 3**, we compare County approved rate changes with changes in residential revenues and accounts as presented in the Application. Residential revenues increased 2.3 percent between 2016 and 2018. The increase is due to a combination of rate increases and the growth in residential accounts over this period.

Table 3
Unincorporated Contra Costa County
Comparison of Residential Rate Increases with Changes in Residential Revenues and Accounts (2016 to 2018)

Year	Rate Increases	Change in Residential Accounts	Change in Garaventa Residential Collection Revenues
2016 to 2018	3.5%	2.9%	2.3%

In **Table 4**, we compare County approved commercial and light industrial rate changes with changes in commercial and light industrial service revenues and tons as presented in the Application. From the time series, we find that there was an approximately 3.5 percent change to rates between 2016 and 2018, while commercial and light industrial tonnage increased by 11 percent. With the increase in commercial rates and tons, total commercial revenues increased proportionately by 6.8 percent over this period.

Table 4
Unincorporated Contra Costa County
Comparison of Commercial and Light Industrial Rate Increases with Changes in Commercial and Light Industrial Waste Revenues and Tonnage (2016 to 2018)

Year	Rate Increases	Change in Commercial and Light Industrial Tons	Change in Garaventa Commercial and Light Industrial Collection Revenues
2016 to 2018	3.5%	11%	6.8%

For the above comparison, in addition to rate changes, we used the number of accounts as a proxy for changes to residential revenues while we used tonnage as a proxy for changes to commercial revenues. Tonnage is often more applicable for the commercial sectors as businesses are more inclined, than the residential sector, to adjust their service level based on tonnage changes.

Between 2016 and 2019, total Garaventa unincorporated County revenues as presented in the Application are expected to increase at a level that is less than the increase in Garaventa's costs for that timeframe, as shown in **Table 5**. Garaventa costs are projected to increase 14 percent, while Garaventa revenues are expected to increase 10 percent. During the 2016 to 2019 period, Garaventa's actual operating ratio is estimated to range from 94 to 99 percent.²

Table 5
Unincorporated Contra Costa County
Change in Garaventa Revenues and Costs
(2016 to 2019)

Description	Percent Change
Revenues	10%
Costs	14%

2. Method for Allocating Garaventa Costs to County Areas

Garaventa directly assigned revenue to each unincorporated County area. The Garaventa company's billing system coded revenue by the jurisdiction in which the customer lives. Typically, customers are billed in advance of services provided. Garaventa recognized revenue in the month earned. **Table 6** below, shows methods used by Garaventa to allocate consolidated Garaventa costs to unincorporated County areas. Garaventa generally allocated consolidated costs to unincorporated County areas using labor hours (route hours) or the number of accounts.

Table 6
Unincorporated Contra Costa County
Methodology Used by Garaventa to Allocate Consolidated Costs to the County

Cost	Allocation Method
Direct Expenses	
Direct labor	Labor Hours
Disposal Fees	Direct – Tons
Franchise Fees	Direct - Revenues
Indirect Expenses	
Corporate Overhead	Accounts
Trucking and Equipment Leases	Hybrid (Route hours and direct)
Depreciation	Direct
General and Administrative	Accounts
Interest Expense	Accounts
Other Operating Expense	Accounts
Professional Fees	Accounts
Supervisory	Accounts

² The County's target operating ratio (OR) during base years is 90 percent. A larger operating ratio represents a smaller than expected return. For 2019, the OR is estimated.

Garaventa companies serving the County have transactions with several related parties. These transactions/entities are identified in **Table 7**.

Table 7
Garaventa Enterprises
Related Party Transactions

Cost Element	Related Party
Facilities/Space Rent	Candy Properties
Transfer Station	Contra Costa Waste Services (CCWS)
Recycling Processing	Mt. Diablo Recycling (MDR)
Truck Leasing	SEG Trucking

3. Review of Garaventa’s Revenues, Costs, and Profits

This section describes our review of each revenue, cost, and profit category. We identify various adjustments to the Application. The revenue requirement is equal to the sum of the following:

- Total allowable costs
- Allowable operating profits
- Total pass through costs.

Garaventa’s requested County revenue requirement, as submitted in the Application, was \$7,000,551. This figure is shown on line 30 of the Application in Attachment A.

We relied on the methodology provided in Exhibit III-3 of the Manual to conduct this review. A copy of this exhibit is provided as **Attachment C**. We have analyzed the results below for a rate change that is effective for 2020.

i. Revenues

Residential Revenues

Garaventa projected an increase in residential revenues between 2018 and 2019 of 5.5 percent. Garaventa indicated in its Application that residential accounts are expected to increase by 0.5 percent in 2019.

We adjusted the 2019 residential revenue projection to base it on the methodology in Exhibit III-3 which uses the following formula:

- Residential revenues in the “Current Year” multiplied by one plus the average annual compound rate of change in residential customer revenues over the prior two years (2.93% increase).

To account for the additional one-year delay, and to project 2020 residential revenues, we added a slight increase from 2019 residential revenues based on the average of the prior two years of account growth (0.72%) to arrive at residential revenues of \$5,082,691.

Net Impact:

[Decrease of \$57,652 in the revenue requirement]

Commercial and Light Industrial Revenues

Garaventa projected a 1.5 percent change in commercial cart/bin revenues between 2018 and 2019 and an 11.0 percent increase in industrial (debris box revenues) between 2018 and 2019. We adjusted the 2019 commercial and light industrial revenue projection to base it on the formula in Exhibit III-3, or the following formula:

- Estimated commercial and light industrial revenues in the “Current Year” multiplied by one plus the average annual compound rate of change in commercial revenues over the prior two years (7.54% increase for commercial and 16.69% for industrial).

To account for the additional one-year delay, and to project 2020 commercial and light industrial revenues, we added a slight increase from 2019 revenues based on the average of the prior two years of account growth for the commercial sector (1.07%) and the prior two years of tonnage growth in the industrial sector (1.84%) to arrive at commercial revenues of \$1,461,229 and light industrial revenues of \$469,450.

Net Impact:

[Decrease of \$211,039 in the revenue requirement]

Recycling Revenues

In the Application, Garaventa projected \$0 in recycling revenues for 2019. Garaventa proposed that a recycling surcharge be added on to the rates charged in the County franchise area consistent with the approach approved by other local franchise agencies to help offset increases in recycling costs. Based on the current poor economic marketplace for recyclable material sales (caused largely by the recent changes in the contamination limits and bans on the types of recycled materials accepted by China), and after further review and documentation provided by Garaventa for its Mt. Diablo Recycling (MDR) facility, we determined that the company is operating at a material net loss in terms of net County recycling revenues.

Historically, the County and Garaventa have agreed to use a net \$5 per ton revenue figure for recycled materials sales (as specified in the Manual). Rather than considering adoption of the proposed recycling surcharge, the Rate Manual provides the County with an alternative approach that County staff believes to be more appropriate for consideration. At the County’s discretion, the County can use an alternative to the \$5 per ton net recycling revenue figure. The County can instead allow Garaventa to include the revenues (i.e., commodity sales) and separately the costs associated with processing curbside recycled materials within the Application (see the Manual Exhibit III-3, page 66). County staff identified a willingness to recommend approval of this change in County rate setting policy contingent upon Garaventa agreeing to amend the Franchise Agreement to provide enhanced on-call pick-up services at no additional charge. For purposes of this Analysis, and based on County staff’s intention to recommend approval of this rate setting policy change and associated service enhancements in response to the poor recycling climate, we used this alternative option, whereby the curbside recycling revenues (line 20) and processing costs (line 5c) are included separately for the Analysis.³

Recycled material sales are equal to the commingled rate received for the material of \$29.30 per ton multiplied by a total of 2,521.97 tons of County recyclable materials. This equaled \$73,892. We verified that these revenue per ton figures were consistent with revenue per ton figures received by other jurisdictions using the MDR facility.

³ Note that staff agreed to request consideration of the alternative approach of using the revenues and costs associated with processing recycled materials as described in the Manual (Exhibit II-3, page 1 of 3, page 66), due to the extraordinary circumstances associated with the recycling market place at this time. However, recommended approval of this change in rate setting policy will be contingent upon Garaventa agreeing to amend the existing Franchise Agreement to provide for two new on-call pick-up services at no additional charge to the County or its ratepayers. The two new on-call services are pick-up of one bulky item per residential customer per year and a fixed number of annual pick-ups for illegally dumped roadside debris.

Additionally, Cal Recycle made a supplemental payment to Garaventa for curbside recycling equal to \$17,500.90 in early 2019. This amount was not originally included in the Application. We added this \$17,500.90 amount to recycling revenues.

Net Impact:

[Decrease of \$91,393 in the revenue requirement]

ii. Costs

Escalation Factor

In accordance with Exhibit III-3, some cost categories are escalated using the average annual compound rate of change in the San Francisco-Oakland-Hayward area CPI (all items, all urban consumers) over the past three years.⁴ The average compound rate of change for the April to April CPI from 2015 to 2018 was 3.20 percent [(283.422/257.622) raised to the 1/3rd power minus 1].

Allowable Costs

Direct Labor

Garaventa projected labor costs to increase 2.1 percent for 2019. Using Exhibit III-3, we adjusted the direct labor projection based on updating current year direct labor costs and use of the following set of labor-related formulas:

- Estimated direct labor wages in the “Current Year” multiplied by one plus the average annual compound rate of change in direct labor wages over the prior two years (1.3% increase)
- Estimated direct labor payroll taxes in the “Current Year” multiplied by one plus the average annual compound rate of change in direct labor payroll taxes over the prior two years (-2.8% decrease)
- Estimated direct labor health and welfare costs in the “Current Year” multiplied by one plus the average annual compound rate of change in direct labor health and welfare costs over the prior two years (-2.9% decrease)
- Estimated direct labor workers compensation costs in the “Current Year” multiplied by one plus the average annual compound rate of change in direct labor workers compensation costs over the prior two years (-3.8% decrease)
- Estimated direct labor pension costs in the “Current Year” multiplied by one plus the average annual compound rate of change in direct labor pension costs over the prior two years (-6.1% decrease).

The combination of using the above methodology reduced 2019 direct labor costs by \$24,441.

Net Impact:

[Decrease of \$24,441 in the revenue requirement]

Tipping Fees (Profit Allowed)

Tipping fees charged to County ratepayers reflect costs of operating the Recycling Center and Transfer Station (RCTS) and the costs of disposal at Keller Canyon Landfill. The rate charged to Garaventa franchised customers at this facility for all combined waste is \$103.63 per ton for 2018. The tipping fee rate for all combined waste is projected to increase to \$106.64 per ton beginning in 2019.

⁴ Note that In January 2018, the Bureau of Labor Statistics (BSA) made a minor adjustment to the geographic area included in the applicable Consumer Price Index (CPI) data. The BSA changed the geographic area used from the San Francisco-Oakland-San Jose area to the San Francisco-Oakland-Hayward area. While this new San Francisco-Oakland-Hayward area represents the applicable CPI data set after January 1, 2018, this data set also retains the previous San Francisco-Oakland-San Jose data prior to January 2018. Beginning January 2018, the BSA no longer provides a San Francisco-Oakland-San Jose geographic area CPI.

Tipping fees are allowed with profit up to \$45.00 per ton. Amounts above \$45.00 per ton are treated as a pass-through expense. The Manual specifies a cap on tipping fees allowed with profit at \$45.00 per ton. Tipping fees in excess of \$45.00 per ton are treated as a pass-through expense.

We determined that the tonnage for the current year, 2018, included in this calculation equaled 17,062. This tonnage was based on annualizing six months of year to date 2018 tonnage data. This represents a small projected increase in refuse tonnage by approximately 20 tons from 2017.

Tipping fees projected in the Application for 2019 were \$1,805,603. Of this total, the Application specified \$788,680 of these fees as an allowable expense with profit and \$1,016,923 as a pass-through expense.

Using Exhibit III-3, we adjusted the tipping fee projection based on use of the following formula:

- Use of verified tipping fee rate multiplied by the projected Base Year disposal tonnage. The Base Year disposal tonnage is equal to the estimated Current Year disposal tonnage multiplied by one plus the average annual compounded rate of change in disposal tonnage over the prior two years, by company and material type, resulting in projected tonnage for 2019 of 16,777 rather than the 17,062 figure in the Application.

Using a tipping fee rate of \$106.64 per ton, the resulting total tipping fees are \$1,757,149 for 2019, including \$754,983 in tipping fees allowed with profit, and \$1,002,166 in pass through tipping fees.

Net Impact:

[Decrease of \$33,698 in the revenue requirement (for tipping fees with profit)]

Corporate and Local General and Administrative (G&A) Costs

Based on the guidance in Exhibit III-3 (in aggregate), we adjusted the G&A projection using the following formula:

- Estimated G&A costs based on the average of actual G&A costs in the prior two years multiplied by one plus the average annual compound rate of change in the April to April CPI over the prior three years (3.20%).

The Manual specifies a cap on corporate and local general and administrative costs equal to 12.2 percent of the total revenue requirement. Projected 2019 corporate and local general and administrative costs of \$807,369 are approximately 11.2 percent of the revenue requirement and within the cap guideline.

Net Impact:

[Increase in the revenue requirement of \$1,466]

Depreciation and Other Operating Costs

Using Exhibit III-3, we adjusted the depreciation and other operating cost projection based on use of the following formula:

- Estimated depreciation costs in the Current Year multiplied by one plus the average annual compound rate of change in depreciation costs over the prior two years (0.54%).

Net Impact:

[Decrease in the revenue requirement of \$13,439]

Recycling Software

The County and Garaventa agreed to share a portion of the cost to purchase and routinely update new Recyclist software to be used company-wide to track the implementation of mandatory commercial recycling and organics services. The software will be used by County staff to track communication with customers as well as monitor and report compliance status of the covered commercial generators in

unincorporated areas, as required by State law. In addition to the one-time purchase, this cost includes quarterly uploads of updated customer information to reflect current levels of service and history of customer communication/contact. An amount of \$1,170 is included in the Application which represents a proportional share of the total cost allocated based on the number of commercial accounts in the unincorporated County Franchise area in relation to the total number of commercial accounts served by the company.

Net Impact:

[Increase in the revenue requirement of \$1,170]

Additional Diversion Specialist

The County and Garaventa agreed to add a share of this position to support additional commercial recycling and organic recovery efforts in the County. This represents a proportional share of the total cost of the individual, or \$5,213. The allocation is based on the number of commercial accounts in the unincorporated County Franchise area in relation to the total number of commercial accounts served by the company.

Net Impact:

[Increase in the revenue requirement of \$5,213]

Cost of Processing Recycled Materials

As indicated above, at the County Board of Supervisor's discretion, the County can use an alternative to the \$5 per ton net recycling revenue figure. The County can instead allow Garaventa to include the revenues (i.e., recycled commodity sales) and separately the costs associated with processing curbside recycled materials within the Application (see the Manual Exhibit III-3, page 66). For purposes of this Analysis, and due to the poor recycling climate, we used this alternative option, whereby the curbside recycling revenues (line 20) and processing costs (line 5c) are included separately.

We determined that the current processing cost per ton at Mt. Diablo Recycling, for recycling County materials was \$157.66 per ton based on a detailed analysis of the fixed and variable costs of the MDR facility which were then allocated to the County. Based on the total annual County recycled materials tonnage of 2,521.97, we project the current annual costs of processing County recycled materials to equal \$397,613. Note that these costs are offset by recycled revenues, as described above, of \$91,393, resulting in a net processing cost of \$121.42 per ton.

[Increase in the revenue requirement of \$397,613]

Services Provided to County

Within the aggregated costs to serve the County which are included elsewhere in the Application, Garaventa included costs totaling \$102,398 to provide certain "free services". Only a portion of those costs (\$37,636) are for allowable free services provided to the County in the form of servicing debris boxes provided for community clean-ups arranged by the County. The County's Franchise Agreement obligates Garaventa to service ten 20-cubic yard debris boxes per year for community clean-ups. The current Franchise requirement is equivalent to five of the forty 40-cubic yard boxes actually served in 2018 (totaling \$6,486). County staff agreed to recommend inclusion of the additional \$31,151 annual cost to support a higher on-going level of community clean-up box services contingent upon the Franchise Agreement being amended to require that County be provided with forty 40-cubic yard community clean-up boxes per year upon request. The remaining costs are for either routine services (\$9,425) or debris box services (\$55,337) the company donated to other agencies or organizations. These donated services are not considered allowable "free services" to the County in accordance with language in the Franchise. We therefore removed \$64,762 of these costs from the rate base.



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Net Impact:

[Decrease in the revenue requirement of \$64,762]

Pass Through Costs

County Administrative Fee

In the Application, Garaventa included Hazardous Waste Fees in this line item. We moved Hazardous Waste Fees to a separate line item (shown as a new Line 9a in Exhibit D-1). The remaining amount of \$2,626 for 2018 represents AB 939 fees paid to the County on each ton of disposable waste collected within the County service area. Since the solid waste collected within the County service area will be disposed of at an in-County landfill, AB 939 fees no longer need to be paid directly to the County by Garaventa. Since AB 939 fees will cease being paid by Garaventa and instead paid to the County directly by the landfill operator in 2020, the remaining amount of \$2,626 was deducted from this line item.

Net Impact:

[Decrease in the revenue requirement of \$2,626]

Household Hazardous Waste Fees

We used Exhibit III-3 to adjust the HHW Fee cost projection based on use of the following formula:

Average of actual Household Hazardous Waste Fees in the prior two years (\$49,995) multiplied by one plus the average annual compound rate of change in the April to April CPI over the prior three years (3.20 percent).

Net Impact:

[Decrease in the revenue requirement of \$2,581]

Trucking and Equipment Costs

We verified the trucking and equipment costs by reviewing lease expenses charged by SEG Trucking to County customers and based on additional more current SEG trucking lease schedules, we found a supportable amount of \$2,013,140 rather than the \$2,117,584 amount in the Application. This was based on a verifiable SEG lease rate multiplied by the number of equipment pieces/items.

Net Impact:

[Decrease in the revenue requirement of \$104,444]

Tipping Fees (Pass-Through)

Most of the discussion related to tipping fees is provided above under Tipping Fees (with Profit). The above analysis resulting in a decrease in tipping fees (pass through) of \$14,756.

Net Impact:

[Decrease in the revenue requirement of \$14,756 (for tipping fees, pass through)]

Franchise Fees

The County franchise agreement with Garaventa specifies that the County can establish an amount equal to "a percentage of Contractor's [Garaventa's] Gross Annual Revenues" with the "amount, time and frequency of payment of such fees established by the County." The franchise fee paid by Garaventa to the County is currently equal to seven (7) percent of gross revenues. Gross revenues include all residential, commercial, and light industrial refuse and recycling revenue. Franchise fees are a pass through expense which do not earn profit.

Garaventa included a franchise fee of seven (7) percent for the 2019 projection. We adjusted franchise fees based on other findings noted above that modified the revenue requirement.

Net Impact:

[Increase in the revenue requirement of \$13,143 for other findings in this report]

iii. Profits

Total allowable costs for the projection year 2019 are \$3,256,406. The Manual specifies that should the operating ratio for the base year fall between 88 percent and 92 percent, rates would remain unchanged in the base year.

Table 8 shows the operating ratio calculation for 2019. Without any changes to rates, the company would receive an operating ratio of 98 percent. In accordance with the Manual, because this operating ratio falls outside the 88 to 92 percent range, rates are reset for a 90 percent operating ratio.⁵

The operating ratio calculation is as follows:

- Operating Ratio (OR) =
- Total Allowable Costs
- Total Allowable Costs + Allowable Operating Profit

The OR calculation is shown in **Table 9**, following Table 8. We calculate allowable profit of \$361,823, at the allowable 90 percent operating ratio.

Net Impact:

[Increase to the revenue requirement of \$29,903]

Table 8
Garaventa Enterprises
Calculation of Actual Operating Ratio

Description	Amount
Total Revenues (line 21)	\$ 7,104,762
Less Total Allowable Costs (line 6)	(3,256,406)
Less Franchise Fees (line 23)	(503,182)
Less Pass-Through Costs (line 12)	(3,066,901)
Equals Profit (Loss) (with adjustments and no rebasing)	\$ 278,273
Operating Ratio (with adjustments and no rebasing)	$\$3,256,406 / (\$3,256,406 + \$278,273) = 92.13\%$

Table 9
Allowable Profit Calculation

Description	Amount
(Total Allowable Costs / Operating Ratio)	$(\$3,256,406 / 90 \text{ percent}) - \$3,256,406$
– Total Allowable Costs	
= Allowable Operating Profit	= <u>\$361,823</u>

⁵ Source: Rate Setting Manual, page 18.

With the company's profit level rebased to 90 percent, we calculate a rate increase of 1.19 percent. This is shown in the Adjusted Base Year 2019 column (line 26) of **Exhibit D-1** in **Attachment D**.

In addition to the 1.19 percent rate increase, we also applied a CPI-increase of 3.22 percent to increased rates calculated for 2020. This CPI increase is intended to account for the Manual provision which allows Garaventa to adjust rates up to the CPI in interim years (Section IV B., page 81) and for 2020 Garaventa would be allowed this CPI in a typical interim year. The applicable CPI calculation, of 3.22 percent, is shown in **Attachment E**. In total, we calculate a 4.45 percent rate increase for 2020 (equal to 1.19 percent multiplied by 1+3.22 percent).

4. Components of Residential Rates

There are a number of cost components which are included in residential rates. Using the 32-gallon residential cart rate as an example, the pie chart in **Figure 1** shows the major components of the projected 2019 rates, and the relative costs of each component. Line item references are made to the Application. **Table 10** shows that the components of the single can rate have remained relatively stable over time since 2003. Cost categories are described below:

Direct Labor includes compensation of the waste removal staff, including regular time, overtime, payroll taxes, and benefits. This category corresponds to Direct Labor (Line 1) of the adjusted application.

Tipping Fees include all charges for disposal of solid waste at a landfill or transfer station, which are projected at \$106.64 per ton (for all combined materials). A cap on the allowable expense portion of tipping fees is set at \$45.00 per ton. The remaining fees between \$45.00 and \$106.64 per ton are treated as a pass-through expense. These tipping fees also include transportation costs from the transfer station to the landfill. This category corresponds to Tipping Fees with Profit (Line 2) and Tipping Fees (Pass-Through) (Line 11) of the adjusted application.

Corporate and Local General and Administrative Costs include accounting, office space rental, utilities, office supplies, legal services, insurance, postage, etc. for Garaventa. These costs are identified as Corporate and Local General and Administrative Costs (Line 3), Services Provided to County (Line 5), County Administrative Fees (Line 9), and Household Hazardous Waste Fees (Line 9a) of the adjusted application.

Trucking and Equipment includes depreciation and leases of trucks, fuel expenses, licenses, parts, tires, and repair and maintenance expenses. These costs are identified as Trucking and Equipment (Line 10) and Depreciation and Other Operating Costs (Line 4) of the adjusted application.

Profit is any revenue which exceeds expenses (total allowable costs plus total pass-through costs). The operating ratio method is used to determine allowable profit, as discussed in the profit analysis section of this report. Profit is shown in Line 8 of the adjusted application.

County's Franchise Fee is 7.0 percent of total residential/curbside recycling, commercial, and light industrial revenues. Franchise fees are shown in Line 23 of the adjusted application.

Figure 1
Components of Rate

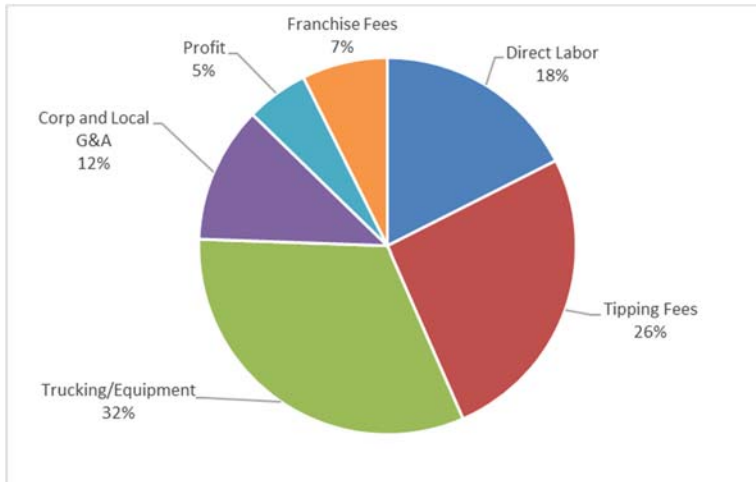


Table 10
Components of Single Can Rate Over Time
(2003 to 2019)

Description	2003	2007	2010	2016	2019
Tipping Fees	26%	29%	26%	27%	26%
Direct Labor	20%	20%	20%	16%	18%
Trucking and Equipment	30%	28%	31%	32%	32%
Corporate and Local G&A	12%	12%	12%	13%	12%
Profit	6%	6%	5%	5%	5%
Franchise Fees	5%	5%	6%	7%	7%

I. Comparison of Rates and Services to Other Neighboring Jurisdictions

Existing Garaventa unincorporated County rates were compared with survey data from other County franchise areas and a sample of neighboring jurisdictions. Results of the survey are summarized in **Attachment F. Tables F-1 through F-3** show how current Garaventa unincorporated rates compare to the average of the other incorporated and unincorporated areas surveyed.

In **Table F-1**, we compare the Garaventa unincorporated County residential rates with averages of the other franchise areas surveyed. Compared to the other franchise areas, current Garaventa unincorporated rates were mixed relative to average, with rates above average for smaller container sizes and below average for larger container sizes. The proposed 20 and 32 gallon rates are between 13 percent and 20 percent above the average of other comparative incorporated jurisdictions surveyed, and between 15 percent and 30 percent below the average of 64 and 96 gallon rates of incorporated areas surveyed. Garaventa residential rates compared similarly with four other unincorporated County areas,

with rates significantly above average for 20 and 32 gallon service and below average for 64 and 96 gallon service.

For the commercial (bin) sector, as shown in **Table F-2**, Garaventa's unincorporated County rates were about equivalent to the average rates in other comparative incorporated jurisdictions. Rates ranged from 1 percent above to 8 percent below the average of other incorporated areas surveyed. Gavaventa commercial bin rates were between 26 percent below and 43 percent above the average of other unincorporated County areas surveyed depending on service level.

For the 20 cubic yard industrial (debris box) rate, as shown in Table F-3, Garaventa unincorporated County rates were about equivalent to the average of surveyed jurisdictions. This comparison is based on a representative four (4) ton load.

* * * * *

This Analysis is substantially different from an audit, examination, or review in accordance with Generally Accepted Auditing Standards, the objective of which is to express an opinion regarding Garaventa financial statements. Accordingly, we do not express such an opinion.

The consulting services did not contemplate obtaining the understanding of Garaventa internal controls or assessing control risk, tests of accounting records and responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit or examination. Thus, this engagement was not intended to provide assurance that we would become aware of significant matters that would be disclosed in an audit or examination.

As part of this Analysis, the County agreed to be responsible to: make all management decisions and perform all management functions; designate an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management to oversee our services; evaluate the adequacy and results of the services performed; accept responsibility for the results of the services; and establish and maintain internal controls, including monitoring ongoing activities. The County has the ultimate authority to approve rate changes.

Crowe's fees are not dependent upon the outcome of this report and Crowe is independent with respect to any other economic interests.



Ms. Deidra Dingman
March 4, 2020

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Attachment A: Rate Application

Attachment A includes the 2019 Base Year Rate Change Application (Application) submitted by Garaventa to the County July 10, 2018. In the Application, Garaventa proposed to increase unincorporated County collection rates by 4.22 percent in 2019. The Application included the following forms:

- Financial information
- Cost summary for year 2017
- Revenue summary
- Single family residential revenues summary (including current rates and accounts)
- Operating information
- Rate change requested (including current and proposed rates).

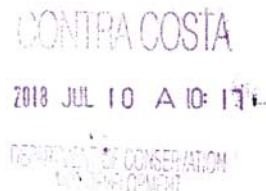
Information provided in the Application was for the following four (4) years:

- Actual prior years, 2016 to 2017 (including audited 2017 results)
- Current year estimated, 2018
- Base year projected, 2019.



Ms. Deidra Dingman
March 4, 2020

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July 6, 2018

Ms. Deidra Dingman
Contra Costa County
Department of Conservation
30 Muir Road
Martinez, CA 94553

RE: Rate Application:

Dear Ms. Dingman:

Enclosed is the Base Year Rate Application for Mt. Diablo Resource Recovery franchised areas for the unincorporated areas of Contra Costa County. The Base Year Rate Application is supported by Audited Financial Statements of those operations for the calendar years 2016-2017, current estimated results of calendar year 2018 based on three months of operations and projected 2019 results.

Our resulting calculation shows a change in the current Residential and Commercial rates of 4.22%.

A meeting with you, your staff, consultants, and Board committee representatives should be scheduled at your earliest convenience. If you have any questions, please call us at (925) 692-2230

Sincerely,

Gary Lazdowski
Chief Operating Officer

Cc: Eric Nylon (w/enclosures)



Contra Costa County

Base Year Rate Change Application

Financial Information

		Audited	Audited	Estimated	Projected	
				Current	Base Year	
		Year 1	Year 2	Year 3	Year 4	
		2016	2017	2018	2019	
Section I--Allowable Costs						
1.	Direct Labor	\$ 1,194,542	\$ 1,157,186	\$ 1,188,713	\$ 1,213,676	
2.	Tipping Fees (Profit Allowed)	719,116	730,082	767,807	788,680	
3.	Corporate and Local General and Administrative Costs	741,116	783,980	780,692	805,903	
4.	Depreciation and Other Operating Costs	162,934	178,064	164,697	179,024	
5.	Services Provided to County				-	
6.	Total Allowable Costs (Lines 1+2+3+4+5)	\$ 2,817,708	\$ 2,849,312	\$ 2,901,909	\$ 2,987,283	
Section II--Allowable Operating Profit						
7.	Operating Ratio	94%	90%	99%	90%	
8.	Allowable Operating Profit [(Line 6 + 0.9) - Line 6]	\$ 187,073	\$ 326,183	\$ 26,666	\$ 331,920.34	
Section III--Pass Through Costs without Franchise Fees						
9.	County Administrative Fee	\$ 54,115	\$ 40,532	\$ 55,892	\$ 56,803	
10.	Trucking and Equipment	1,843,110	1,953,003	2,021,828	2,117,584	
11.	Tipping Fees (Pass Through)	793,078	851,458	940,324	1,016,923	
12.	Total Pass Through Costs (without Franchise Fees) (Lines 9+10+11)	\$ 2,690,303	\$ 2,844,994	\$ 3,018,044	\$ 3,191,309	
Section IV--Revenue Requirement without Franchise Fees						
13.	Total Allowable Costs (Line 6) plus Allowable Operating Profit (Line 8) plus Total Pass Through Costs (without Franchise Fees) (Line 12)	\$ 5,695,084	\$ 6,020,488	\$ 5,946,619	\$ 6,510,513	
Section V--Revenue without Rate Change in Base Year						
14.	Residential Revenue			\$ 4,764,896	\$ 5,025,038	
	Toters			-	-	
	Less Allowance for uncollectible Residential Accounts			\$ 26,207	\$ 27,638	
16.	Total Residential Revenue (without Rate Change in Base Year)	\$ 4,525,889	\$ 4,789,709	\$ 4,738,689	\$ 4,997,400	
17.	Commercial and Light Industrial Revenue			\$ 1,302,677	\$ 1,322,405	
	Light Industrial Revenue			\$ 357,746	\$ 397,234	
18.	Less Allowance for uncollectible Commercial and Light Industrial Accounts					
19.	Total Commercial/Light Industrial Revenue (without Rate change in base year)	\$ 1,555,155	\$ 1,640,853	\$ 1,660,423	\$ 1,719,640	
20.	Recycled Material Sales	\$ 38,683	\$ 39,327	-	-	
21.	Total Revenue (Lines 16+19+20)	\$ 6,119,727	\$ 6,469,888	\$ 6,399,112	\$ 6,717,040	
Section VI--Net Shortfall (Surplus)						
22.	Net Shortfall (Surplus) without Franchise Fees (Line 13-Line 21)	\$ (449,400)	\$ (452,493)	\$ (206,528)		
23.	Residential/Commercial/Light Industrial Franchise Fees (see calculation below)	\$ 424,644	\$ 449,400	\$ 452,493	\$ 490,039	
24.	Net Shortfall (Surplus) with Franchise Fees (Lines 22+23)	\$ 0	\$ -	\$ 283,511		
Section VII--Percent Change in Rates						
25.	Total Commercial/Light Industrial Revenue Prior to Rate Change (Lines 16+19)	\$ 6,430,562	\$ 6,399,112	\$ 6,717,040		
26.	Percent Change in Existing Residential/Commercial/Light Industrial Rates (Line 24 + Line 25)	0.00%	0.00%	4.22%		
Franchise Fee Calculation		Summary Revenue Requirement				
Franchise fees are set by the County at 7 percent of the revenue requirement Solve for two equations with one unknown, and identify franchise fees as X => Equation 1) Revenue Requirement x 0.07 = X Equation 2) Revenue Requirement = Line 13 + X, or \$ 1,640,853 + X Substitute equation 2) into equation 1) and solve for X => (\$ 1,640,853 + X) x .07 = X, or X = \$ 449,400		27.	Allowable Costs	\$ 2,849,312	\$ 2,901,909	\$ 2,987,283
		28.	Operating Profit	326,183	26,666	331,920
		29.	Pass-thru + franchise	3,294,394	3,470,537	3,681,348
		30.		\$ 6,469,888	\$ 6,399,112	\$ 7,000,551



Ms. Deidra Dingman
March 4, 2020

Contra Costa County				
Base Year Rate Change Application				
Cost Summary for Year 2017				
Section VIII--Base Year Cost Allocation				
	Total County	(Baypoint) Unincorporated County	Audited Garaventa Financial	Allocation Base(s)
Labor - Regular	\$ 777,531	\$ 171,069	\$ 606,462	Direct
Labor - Overtime	-	-	-	Direct
Benefits	314,868	74,601	240,267	Direct
Payroll Taxes	64,787	14,233	50,554	Direct
31. Total Direct Labor	\$ 1,157,186	\$ 259,903	\$ 897,283	Direct
32. Total Tipping Fees (Profit Allowed)	\$ 730,082	\$ 207,698	\$ 522,384	Tonnage by Fee
Administrative Salaries	\$ 447,830	\$ 130,250	\$ 317,580	Accounts
Taxes - Payroll	23,935	6,912	17,023	Accounts
Pension	11,739	3,403	8,335	Accounts
Accounting	28,557	5,364	23,193	Accounts
Advertising	-	-	-	Accounts
Alarm	159	159	-	Accounts
Bank charges	71,630	20,319	51,311	Accounts
Collection Fees	-	-	-	Accounts
Public education	3,199	117	3,082	Accounts
IBM Rental, Software & Repair	-	-	-	Accounts
Dues & Subscriptions	395	130	265	Accounts
Employee Functions	5	5	-	Accounts
Employee Education	36	36	-	Accounts
Fuel & Oil	-	-	-	Accounts
Insurance	37,556	(661)	38,217	Accounts
Janitorial	768	768	-	Accounts
Landscape and maintenance	368	368	-	Accounts
Legal	91	91	-	Direct
Licenses	190	213	(23)	Accounts
Loan Fees	-	-	-	Accounts
Miscellaneous	-	-	-	Accounts
Medical Expense	419	239	180	Accounts
Over/Under	(37)	(38)	1	
Office Supplies & Expense	1,839	1,839	-	Accounts
Outside Services	29	29	-	Accounts
Postage	41,196	13,502	27,694	Accounts
Printing	35,915	10,186	25,729	Accounts
Lease - Outside Equipment	-	-	-	Accounts
Rent - Office	43,935	7,489	36,446	Accounts
Repairs - General	80	80	-	Accounts
Repairs - Building	809	809	-	Accounts
Security	10,638	10,638	-	Accounts
Sponsorships	3,716	2,216	1,500	Accounts
Supplies	14	14	-	Accounts
Taxes - Other	-	-	-	Accounts
Taxes - Personal	8,692	2,315	6,377	Accounts
Utilities	804	804	-	Accounts
Telephone	9,475	3,066	6,409	Accounts
33. Total Corporated and Local General and Administrative Costs	\$ 783,982	\$ 220,662	\$ 563,320	
Depreciation - Buildings & Furniture	-	-	-	Square Footage
Depreciation - Containers	128,212	36,184	92,028	Direct
Toters - Non Capitalized	13,530	2,523	11,007	Accounts
Depr L/H Imp Operations	658	658	-	Accounts
Depr Furniture & Fixtures	109	109	-	Accounts
Laundry and uniforms	16	-	16	Accounts
Customer repairs	1,021	150	871	Accounts
Management Salaries	34,533	9,704	24,828	Direct
34. Total Depreciation and Other Operating Costs	\$ 178,079	\$ 49,328	\$ 128,751	
35. Household Hazardous Waste	\$ -	\$ -	\$ -	
36. Total Allowable Costs (Lines 31 + 32 + 33 + 34 + 35)	\$ 2,849,329	\$ 737,590	\$ 2,111,738	
37. Total County Administration Fee	\$ 55,875	\$ 15,359	\$ 40,516	Direct
Equipment rental	\$ 1,953,003	\$ 775,295	\$ 1,177,708	Direct
Gas and oil				N/A
Insurance				N/A
Parts				N/A
Repairs and Maintenance				N/A
Tires				N/A
Other				N/A
38. Total Trucking and Equipment	\$ 1,953,003	\$ 775,295	\$ 1,177,708	N/A
39. Total Tipping Fees (Pass Through)	\$ 851,458	\$ 196,310	\$ 655,148	Tonnage by Fee
40. Total Residential/Commercial/Light Industrial Franchise Fees	\$ 449,400	\$ 122,367	\$ 327,033	Direct
41. Total Pass Through Costs (Lines 37 + 38 + 39 + 40)	\$ 3,309,736	\$ 1,111,331	\$ 2,198,405	N/A
42. Total Costs (Lines 36 + 41)	\$ 6,159,065	\$ 1,848,921	\$ 4,310,144	N/A



Ms. Deidra Dingman
March 4, 2020

Contra Costa County		Base Year Rate Change Application			
Cost Summary for Year 2017					
Section IX--Revenue					
	Historical Year 3 2016	Historical Year 4 2017	Projected Year 5 2018	Estimated Base Year Year 6 2019	
Single Family Residential Service					
43. Single Family Residential Revenue (Base Year from Page 4 of 6)	\$ 4,525,889	\$ 4,789,709	\$ 4,764,896	\$ 5,025,038.16	
Multiunit Residential Service					
44. Number of Accounts	17	20	20	20	
45. Multiunit Residential Revenue	\$ 102,405	\$ 116,646	\$ 116,499	\$ 124,256.85	
46. Residential Revenue (w/o Allowance for Uncollectible Accounts) (Lines 43 + 45)	\$ 4,628,294	\$ 4,906,355	\$ 4,881,395	\$ 5,149,295	
47. Allowance for Uncollectible Residential Accounts	\$ 23,141	\$ 24,532	\$ 26,848	\$ 28,321	
48. Total Residential Revenue (Line 46 - Line 47)	\$ 4,605,153	\$ 4,881,824	\$ 4,854,547	\$ 5,120,974	
Commercial and Light Industrial Bin Service					
49. Number of Accounts	193	200	204	207	
50. Commercial and Light Industrial Can Revenues	\$ 1,162,596	\$ 1,166,461	\$ 1,186,179	\$ 1,198,148.57	
Commercial and Light Industrial Drop Box Service					
51. Number of Accounts	163	163	163	#REF!	
52. Commercial and Light Industrial Drop Box Revenues	\$ 290,154	\$ 357,746	\$ 357,746	\$ 397,234	
53. Commercial and Light Industrial Revenue (w/o Allowance for Uncollectible Accounts) (Lines 50 + 52 + 54)	\$ 1,452,751	\$ 1,524,207	\$ 1,543,924	\$ 1,595,383	
54. Allowance for Uncollectible Commercial and Light Industrial Accounts					
55. Total Commercial and Light Industrial Revenues (Line 53 - Line 54)	\$ 1,452,751	\$ 1,524,207	\$ 1,543,924	\$ 1,595,383	
56. Recycled Material Sales	\$ 38,682.53	\$ 39,326.57	\$ 4,909.48	\$ 4,909.48	
57. Total Revenue (Lines 48 + 55 + 56)	\$ 6,096,586	\$ 6,445,357	\$ 6,403,381	\$ 6,721,266	



Ms. Deidra Dingman
March 4, 2020

Contra Costa County

Base Year Rate Change Application

Single Family Residential Summary

Section X--Single Family Residential Revenue

Projected
Base Year
2019

Single Family Residential revenue (without Rate Change in Base Year)

		Current Rate/Month	Estimated Accounts	Total
Brentwood (out of City) 96 Gal Toter	T9	\$ 52.12	533	\$ 333,360
Brentwood (out of City) 64 Gal Toter	T6	\$ 43.81	904	\$ 475,251
Brentwood (out of City) extra can with toter	RT	\$ 9.55	74	\$ 8,480
Brentwood (out of City) 20 Gal Toter	T2	\$ 30.27	162	\$ 58,845
Brentwood (out of City) 32 Gal Toter	T3	\$ 37.77	327	\$ 148,209
Discovery Bay 96 Gal Toter	T9	\$ 52.12	853	\$ 533,500
Discovery Bay 64 Gal Toter	T6	\$ 43.81	2,526	\$ 1,327,969
Discovery Bay 20 Gal Toter	T2	\$ 30.27	656	\$ 238,285
Discovery Bay extra can with toter	RT	\$ 9.55	56	\$ 6,418
Discovery Bay 32 Gal Toter	T3	\$ 37.77	1,204	\$ 545,701
Baypoint (PDS) 96 Gal Toter	T9	\$ 52.12	320	\$ 200,141
Baypoint (PDS) 64 Gal Toter	T6	\$ 43.81	1,270	\$ 667,664
Baypoint (PDS) 20 Gal Toter	T2	\$ 30.27	378	\$ 137,305
Baypoint (PDS) extra can with toter	RT	\$ 9.55	11	\$ 1,261
Baypoint (PDS) 32 Gal Toter	T3	\$ 37.77	756	\$ 342,649

60. Total Base Year Single Family Residential	10,030	\$ 5,025,038
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Contra Costa County
Rate Change Ap

Operating Information

Historical Information	Percent Change	Historical Information	Percent Change	Projected Information	Percent Change	Projected Information
	2016 / 2017		2017 / 2018		2017 / 2018	
		2017		2018		2019

Accounts

61. Residential	9,702	1.92%	9,888	0.95%	9,982	0.48%	10,030
62. Commercial	196	2.55%	201	1.42%	204	0.71%	205
63. Light Industrial	-		-		-		-
64. Total Accounts	9,898	1.93%	10,089	0.96%	10,186	0.48%	10,235

Waste Tonnage

65. Residential	9,725	-1.53%	9,577	-0.74%	9,506	-0.77%	9,433
66. Res. Greenwaste	3,727	-2.35%	3,640	-1.17%	3,597	-1.18%	3,555
67. Commercial	661	62.13%	1,072	85.43%	1,987	27.33%	2,530
68. Light Industrial	1,867	3.70%	1,936	1.84%	1,972	1.83%	2,008
69. Total Tons	15,980	1.52%	16,224	5.17%	17,062	2.72%	17,526

Recyclable Tonnage

70. Residential	2,796	7.58%	3,008	4.13%	3,132	2.04%	3,196
71. Commercial	144	17.36%	169	8.54%	183	4.18%	191
72. Light Industrial	2,733	12.33%	3,070	6.47%	3,269	3.18%	3,373
73. Total Tons	5,673.00	10.12%	6,247.00	5.40%	6,584.22	2.67%	6,759.95

County Services

74. County Bins	2.00	0.00%	2.00	0.00%	2.00	0.00%	2.00
75. County Drop Boxes # PU	46.00	0.00%	46.00	0.00%	46.00	0.00%	46.00

76. 3 Yard Bin--Once per Week	444.65	0.00%	444.65	3.48%	460.13	1.73%	468.07
77. 2 Yard Bin--Once per Week	318.35	3.48%	329.43	0.00%	329.43	0.00%	329.43
78. 20 yd Debris Box--per pick up	531.00	21.66%	646.00	2.32%	661.00	1.15%	668.63

Contra Costa County

Base Year Rate Change Application

Unincorporated Area: All Areas

78. Rate Change Requested 4.22%

Abbreviated Rate Schedule	Current Rate	Increased Rate	Adjustments **	New Rate
Brentwood (out of City) 96 Gal Toter	52.12	54.32	-	54.32
Brentwood (out of City) 64 Gal Toter	43.81	45.66	-	45.66
Brentwood (out of City) 32 Gal Toter	37.77	39.36	-	39.36
Brentwood (out of City) 20 Gal Toter	30.27	31.55	-	31.55
Brentwood (out of City) extra can with toter	9.55	9.95	-	9.95
Discovery Bay 96 Gal Toter	52.12	54.32	-	54.32
Discovery Bay 64 Gal Toter	43.81	45.66	-	45.66
Discovery Bay 32 Gal Toter	37.77	39.36	-	39.36
Discovery Bay 20 Gal Toter	30.27	31.55	-	31.55
Discovery Bay extra can with toter	9.55	9.95	-	9.95
Baypoint (PDS) 96 Gal Toter	52.12	54.32	-	54.32
Baypoint (PDS) 64 Gal Toter	43.81	45.66	-	45.66
Baypoint (PDS) 32 Gal Toter	37.77	39.36	-	39.36
Baypoint (PDS) 20 Gal Toter	30.27	31.55	-	31.55
Baypoint (PDS) extra can with toter	9.55	9.95	-	9.95

79. Multiunit residential Rate increase of 4.22% will be applied to all rates in each structure.

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by Contra Costa County.

Name: Gary Lazdowski

Title: Chief Operating Officer

Signature: 

Date: 7.6.2018



Ms. Deidra Dingman
March 4, 2020

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Attachment B: Audited Financial Statements



Ms. Deidra Dingman
March 4, 2020

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Attachment B includes the calendar year ending December 31, 2016 and December 31, 2017 audited financial statements submitted by Garaventa for its four (4) companies serving unincorporated County. These financial statements were provided to the County with the Application on July 10, 2018. V T Williams & Associates LLP completed a 2016 and 2017 financial audit of Garaventa companies serving unincorporated County areas, including Brentwood Disposal Service, Inc., Delta Debris Box Service, Inc., Discovery Bay Disposal, Inc., and Pittsburg Disposal & Debris Box Service, Inc. The audit opinions for each company were unqualified.

BRENTWOOD DISPOSAL SERVICE, INC.,
DELTA DEBRIS BOX SERVICE, INC.,
DISCOVERY BAY DISPOSAL SERVICE, INC., AND
PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

SUPPLEMENTAL INFORMATION

SCHEDULE OF OPERATIONS FOR
CONTRA COSTA COUNTY

FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017





Accounting
Associates, LLP

Jeff Vathayanon, CPA
Paul Tibma, CPA
Jason Reecy, CPA/ABV

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors
Discovery Bay Disposal, Inc.
Concord, California

We have audited the stand-alone financial statements of Brentwood Disposal Service, Inc., Delta Debris Box Service, Inc. Discovery Bay Disposal, Inc. and Pittsburg Disposal & Debris Box Service, Inc. (the "Companies") (California S Corporations) as of and for the years ended December 31, 2018 and 2017 and our reports thereon dated May 17, 2019, which expressed an unmodified opinion on those financial statements, appears on Page 3 of each of those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operations for Contra Costa County presented for purposes of additional analysis is not a required part of the financial statements. 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 statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 statements taken as a whole.

VT Accounting Associates, LLP

Carson City, Nevada
May 17, 2019

**BRENTWOOD DISPOSAL SERVICE, INC.
DELTA DEBRIS BOX SERVICE, INC.,
DISCOVERY BAY DISPOSAL SERVICE, INC., AND
PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.**

SCHEDULE OF OPERATIONS FOR CONTRA COSTA COUNTY

FOR THE YEAR ENDED DECEMBER 31, 2018

	Brentwood	Delta	Discovery	Pittsburg	Total
REVENUES					
Residential refuse collection services	\$ 1,032,260	\$ -	\$ 2,686,583	\$ 1,354,902	\$ 5,073,745
Commercial refuse collection services	682,864	-	293,340	368,277	1,344,481
Recycling sales	599	-	20,419	483	21,501
Debris box services	141,002	-	63,768	190,297	395,067
TOTAL REVENUES	1,856,725	-	3,064,110	1,913,959	6,834,794
OPERATING EXPENSES					
Equipment rental	362,529	91,020	609,405	784,947	1,847,901
Labor and related	406,040	58,597	526,337	277,079	1,268,053
Waste disposal	371,457	177,397	678,763	430,366	1,657,983
Debris box charges	127,339	(329,713)	80,214	122,160	-
Franchise fees	139,542	-	239,818	147,705	527,065
Depreciation	23,891	-	67,916	36,184	127,991
Repairs and maintenance	-	-	-	776	776
Other operating costs	7,585	8	17,952	2,650	28,195
TOTAL OPERATING EXPENSES	1,438,383	(2,691)	2,220,405	1,801,867	5,457,964
GROSS PROFIT	418,342	2,691	843,705	112,092	1,376,830
GENERAL AND ADMINISTRATIVE					
Office and administration	66,147	583	109,072	84,246	260,048
Administration salaries and related	115,380	1,643	289,062	168,036	574,121
Professional fees	14,290	465	21,711	7,502	43,968
Depreciation	-	-	-	91	91
TOTAL GENERAL AND ADMINISTRATIVE	195,817	2,691	419,845	259,875	878,228
INCOME (LOSS) FROM OPERATIONS	222,525	-	423,860	(147,783)	498,602
OTHER INCOME (EXPENSE)					
Interest expense	(1,516)	-	(4,612)	(2,449)	(8,577)
Contributions and sponsorships	-	-	-	(853)	(853)
Other expenses	-	-	-	(1,088)	(1,088)
TOTAL OTHER INCOME (EXPENSE)	(1,516)	-	(4,612)	(4,390)	(10,518)
INCOME (LOSS) BEFORE INCOME TAXES	221,009	-	419,248	(152,173)	488,084
INCOME TAX EXPENSE	595	-	7,093	2,717	10,405
NET INCOME (LOSS)	\$ 220,414	\$ -	\$ 412,155	\$ (154,890)	\$ 477,679

See independent auditors' report on supplemental information.

**BRENTWOOD DISPOSAL SERVICE, INC.
DELTA DEBRIS BOX SERVICE, INC.,
DISCOVERY BAY DISPOSAL SERVICE, INC., AND
PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.**

SCHEDULE OF OPERATIONS FOR CONTRA COSTA COUNTY

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Brentwood</u>	<u>Delta</u>	<u>Discovery</u>	<u>Pittsburg</u>	<u>Total</u>
REVENUES					
Residential refuse collection services	\$ 975,268	\$ -	\$ 2,537,513	\$ 1,276,928	\$ 4,789,709
Commercial refuse collection services	653,008	-	281,990	348,109	1,283,107
Recycling sales	3,891	-	32,013	3,423	39,327
Debris box services	168,708	-	63,768	125,269	357,745
TOTAL REVENUES	<u>1,800,875</u>	<u>-</u>	<u>2,915,284</u>	<u>1,753,729</u>	<u>6,469,888</u>
OPERATING EXPENSES					
Equipment rental	396,619	93,306	687,783	775,295	1,953,003
Labor and related	378,414	54,881	488,816	269,607	1,191,718
Waste disposal	357,197	177,720	640,615	406,007	1,581,539
Debris box charges	142,854	(328,095)	82,685	102,556	-
Franchise fees	136,375	-	231,174	137,727	505,276
Depreciation	23,931	-	68,096	36,842	128,869
Repairs and maintenance	844	-	-	230	1,074
Other operating costs	3,074	15	7,935	2,482	13,506
TOTAL OPERATING EXPENSES	<u>1,439,308</u>	<u>(2,173)</u>	<u>2,207,104</u>	<u>1,730,746</u>	<u>5,374,985</u>
GROSS PROFIT (LOSS)	<u>361,567</u>	<u>2,173</u>	<u>708,180</u>	<u>22,983</u>	<u>1,094,903</u>
GENERAL AND ADMINISTRATIVE					
Office and administration	53,651	1,619	102,228	72,960	230,458
Administration salaries and related	108,992	554	271,609	139,905	521,060
Professional fees	13,923	-	9,270	5,547	28,740
Depreciation	-	-	-	109	109
TOTAL GENERAL AND ADMINISTRATIVE	<u>176,566</u>	<u>2,173</u>	<u>383,107</u>	<u>218,521</u>	<u>780,367</u>
INCOME (LOSS) FROM OPERATIONS	<u>185,001</u>	<u>-</u>	<u>325,073</u>	<u>(195,538)</u>	<u>314,536</u>
OTHER INCOME (EXPENSE)					
Interest expense	(3,829)	-	(11,626)	(6,174)	(21,629)
Loss on sale of fixed asset	-	-	-	(9,407)	(9,407)
Contributions and sponsorships	-	-	(1,500)	(10,852)	(12,352)
Other expenses	-	-	-	(215)	(215)
TOTAL OTHER INCOME (EXPENSE)	<u>(3,829)</u>	<u>-</u>	<u>(13,126)</u>	<u>(26,648)</u>	<u>(43,603)</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>181,172</u>	<u>-</u>	<u>311,947</u>	<u>(222,186)</u>	<u>270,933</u>
INCOME TAX EXPENSE (BENEFIT)	<u>(11,207)</u>	<u>-</u>	<u>4,657</u>	<u>2,458</u>	<u>(4,092)</u>
NET INCOME (LOSS)	<u>\$ 192,379</u>	<u>\$ -</u>	<u>\$ 307,290</u>	<u>\$ (224,644)</u>	<u>\$ 275,025</u>

See independent auditors' report on supplemental information.

DELTA DEBRIS BOX SERVICE, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017
AND FOR THE YEARS THEN ENDED



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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Delta Debris Box Service, Inc.
Concord, California

We have audited the accompanying financial statements of Delta Debris Box Service, Inc. (a California S Corporation), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delta Debris Box Service, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 5 to the financial statements, the Company has an amount due from a related party totaling \$2,489,868 as of December 31, 2018 classified as a non-current asset which management is evaluating the nature of how it will be settled. Our opinion is not modified with respect to this matter.

VT Accounting Associates, LLP

Carson City, Nevada
May 17, 2019

DELTA DEBRIS BOX SERVICE, INC.

BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,249,196	\$ 737,100
Accounts receivable	210,521	187,653
Accounts receivable, related party	675,928	724,723
Prepaid expenses	1,975	-
TOTAL CURRENT ASSETS	<u>2,137,620</u>	<u>1,649,476</u>
OTHER ASSETS:		
Due from related party	<u>2,489,868</u>	<u>2,489,868</u>
TOTAL OTHER ASSETS	<u>2,489,868</u>	<u>2,489,868</u>
 TOTAL ASSETS	 <u>\$ 4,627,488</u>	 <u>\$ 4,139,344</u>

See accompanying notes to financial statements.

DELTA DEBRIS BOX SERVICE, INC.

BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 68,175	\$ 57,820
Accounts payable, related party	433,850	458,304
Due to related party	335,513	61,563
TOTAL CURRENT LIABILITIES	<u>837,538</u>	<u>577,687</u>
 TOTAL LIABILITIES	 <u>837,538</u>	 <u>577,687</u>
 COMMITMENTS AND CONTINGENCIES (NOTE 4)		
STOCKHOLDERS' EQUITY:		
Common stock, no par value, 100,000 shares authorized, 1,000 shares issued and outstanding	1,000	1,000
Additional paid-in capital	4,319,431	4,319,431
Accumulated deficit	<u>(530,481)</u>	<u>(758,774)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>3,789,950</u>	<u>3,561,657</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 <u>\$ 4,627,488</u>	 <u>\$ 4,139,344</u>

See accompanying notes to financial statements.

DELTA DEBRIS BOX SERVICE, INC.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUES:		
Refuse collection services	\$ 10,172,111	\$ 9,626,003
OPERATING EXPENSES:		
Waste disposal	5,210,754	5,005,194
Equipment rental	2,673,498	2,615,962
Labor and related	1,721,179	1,545,640
Franchise fees	52,261	29,870
Other operating costs	225	446
TOTAL OPERATING EXPENSES	<u>9,657,917</u>	<u>9,197,112</u>
GROSS PROFIT	<u>514,194</u>	<u>428,891</u>
GENERAL AND ADMINISTRATIVE:		
Office and administration	48,246	45,583
Administration salaries and related	17,092	15,598
Professional fees	13,666	-
TOTAL GENERAL AND ADMINISTRATIVE	<u>79,004</u>	<u>61,181</u>
INCOME BEFORE INCOME TAXES	<u>435,190</u>	<u>367,710</u>
INCOME TAX EXPENSE	<u>6,897</u>	<u>5,428</u>
NET INCOME	<u>\$ 428,293</u>	<u>\$ 362,282</u>

See accompanying notes to financial statements.

DELTA DEBRIS BOX SERVICE, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Stockholders' Equity</u>
Balances at December 31, 2016	<u>\$ 1,000</u>	<u>\$ 4,319,431</u>	<u>\$ (1,121,056)</u>	<u>\$ 3,199,375</u>
Net income	<u>-</u>	<u>-</u>	<u>362,282</u>	<u>362,282</u>
Balances at December 31, 2017	<u>1,000</u>	<u>4,319,431</u>	<u>(758,774)</u>	<u>3,561,657</u>
Stockholder distributions	<u>-</u>	<u>-</u>	<u>(200,000)</u>	<u>(200,000)</u>
Net income	<u>-</u>	<u>-</u>	<u>428,293</u>	<u>428,293</u>
Balances at December 31, 2018	<u>\$ 1,000</u>	<u>\$ 4,319,431</u>	<u>\$ (530,481)</u>	<u>\$ 3,789,950</u>

See accompanying notes to financial statements.

DELTA DEBRIS BOX SERVICE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 428,293	\$ 362,282
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Accounts receivable	25,927	(97,662)
Prepaid expenses	(1,975)	5,300
Due from related party	273,950	(224,191)
Accounts payable and accrued liabilities	(14,099)	70,750
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>712,096</u>	<u>116,479</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Stockholder distributions	(200,000)	-
NET CASH USED BY FINANCING ACTIVITIES	<u>(200,000)</u>	<u>-</u>
NET CHANGE IN CASH	<u>512,096</u>	<u>116,479</u>
CASH, AT BEGINNING OF YEAR	<u>737,100</u>	<u>620,621</u>
CASH, AT END OF YEAR	<u>\$ 1,249,196</u>	<u>\$ 737,100</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	<u>\$ 9,000</u>	<u>\$ -</u>

See accompanying notes to financial statements.

DELTA DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 1 – GENERAL

Nature of Business – Delta Debris Box Service, Inc. (the “Company.”) was incorporated on June 26, 2001. The Company is primarily engaged in the hauling and disposal of refuse collected in debris boxes in Contra Costa County, California.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Delta Debris Box Service, Inc. is presented to assist in understanding the Company’s financial statements. The financial statements and notes are representations of the Company’s management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles in the United States of America and have been consistently applied in the preparation of the financial statements.

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

Accounts Receivable – The carrying value of the receivables represents their estimated net realizable value. The Company considers all receivables to be fully collectible. Accordingly, no allowance for uncollectible amounts receivable has been recorded. When, and if, receivables are considered to be uncollectible, amounts are charged directly against earnings and a credit is made to accounts receivable. No significant accounts were written off against earnings during the years ended December 31, 2018 and 2017.

Long-Lived Assets – The carrying value of long-lived assets is reviewed on a regular basis for the existence of facts or circumstances, both internally and externally, that may suggest impairment. To date, no such impairment has been indicated.

Revenue Recognition – Revenues consist primarily of billings for the hauling and disposal of refuse collected in debris boxes. Revenues are generally recognized when they become both measurable and available.

Income Taxes – The Company provides for the federal and state income tax effect of transactions reported in the financial statements. The provision includes taxes currently due plus deferred state income taxes.

The Company accounts for income taxes in accordance with the FASB ASC 740, *Income Taxes*. ASC 740 requires that deferred income taxes reflect the tax consequences on future years of difference between the tax bases of assets and liabilities and their financial reporting amounts. The temporary differences relate primarily to amortization and net operating losses available to offset future taxable income (differences in methods used for financial statement and income tax purposes).

DELTA DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

The Company, with consent of its stockholders, has elected under the Internal Revenue Code (and comparable state regulations) to be an “S” corporation for the tax years beginning January 1, 2001 and thereafter. In lieu of federal corporate income taxes the stockholders of an “S” corporation are taxed on their proportionate share of the Company’s net taxable income or loss. Therefore, no provision or liability for federal income taxes will be recognized in future periods, and no assets or liabilities for the future effects of federal income taxes are included on the balance sheets at December 31, 2018 and 2017. The franchise tax laws of the State of California provide for a tax at the reduced rate of 1.5% for “S” corporations. Accordingly, the Company has included in the provision for income taxes estimates of the state income taxes currently due and the deferred state income taxes relative to the temporary timing differences described above.

The Company follows FASB ASC 740-10, Accounting for Uncertainty in Income Taxes, which provides guidance on accounting for uncertainty in income taxes recognized in the Company’s financial statements. As of December 31, 2018, the Company had no uncertain tax positions that require either recognition or disclosure in the Company’s financial statements. Generally, the tax years before 2015 and 2014 are no longer subject to examination by federal and California authorities, respectively.

Leases – Leases which meet certain criteria are classified as capital leases, and assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the lease properties at the beginning of the respective lease terms. Such assets are amortized over their estimated useful lives or over the term of the lease, whichever is shorter. Interest expense relating to the lease liabilities is recorded to effect constant rates of interest over the terms of the leases. Leases which do not meet such criteria are classified as operating leases and related rentals are charged to expense as incurred.

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. Significant estimates used in preparing the financial statements include those used in recording liabilities for litigation claims and costs for probable and estimatable losses. 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.

Recent Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board amended the Accounting Standards Codification and created Topic 606, Revenue from Contracts with Customers, to clarify the principles for recognizing revenue. This guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for nonpublic entities for annual reporting periods beginning

DELTA DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

after December 15, 2018 and must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. Early adoption is permitted for nonpublic entities for an annual reporting period beginning after December 15, 2016. Management is currently assessing the method of adoption and the potential impact this guidance may have on its financial position, results of operations and cash flows.

In February 2016, the FASB issued guidance that requires lessees to recognize a right of use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. The new standard is effective for entities other than public business entities for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company has not determined the effect the adoption of this lease accounting guidance will have on its financial position or results of operations.

In June 2016, the FASB issued ASU 2016-13 associated with the measurement of credit losses on financial instruments. The amended guidance replaces the current incurred loss impairment methodology of recognizing credit losses when a loss is probable, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to assess credit loss estimates. The amended guidance is effective for the Companies on January 1, 2020, with early adoption permitted beginning January 1, 2019. The Companies are assessing the provisions of this amended guidance and evaluating the impact on its financial statements.

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715), which requires companies that offer postretirement benefits to present the service cost, which is the amount an employer has to set aside each quarter or fiscal year to cover the benefits, in the same line item with other current employee compensation costs. Other components of net benefit cost will be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Nonpublic companies must follow the accounting changes for fiscal years that start after December 15, 2018, and for interim reporting periods beginning after December 15, 2019. Early adoption is permitted. Management is currently assessing the potential impact this guidance may have on its financial position, results of operations and cash flows.

DELTA DEBRIS BOX SERVICE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 – INCOME TAXES

Income tax expense consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Current tax expense:		
State	\$ 6,897	\$ 5,428
Total provision	<u>\$ 6,897</u>	<u>\$ 5,428</u>

The income tax provision differs from the expense that would result from applying California statutory rates to income before income taxes due to certain permanent differences, such as meals and entertainment, which are not tax deductible.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

Credit Facility – The Company with its affiliates (the “Companies”) have a revolving credit facility collateralized by substantially all of their assets. The current facility has a \$40,000,000 revolving credit facility that matures on July 6, 2021 (the “Facility”). All outstanding loans on the facility are reported by an affiliated company. As of December 31, 2018, the total commitment balance was \$40,000,000 and the undrawn amount under the Facility was \$7,645,000. The Companies are required, among other provisions, to maintain certain financial ratios and to limit additional debt and asset acquisitions, unless specifically approved by the bank.

In the normal course of business there are various outstanding commitments and contingent liabilities, such as commitments under previous and existing garbage collection contracts and contingent liabilities arising from threatened and pending litigation.

Environmental Risks – The Company is subject to extensive and evolving federal, state and local environmental, health, safety and transportation laws and regulations. Under these current laws and regulations, the Company may be subject to liability for any environmental damage that its collection and disposal operations may cause to neighboring landowners or residents, particularly as a result of the contamination of soil, groundwater or surface water, and especially drinking water, including damage resulting from conditions existing prior to the liability for any off-site environmental contamination caused by pollutants or hazardous substances whose transportation, or disposal was arranged by the Company. Any substantial liability for environmental damage incurred by the Company could have a materially adverse effect on the Company financial condition, results of operations, or cash flows. As of December 31, 2018, the Company is not aware of any such environmental liabilities.

DELTA DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 4 – COMMITMENTS AND CONTINGENCIES – (CONTINUED)

In addition, due to the numerous complex rules, orders and interpretations governing environmental protection, health, safety, land use, zoning, transportation and related matters, among other things, the Company's operations may incur additional unanticipated costs. The costs of complying with these regulations could have a materially adverse effect on the Company's financial condition, results of operations, or cash flows. Such conditions include, but are not limited to, the following: limitations on siting and constructing new waste disposal, transfer or processing facilities or expanding existing facilities; limitations, regulations or levies on collection and disposal prices, rates and volumes; limitations or bans on disposal or transportation of out-of-state waste or certain categories of waste; or mandates regarding the disposal of solid waste. As of December 31, 2018, the Company is not aware of any such additional unanticipated costs.

NOTE 5 – RELATED PARTY TRANSACTIONS

The Company has engaged related parties to provide equipment, insurance, services and facilities for its collection services. The Company provides for debris box disposal services for its related parties. Additionally, interest is accrued on balances advanced to a related party. The related party activity is as follows:

	<u>2018</u>	<u>2017</u>
Expenses		
Equipment rental	\$ 2,673,498	\$ 2,615,962
Refuse preparation and transfer service	5,204,044	4,997,417
Workers compensation insurance	76,713	77,846
Facilities and office space rental	<u>37,644</u>	<u>36,300</u>
	<u>\$ 7,991,899</u>	<u>\$ 7,727,525</u>
Revenues		
Debris box disposal services	<u>\$ 8,479,155</u>	<u>\$ 8,286,874</u>

Equipment rental expense charged by the related party covers the costs for their truck fleet including depreciation, fuel, mechanic labor, other employee costs, and repairs and maintenance.

Included in accrued expense due to a related party for disposal fees at December 31, 2018 and 2017 was \$417,883 and \$458,304. Other miscellaneous payables to related parties at December 31, 2018 and 2017 was \$15,967 and \$-0-, respectively.

Included in accounts receivable due from related parties for debris box disposal services at December 31, 2018 and 2017 was \$675,928 and \$724,723.

DELTA DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 5 – RELATED PARTY TRANSACTIONS – (CONTINUED)

The Company leases equipment and office space from related parties under various operating leases. The lease agreements require monthly payments of \$194,833 and are on a month to month basis. The amount of expense recognized under these lease agreements for the years ended December 31, 2018 and 2017 is \$2,711,142 and \$2,658,934, respectively.

The Company maintains a depository relationship with Mallard Financial Group (Mallard), a related entity. The Company's majority stockholder is the sole owner of Mallard. The balance due from Mallard, presented as due from related party, is \$2,489,868 as of December 31, 2018 and 2017. Management is evaluating the collectability of the balance. The nature of how the asset will be settled has not been determined as of the date of the auditors' report.

NOTE 6 – PENSION PLANS AND RETIREMENT BENEFITS

The Company provides a 401(k) retirement plan covering all non-union employees with one or more years of service and who have reached the age twenty and one-half years. The Company may make discretionary matching contributions for the benefit of its employees. Discretionary contributions for the non-union employees' 401(k) plan was \$372 and \$361 for the years ended December 31, 2018 and 2017, respectively.

Union employees are covered under the union's pension plan. As of December 31, 2018, the Company makes contributions to a collectively bargained, multiemployer defined benefit pension plan (the "Plan"). The Company is required to contribute amounts per employee hour to the Plan, as determined by the terms of the union contract. The Plan's administrator does not provide sufficient information to enable the Company to determine its share, if any, of the Plan's assets or unfunded vested benefits. The summary of the Plan is as follows:

Pension Plan Name	EIN/PN	Pension Protection Act Zone Status		Contributions		Surcharge Imposed
		2018	2017	2018	2017	
Western Conference of Teamsters Pension Plan	91-6145047/001	Green	Green	\$ 128,365	\$ 88,194	Yes

Western Conference of Teamsters Pension Plan – As of October 15, 2018, the date for which the most recent publicly made available correspondence letter from the plan's actuary to the Internal Revenue Service, the plan is not currently subject to any funding improvement or rehabilitation period or plan. The expiration date of the collective-bargaining agreement requiring contribution to the plan is February 28, 2020. The contributions do not represent more than 5 percent of the total contributions to the Plan as indicated in the Plan's most recently available Form 5500.

DELTA DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 6 – PENSION PLANS AND RETIREMENT BENEFITS – (CONTINUED)

In addition to providing pension benefits, the Company also provides certain health care benefits for retired employees covered by the union agreement. The current agreement requires the Company to pay \$258 per month for medical insurance premiums for non-Medicare eligible retirees and their non-Medicare eligible spouses and \$25 per month for Medicare eligible retirees and their Medicare eligible spouse for the duration of the contract. Substantially all of the Company's employees may become eligible for those benefits if they reach normal retirement age while working for the Company. This and similar benefits are provided for active employees. The Company funds the benefit cost on a pay-as-you-go basis, accordingly, there are no plan assets. The effect of the health care cost trend is not applicable because the benefit amount is a fixed sum independent of health care cost changes. The Company recognizes the cost of providing these benefits by expensing the annual insurance premiums. For 2018 and 2017, there were no eligible retirees; therefore, the cost of providing those benefits for the years ended December 31, 2018 and 2017 is \$0.

NOTE 7 – CONCENTRATIONS

Concentration of Credit Risk – Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. At times, cash in banks is in excess of the FDIC insurance limit. The Company has not experienced any loss as a result of those deposits and does not expect any in the future.

Concentration of Labor Force – A significant portion of the Company's employees are subject to a collective bargaining agreement with Teamsters Local 315, which expires February 28, 2020.

Concentration of Risk – The Company's revenues are derived primarily from customers in the San Francisco Bay Area. As such, the Company's revenue and operations can be negatively impacted by the San Francisco Bay Area economy.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the report, the date which the financial statements were available to be issued. Management noted no significant events subsequent to the balance sheet date.

SUPPLEMENTAL INFORMATION





Accounting
Associates, LLP

Jeff Vathayanon, CPA
Paul Tibma, CPA
Jason Reecy, CPA/ABV

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors
Delta Debris Box Service, Inc.
Concord, California

We have audited the financial statements of Delta Debris Box Service, Inc. (a California S Corporation) as of and for the years ended December 31, 2018 and 2017 and our report thereon dated May 17, 2019, which expressed an unmodified opinion on those financial statements, appears on Page 3. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating and General and Administrative Expense and Schedule of Expenses - Contra Costa County are presented for purposes of additional analysis and are not a required part of the financial statements. 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 statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 statements taken as a whole.

VT Accounting Associates, LLP

Carson City, Nevada
May 17, 2019

DELTA DEBRIS BOX SERVICE, INC.

SCHEDULE OF OPERATING AND GENERAL AND ADMINISTRATIVE EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Brentwood		Concord	Discovery Bay	Mt. Diablo		Oakley	Pittsburg		Rio Vista		Delta	Total
	Byron	Brentwood			CCCSW	Other		City	Bay Point	City	County		
OPERATING EXPENSES:													
Waste disposal	\$ 10,964	\$ 68,513	\$ 2,328,936	\$ 43,157	\$ 94,352	\$ -	\$ 452,003	\$ 1,267,729	\$ 65,727	\$ 209,950	\$ 20,804	\$ 648,619	\$ 5,210,754
Equipment rental	5,625	35,153	1,194,915	22,144	48,409	-	231,910	650,438	33,723	107,720	10,674	332,787	2,673,498
Labor and related	3,622	22,631	769,278	14,256	31,165	-	149,302	418,747	21,710	69,349	6,872	214,246	1,721,178
Franchise fees	-	-	-	-	-	-	-	-	-	-	-	52,261	52,261
Other direct costs	-	3	101	2	4	-	20	55	3	9	1	28	226
TOTAL OPERATING EXPENSES	20,211	126,300	4,293,230	79,559	173,930	-	833,235	2,336,969	121,163	387,028	38,351	1,247,941	9,657,917
GENERAL AND ADMINISTRATIVE													
Office and administration	36	225	7,639	142	309	-	1,483	4,158	216	689	68	2,127	17,092
Administration salaries and related	102	634	21,567	400	874	-	4,186	11,740	609	1,944	193	5,997	48,246
Professional fees	29	180	6,108	113	247	-	1,185	3,325	172	551	55	1,701	13,666
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	167	1,039	35,314	655	1,430	-	6,854	19,223	997	3,184	316	9,825	79,004
TOTAL OPERATING AND GENERAL AND ADMINISTRATIVE EXPENSES	\$ 20,378	\$ 127,339	\$ 4,328,544	\$ 80,214	\$ 175,360	\$ -	\$ 840,089	\$ 2,356,192	\$ 122,160	\$ 390,212	\$ 38,667	\$ 1,257,766	\$ 9,736,921
LESS DELTA'S SHARE OF OPERATING AND GENERAL AND ADMINISTRATIVE EXPENSES	-	-	-	-	-	-	-	-	-	-	-	(1,257,766)	(1,257,766)
TOTAL RELATED PARTY REVENUE FROM DEBRIS BOX DISPOSAL SERVICES	\$ 20,378	\$ 127,339	\$ 4,328,544	\$ 80,214	\$ 175,360	\$ -	\$ 840,089	\$ 2,356,192	\$ 122,160	\$ 390,212	\$ 38,667	\$ -	\$ 8,479,155

See independent auditors' report on supplemental information.

DELTA DEBRIS BOX SERVICE, INC.

SCHEDULE OF EXPENSES - CONTRA COSTA COUNTY

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Bay Point</u>	<u>Brentwood</u>	<u>Discovery Bay</u>	<u>County Total</u>
OPERATING EXPENSES:				
Waste disposal	\$ 65,727	\$ 68,513	\$ 43,157	\$ 177,397
Equipment rental	33,723	35,153	22,144	91,020
Labor and related	21,710	22,631	14,256	58,597
Other direct costs	<u>3</u>	<u>3</u>	<u>2</u>	<u>8</u>
TOTAL OPERATING EXPENSES	<u>121,163</u>	<u>126,300</u>	<u>79,559</u>	<u>327,022</u>
GENERAL AND ADMINISTRATIVE:				
Administration salaries and related	609	634	400	1,643
Office and administration	216	225	142	583
Professional fees	<u>172</u>	<u>180</u>	<u>113</u>	<u>465</u>
TOTAL GENERAL AND ADMINISTRATIVE	<u>997</u>	<u>1,039</u>	<u>655</u>	<u>2,691</u>
TOTAL EXPENSES	<u>\$ 122,160</u>	<u>\$ 127,339</u>	<u>\$ 80,214</u>	<u>\$ 329,713</u>

See independent auditors' report on supplemental information.

DISCOVERY BAY DISPOSAL, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017
AND FOR THE YEARS THEN ENDED



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Discovery Bay Disposal, Inc.
Concord, California

We have audited the accompanying financial statements of Discovery Bay Disposal, Inc. (a California S Corporation), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Discovery Bay Disposal, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

VT Accounting Associates, LLP

Carson City, Nevada
May 17, 2019

DISCOVERY BAY DISPOSAL, INC.

BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 694,501	\$ 821,360
Accounts receivable	124,980	107,941
Accounts receivable, related party	68,124	733
Prepaid expenses	707	-
Due from related party	<u>269,595</u>	<u>431,454</u>
TOTAL CURRENT ASSETS	<u>1,157,907</u>	<u>1,361,488</u>
EQUIPMENT, NET	<u>142,000</u>	<u>209,916</u>
OTHER ASSETS:		
Deferred tax asset	<u>373</u>	<u>173</u>
TOTAL OTHER ASSETS	<u>373</u>	<u>173</u>
TOTAL ASSETS	<u>\$ 1,300,280</u>	<u>\$ 1,571,577</u>

See accompanying notes to financial statements.

DISCOVERY BAY DISPOSAL, INC.**BALANCE SHEETS****DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 145,600	\$ 77,924
Accounts payable, related party	98,453	71,449
Distributions payable	-	500,000
Deferred revenues	101,625	86,037
Current portion of related party note payable	8,142	93,720
TOTAL CURRENT LIABILITIES	<u>353,820</u>	<u>829,130</u>
LONG TERM LIABILITIES:		
Related party note payable, net of current portion	-	8,142
TOTAL LONG TERM LIABILITIES	<u>-</u>	<u>8,142</u>
TOTAL LIABILITIES	<u>353,820</u>	<u>837,272</u>
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
STOCKHOLDERS' EQUITY:		
Common stock, no par value, 100,000 shares authorized, 1,000 shares issued and outstanding	1,000	1,000
Additional paid-in capital	552,023	552,023
Retained earnings	393,437	181,282
TOTAL STOCKHOLDERS' EQUITY	<u>946,460</u>	<u>734,305</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,300,280</u>	<u>\$ 1,571,577</u>

See accompanying notes to financial statements.

DISCOVERY BAY DISPOSAL, INC.**STATEMENTS OF INCOME****FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
REVENUES:		
Residential refuse collection services	\$ 2,686,583	\$ 2,537,513
Commercial refuse collection services	357,108	345,758
Recycling sales	20,419	32,013
TOTAL REVENUES	<u>3,064,110</u>	<u>2,915,284</u>
OPERATING EXPENSES:		
Equipment rental	609,405	687,783
Waste disposal	678,763	640,615
Labor and related	420,352	382,831
Franchise fees	239,818	231,174
Debris box services	80,214	82,685
Depreciation	67,916	68,096
Other operating costs	17,952	7,935
TOTAL OPERATING EXPENSES	<u>2,114,420</u>	<u>2,101,119</u>
GROSS PROFIT	<u>949,690</u>	<u>814,165</u>
GENERAL AND ADMINISTRATIVE:		
Administration salaries and related	395,047	377,594
Office and administration	109,072	102,228
Professional fees	21,711	9,270
TOTAL GENERAL AND ADMINISTRATIVE	<u>525,830</u>	<u>489,092</u>
INCOME FROM OPERATIONS	<u>423,860</u>	<u>325,073</u>
OTHER INCOME (EXPENSE):		
Contributions and sponsorships	-	(1,500)
Interest expense	(4,612)	(11,626)
TOTAL OTHER INCOME (EXPENSE)	<u>(4,612)</u>	<u>(13,126)</u>
INCOME BEFORE INCOME TAXES	419,248	311,947
INCOME TAX EXPENSE	<u>7,093</u>	<u>4,657</u>
NET INCOME	<u>\$ 412,155</u>	<u>\$ 307,290</u>

See accompanying notes to financial statements.

DISCOVERY BAY DISPOSAL, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Stockholders' Equity</u>
Balances at December 31, 2016	<u>\$ 1,000</u>	<u>\$ 552,023</u>	<u>\$ 873,992</u>	<u>\$ 1,427,015</u>
Distributions	-	-	(1,000,000)	(1,000,000)
Net income	<u>-</u>	<u>-</u>	<u>307,290</u>	<u>307,290</u>
Balances at December 31, 2017	<u>1,000</u>	<u>552,023</u>	<u>181,282</u>	<u>734,305</u>
Distributions	-	-	(200,000)	(200,000)
Net income	<u>-</u>	<u>-</u>	<u>412,155</u>	<u>412,155</u>
Balances at December 31, 2018	<u>\$ 1,000</u>	<u>\$ 552,023</u>	<u>\$ 393,437</u>	<u>\$ 946,460</u>

See accompanying notes to financial statements.

DISCOVERY BAY DISPOSAL, INC.**STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 412,155	\$ 307,290
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	67,916	68,096
Change in operating assets and liabilities:		
Accounts receivable	(84,430)	64,070
Prepaid expenses	(707)	383
Due from related party	161,859	663,263
Accounts payable and accrued liabilities	94,680	(58,794)
Deferred revenues	15,588	(2,556)
Deferred income taxes	(200)	(310)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>666,861</u>	<u>1,041,442</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on related party note payable	(93,720)	(86,753)
Distributions	<u>(700,000)</u>	<u>(500,000)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(793,720)</u>	<u>(586,753)</u>
NET CHANGE IN CASH	<u>(126,859)</u>	<u>454,689</u>
CASH, AT BEGINNING OF YEAR	<u>821,360</u>	<u>366,671</u>
CASH, AT END OF YEAR	<u>\$ 694,501</u>	<u>\$ 821,360</u>
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid for interest expense	<u>\$ 4,612</u>	<u>\$ 11,626</u>
Cash paid for income tax	<u>\$ 8,000</u>	<u>\$ 3,800</u>
NON-CASH TRANSACTIONS:		
Distributions payable	<u>\$ -</u>	<u>\$ 500,000</u>

See accompanying notes to financial statements.

DISCOVERY BAY DISPOSAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 1 – GENERAL

Nature of Business – Discovery Bay Disposal, Inc. (the “Company.”) was incorporated on June 26, 2001. The Company is primarily engaged in the solid waste collection and recycling business. The Company provides services under an exclusive agreement to the area of Discovery Bay in Eastern Contra Costa County, California.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Discovery Bay Disposal, Inc. is presented to assist in understanding the Company’s financial statements. The financial statements and notes are representations of the Company’s management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles in the United States of America and have been consistently applied in the preparation of the financial statements.

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

Accounts Receivable –The carrying value of the receivables represents their estimated net realizable value. The Company considers all receivables to be fully collectible. Accordingly, no allowance for uncollectible amounts receivable has been recorded. When, and if, receivables are considered to be uncollectible, amounts are charged directly against earnings and a credit is made to accounts receivable. There were no significant accounts written off against earnings during the years ended December 31, 2018 and 2017.

Equipment – Equipment is recorded at historical cost in the financial statements. Depreciation is provided using the straight-line method over the estimated useful lives, which is seven to ten years.

Long-Lived Assets – The carrying value of long-lived assets is reviewed on a regular basis for the existence of facts or circumstances, both internally and externally, that may suggest impairment. To date, no such impairment has been indicated.

Revenue Recognition – Revenues are generated from the fees charged for waste and recycling collection and recycling sales. The fees charged for the services are generally defined in the service agreements and vary based on contract specific terms such as frequency of service, weight, volume and the general market factors influencing the region’s rates. The Company generally recognizes revenue as services are performed or when materials are delivered. For example, revenue typically is recognized as waste is collected.

The Company bills for certain services prior to performance. Cash collections on these advance billings are included in deferred income and recognized as revenue in the period service is provided.

DISCOVERY BAY DISPOSAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Income Taxes – The Company provides for the state income tax effect of transactions reported in the financial statements. The provision includes taxes currently due plus deferred state income taxes.

The Company accounts for income taxes in accordance with the FASB ASC 740, *Income Taxes*. ASC 740 requires that deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. The temporary differences relate primarily to amortization, depreciation and net operating losses available to offset future taxable income (differences in methods used for financial statement and income tax purposes).

The Company, with consent of its stockholders, has elected under the Internal Revenue Code (and comparable state regulations) to be an “S” corporation for the tax years beginning January 1, 2001 and thereafter. In lieu of federal corporate income taxes the stockholders of an “S” corporation are taxed on their proportionate share of the Company’s net taxable income or loss. Therefore, no provision or liability for federal income taxes will be recognized in future periods, and no assets or liabilities for the future effects of federal income taxes are included on the balance sheets at December 31, 2018 and 2017. The franchise tax laws of the State of California provide for a tax at the reduced rate of 1.5% for “S” corporations. Accordingly, the Company has included in the provision for income taxes estimates of the state income taxes currently due and the deferred state income taxes relative to the temporary timing differences described above.

The Company follows FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, which provides guidance on accounting for uncertainty in income taxes recognized in the Company’s financial statements. As of December 31, 2018, the Company had no uncertain tax positions that require either recognition or disclosure in the Company’s financial statements. Generally, the tax years before 2015 and 2014 are no longer subject to examination by federal and California authorities, respectively.

Leases – Leases which meet certain criteria are classified as capital leases, and assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the lease properties at the beginning of the respective lease terms. Such assets are amortized over their estimated useful lives or over the term of the lease, whichever is shorter. Interest expense relating to the lease liabilities is recorded to effect constant rates of interest over the terms of the leases. Leases which do not meet such criteria are classified as operating leases and related rentals are charged to expense as incurred.

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. Significant estimates used in preparing the financial statements include those used in recording liabilities for litigation claims and costs for probable and estimable losses. Actual results

DISCOVERY BAY DISPOSAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

could differ from those estimates, and it is at least reasonably possible that the significant estimates used will change within the next year.

Recent Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board amended the Accounting Standards Codification and created Topic 606, Revenue from Contracts with Customers, to clarify the principles for recognizing revenue. This guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. Early adoption is permitted for nonpublic entities for an annual reporting period beginning after December 15, 2016. Management is currently assessing the method of adoption and the potential impact this guidance may have on its financial position, results of operations and cash flows.

In February 2016, the FASB issued guidance that requires lessees to recognize a right of use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. The new standard is effective for entities other than public business entities for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company has not determined the effect the adoption of this lease accounting guidance will have on its financial position or results of operations.

In June 2016, the FASB issued ASU 2016-13 associated with the measurement of credit losses on financial instruments. The amended guidance replaces the current incurred loss impairment methodology of recognizing credit losses when a loss is probable, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to assess credit loss estimates. The amended guidance is effective for the Companies on January 1, 2020, with early adoption permitted beginning January 1, 2019. The Companies are assessing the provisions of this amended guidance and evaluating the impact on its financial statements.

DISCOVERY BAY DISPOSAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715), which requires companies that offer postretirement benefits to present the service cost, which is the amount an employer has to set aside each quarter or fiscal year to cover the benefits, in the same line item with other current employee compensation costs. Other components of net benefit cost will be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Nonpublic companies must follow the accounting changes for fiscal years that start after December 15, 2018, and for interim reporting periods beginning after December 15, 2019. Early adoption is permitted. Management is currently assessing the potential impact this guidance may have on its financial position, results of operations and cash flows.

NOTE 3 –EQUIPMENT

Equipment consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Refuse containers	\$ 607,266	\$ 607,266
Accumulated depreciation	<u>(465,266)</u>	<u>(397,350)</u>
	<u>\$ 142,000</u>	<u>\$ 209,916</u>

NOTE 4 – LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Unsecured note payable due related party, interest at a rate of 7.75% paid in monthly installments of \$8,194, commencing November 1, 2012, maturing February 2019.	\$ 8,142	\$ 101,862
Less current maturities	<u>(8,142)</u>	<u>(93,720)</u>
Long-term obligations, net of current portion	<u>\$ -</u>	<u>\$ 8,142</u>

DISCOVERY BAY DISPOSAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 5 – INCOME TAXES

Income tax expense consists of the following at December 31:

	2018	2017
Current tax expense:		
State	\$ 7,293	\$ 4,967
Subtotal	<u>7,293</u>	<u>4,967</u>
Deferred tax expense (benefit):		
State	<u>(200)</u>	<u>(310)</u>
Total provision	<u>\$ 7,093</u>	<u>\$ 4,657</u>

The income tax provision differs from the expense that would result from applying California statutory rates to income before income taxes due to certain permanent differences, such as meals and entertainment, which are not tax deductible as well as the effect of the NOL carryforward.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Credit Facility – The Company with its affiliates (the “Companies”) have a revolving credit facility collateralized by substantially all of their assets. The current facility has a \$40,000,000 revolving credit facility that matures on July 6, 2021 (the “Facility”). All outstanding loans on the facility are reported by an affiliated company. As of December 31, 2018, the total commitment balance was \$40,000,000 and the undrawn amount under the Facility was \$7,645,000. The Companies are required, among other provisions, to maintain certain financial ratios and to limit additional debt and asset acquisitions, unless specifically approved by the bank.

In the normal course of business there are various outstanding commitments and contingent liabilities, such as commitments under previous and existing garbage collection contracts and contingent liabilities arising from threatened and pending litigation.

Environmental Risks – The Company is subject to extensive and evolving federal, state and local environmental, health, safety and transportation laws and regulations. Under these current laws and regulations, the Company may be subject to liability for any environmental damage that its collection and disposal operations may cause to neighboring landowners or residents, particularly as a result of the contamination of soil, groundwater or surface water, and especially drinking water, including damage resulting from conditions existing prior to the liability for any off-site environmental contamination caused by pollutants or hazardous substances whose transportation, or disposal was arranged by the Company. Any substantial liability for environmental damage incurred by the Company could have a materially adverse effect on the Company’s financial condition, results of

DISCOVERY BAY DISPOSAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 6 – COMMITMENTS AND CONTINGENCIES – (CONTINUED)

operations, or cash flows. As of December 31, 2018, the Company is not aware of any such environmental liabilities.

In addition, due to the numerous complex rules, orders and interpretations governing environmental protection, health, safety, land use, zoning, transportation and related matters, among other things, the Company's operations may incur additional unanticipated costs. The costs of complying with these regulations could have a materially adverse effect on the Company's financial condition, results of operations, or cash flows. Such conditions include, but are not limited to, the following: limitations on siting and constructing new waste disposal, transfer or processing facilities or expanding existing facilities; limitations, regulations or levies on collection and disposal prices, rates and volumes; limitations or bans on disposal or transportation of out-of-state waste or certain categories of waste; price volatility of recycling commodities; or mandates regarding the disposal of solid waste. As of December 31, 2018, the Company is not aware of any such additional unanticipated costs.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Company has engaged related parties to provide equipment, insurance, services and facilities for its collection services. Additionally, revenue is recognized for the sale of recycling materials to a related party. The related party activity is as follows:

	<u>2018</u>	<u>2017</u>
Expense		
Equipment rental	\$ 609,405	\$ 687,783
Refuse preparation and transfer service	678,763	640,615
Debris boxes	80,214	82,685
Workers compensation insurance	19,074	20,614
Facilities and office space rental	19,677	18,888
Interest expense	9,525	11,579
Accounting services	4,612	9,270
	<u>\$ 1,421,270</u>	<u>\$ 1,471,434</u>
Revenues		
Recycling material	<u>\$ 1,699</u>	<u>\$ 8,898</u>

Equipment rental expense charged by the related party covers the costs for their truck fleet including depreciation, fuel, mechanic labor, other employee costs, and repairs and maintenance.

DISCOVERY BAY DISPOSAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 7 – RELATED PARTY TRANSACTIONS – (CONTINUED)

Included in accrued expense due to a related party for disposal fees and debris boxes at December 31, 2018 and 2017 was \$91,679 and \$71,449.

The Company leases equipment and office space from related parties under various operating leases. The lease agreements require monthly payments of \$45,345 and are on a month to month basis. The amount of expense recognized under these lease agreements for the years ended December 31, 2018 and 2017 is \$629,082 and \$706,671, respectively.

The Company also purchased containers from a related party during the year ended December 31, 2018 and 2017 totaling \$17,883 and \$7,921, respectively.

NOTE 8 – PENSION PLANS AND RETIREMENT BENEFITS

The Company provides a 401(k) retirement plan covering all non-union employees with one or more years of service and who have reached the age twenty and one-half years. The Company may make discretionary matching contributions for the benefit of its employees. Discretionary contributions for the non-union employees' 401(k) plan was \$5,856 and \$5,948 for the years ended December 31, 2018 and 2017, respectively.

Union employees are covered under the union's pension plan. As of December 31, 2018, the Company makes contributions to a collectively bargained, multiemployer defined benefit pension plan (the "Plan"). The Company is required to contribute amounts per employee hour to the Plan, as determined by the terms of the union contract. The Plan's administrator does not provide sufficient information to enable the Company to determine its share, if any, of the Plan's assets or unfunded vested benefits. The summary of the Plan is as follows:

Pension Plan Name	EIN/PN	Pension Protection Act Zone Status		Contributions		Surcharge Imposed
		2018	2017	2018	2017	
Western Conference of Teamsters Pension Plan	91-6145047/001	Green	Green	\$ 26,123	\$ 250	Yes

Western Conference of Teamsters Pension Plan – As of October 15, 2018, the date for which the most recent publicly made available correspondence letter from the plan's actuary to the Internal Revenue Service, the plan is not currently subject to any funding improvement or rehabilitation period or plan. The expiration date of the collective-bargaining agreement requiring contribution to the plan is February 28, 2020. The contributions do not represent more than 5 percent of the total contributions to the Plan as indicated in the Plan's most recently available Form 5500.

DISCOVERY BAY DISPOSAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 8 – PENSION PLANS AND RETIREMENT BENEFITS – (CONTINUED)

In addition to providing pension benefits, the Company also provides certain health care benefits for retired employees covered by the union agreement. The current agreement requires the Company to pay \$258 per month for medical insurance premiums for non-Medicare eligible retirees and their non-Medicare eligible spouses and \$25 per month for Medicare eligible retirees and their Medicare eligible spouse for the duration of the contract. Substantially all of the Company's employees may become eligible for those benefits if they reach normal retirement age while working for the Company. This and similar benefits are provided for active employees. The Company funds the benefit cost on a pay-as-you-go basis, accordingly, there are no plan assets. The effect of the health care cost trend is not applicable because the benefit amount is a fixed sum independent of health care cost changes.

The Company recognizes the cost of providing these benefits by expensing the annual insurance premiums. There was one eligible retiree that became eligible during 2017 and remained eligible during 2018; therefore, the cost of providing those benefits for the years ended December 31, 2018 and 2017 was \$6,192 and \$3,096, respectively.

NOTE 9 – CONCENTRATIONS

Concentration of Credit Risk – Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. At times, cash in banks is in excess of the FDIC insurance limit. The Company has not experienced any loss as a result of those deposits and does not expect any in the future.

Concentration of Labor Force – A significant portion of the Company's employees are subject to a collective bargaining agreement with Teamsters Local 315, which expires February 28, 2020.

Concentration of Risk – The Company's revenues are derived primarily from customers in the San Francisco Bay Area. As such, the Company's revenue and operations can be negatively impacted by the San Francisco Bay Area economy.

NOTE 10 – FRANCHISE AGREEMENTS

The Company entered into a franchise agreement with Contra Costa County in May 1995 to provide refuse collection services to the unincorporated areas of Contra Costa County. The current agreement expires May 8, 2025. The agreement provides for payments to the county of 7% of gross collections for services. Total fees for the years ended December 31, 2018 and 2017 are \$213,831 and \$201,741.

DISCOVERY BAY DISPOSAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the report, the date which the financial statements were available to be issued. Management noted no significant events subsequent to the balance sheet date.

SUPPLEMENTAL INFORMATION



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors
Discovery Bay Disposal, Inc.
Concord, California

We have audited the financial statements of Discovery Bay Disposal, Inc. (California S Corporation) as of and for the years ended December 31, 2018 and 2017 and our report thereon dated May 17, 2019, which expressed an unmodified opinion on those financial statements, appears on Page 3. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Debris Box Charges and Schedule of Revenue and Expenses by Jurisdiction are presented for purposes of additional analysis and are not a required part of the financial statements. 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 statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 statements taken as a whole.

VT Accounting Associates, LLP

Carson City, Nevada
May 17, 2019

DISCOVERY BAY DISPOSAL, INC.

SCHEDULE OF DEBRIS BOX CHARGES

FOR THE YEAR ENDED DECEMBER 31, 2018

OPERATING EXPENSES:

Waste disposal	\$	43,157
Equipment rental		22,144
Labor and related		14,256
Other direct costs		<u>2</u>
TOTAL OPERATING EXPENSES		<u>79,559</u>

GENERAL AND ADMINISTRATIVE:

Administration salaries and related		142
Office and administration		400
Professional fees		<u>113</u>
TOTAL GENERAL AND ADMINISTRATIVE		<u>655</u>

TOTAL DEBRIS BOX CHARGES	\$	<u>80,214</u>
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See independent auditors' report on supplemental information.

DISCOVERY BAY DISPOSAL, INC.

SCHEDULE OF REVENUE AND EXPENSES BY JURISDICTION

FOR THE YEAR ENDED DECEMBER 31, 2018

	County	Other	Total
REVENUES:			
Residential refuse collection services	\$ 2,686,583	\$ -	\$ 2,686,583
Commercial refuse collection services	293,340	63,768	357,108
Recycling sales	20,419	-	20,419
Debris box service revenue	63,768	(63,768)	-
TOTAL REVENUES	<u>3,064,110</u>	<u>-</u>	<u>3,064,110</u>
OPERATING EXPENSES:			
Equipment rental	609,405	-	609,405
Waste disposal	678,763	-	678,763
Labor and related	526,337	(103,872)	422,465
Franchise fees	239,818	-	239,818
Debris box services	80,214	-	80,214
Depreciation	67,916	-	67,916
Other operating expenses	17,952	-	17,952
TOTAL OPERATING EXPENSES	<u>2,220,405</u>	<u>(103,872)</u>	<u>2,116,533</u>
GROSS PROFIT (LOSS)	<u>843,705</u>	<u>103,872</u>	<u>947,577</u>
GENERAL AND ADMINISTRATIVE:			
Administration salaries and related	289,062	103,872	392,934
Office and administration	109,072	-	109,072
Professional fees	21,711	-	21,711
TOTAL GENERAL AND ADMINISTRATIVE	<u>419,845</u>	<u>103,872</u>	<u>523,717</u>
INCOME (LOSS) FROM OPERATIONS	<u>423,860</u>	<u>-</u>	<u>423,860</u>
OTHER INCOME (EXPENSE):			
Contributions and sponsorships	-	-	-
Interest expense	(4,612)	-	(4,612)
TOTAL OTHER INCOME (EXPENSE)	<u>(4,612)</u>	<u>-</u>	<u>(4,612)</u>
INCOME (LOSS) BEFORE INCOME TAXES	419,248	-	419,248
INCOME TAX EXPENSE	<u>7,093</u>	<u>-</u>	<u>7,093</u>
NET INCOME (LOSS)	<u>\$ 412,155</u>	<u>\$ -</u>	<u>\$ 412,155</u>

See independent auditors' report on supplemental information.

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017
AND FOR THE YEARS THEN ENDED



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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pittsburg Disposal & Debris Box Service, Inc.
Concord, California

We have audited the accompanying financial statements of Pittsburg Disposal & Debris Box Service, Inc. (a California S Corporation), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pittsburg Disposal & Debris Box Service, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 7 to the financial statements, the Company has an amount due from a related party totaling \$4,418,851 as of December 31, 2018 classified as a non-current asset which management is evaluating the nature of how it will be settled. Our opinion is not modified with respect to this matter.

VT Accounting Associates, LLP

Carson City, Nevada
May 17, 2019

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 740,043	\$ 601,218
Accounts receivable	1,244,192	1,252,018
Accounts receivable, related party	<u>2,612</u>	<u>3,849</u>
TOTAL CURRENT ASSETS	<u>1,986,847</u>	<u>1,857,085</u>
PROPERTY AND EQUIPMENT, net	<u>102,641</u>	<u>213,957</u>
OTHER ASSETS:		
Due from related party	4,418,851	4,418,851
Deferred tax asset	<u>3,945</u>	<u>5,669</u>
TOTAL OTHER ASSETS	<u>4,422,796</u>	<u>4,424,520</u>
TOTAL ASSETS	<u>\$ 6,512,284</u>	<u>\$ 6,495,562</u>

See accompanying notes to financial statements.

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 651,137	\$ 602,241
Accounts payable, related party	571,876	493,510
Deferred revenues	144,814	133,408
Due to related party	2,175,694	1,018,333
Current portion of related party note payable	4,323	49,769
TOTAL CURRENT LIABILITIES	<u>3,547,844</u>	<u>2,297,261</u>
LONG TERM LIABILITIES:		
Related party note payable, less current portion	-	4,323
TOTAL LONG TERM LIABILITIES	<u>-</u>	<u>4,323</u>
TOTAL LIABILITIES	<u>3,547,844</u>	<u>2,301,584</u>
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
STOCKHOLDERS' EQUITY:		
Common stock, no par value, 20,000 authorized, 302 shares issued and outstanding	10,000	10,000
Additional paid-in capital	650,000	650,000
Retained earnings	<u>2,304,440</u>	<u>3,533,978</u>
TOTAL STOCKHOLDERS' EQUITY	<u>2,964,440</u>	<u>4,193,978</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 6,512,284</u>	<u>\$ 6,495,562</u>

See accompanying notes to financial statements.

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUES		
Residential refuse collection services	\$ 9,822,823	\$ 9,448,949
Commercial refuse collection services	8,324,154	7,662,903
Recycling sales	<u>54,135</u>	<u>81,802</u>
TOTAL REVENUES	<u>18,201,112</u>	<u>17,193,654</u>
OPERATING EXPENSES		
Waste disposal	3,940,079	3,748,660
Equipment rental	3,910,349	3,655,234
Debris box charges	2,478,352	2,400,971
Franchise fees	2,075,423	1,922,844
Labor and related	2,158,483	1,964,294
Depreciation	113,372	119,933
Other operating costs	65,757	26,461
Repairs and maintenance	<u>5,341</u>	<u>25,445</u>
TOTAL OPERATING EXPENSES	<u>14,747,156</u>	<u>13,863,842</u>
GROSS PROFIT	<u>3,453,956</u>	<u>3,329,812</u>
GENERAL AND ADMINISTRATIVE		
Administration salaries and related	1,551,751	1,485,109
Office and administration	599,287	506,909
Professional fees	51,631	38,536
Depreciation	<u>624</u>	<u>756</u>
TOTAL GENERAL AND ADMINISTRATIVE	<u>2,203,293</u>	<u>2,031,310</u>
INCOME FROM OPERATIONS	<u>1,250,663</u>	<u>1,298,502</u>
OTHER INCOME (EXPENSE)		
Loss on sale of fixed asset	-	(65,358)
Interest expense	(2,449)	(8,903)
Contributions and sponsorships	(5,873)	(75,399)
Other expenses	<u>(4,266)</u>	<u>(1,497)</u>
TOTAL OTHER INCOME (EXPENSE)	<u>(12,588)</u>	<u>(151,157)</u>
INCOME BEFORE INCOME TAXES	1,238,075	1,147,345
INCOME TAX PROVISION	<u>18,698</u>	<u>17,078</u>
NET INCOME	<u>\$ 1,219,377</u>	<u>\$ 1,130,267</u>

See accompanying notes to financial statements.

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Stockholders' Equity</u>
Balances at December 31, 2016	<u>\$ 10,000</u>	<u>\$ 650,000</u>	<u>\$ 4,543,280</u>	<u>\$ 5,203,280</u>
Distributions	-	-	(2,139,569)	(2,139,569)
Net income	<u>-</u>	<u>-</u>	<u>1,130,267</u>	<u>1,130,267</u>
Balances at December 31, 2017	<u>10,000</u>	<u>650,000</u>	<u>3,533,978</u>	<u>4,193,978</u>
Distributions	-	-	(2,448,915)	(2,448,915)
Net income	<u>-</u>	<u>-</u>	<u>1,219,377</u>	<u>1,219,377</u>
Balances at December 31, 2018	<u>\$ 10,000</u>	<u>\$ 650,000</u>	<u>\$ 2,304,440</u>	<u>\$ 2,964,440</u>

See accompanying notes to financial statements.

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,219,377	\$ 1,130,267
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	113,996	120,689
Loss on the sale of fixed assets	-	65,358
Change in operating assets and liabilities:		
Accounts receivable	9,063	(163,901)
Prepaid expenses	-	1,983
Accounts payable and accrued liabilities	127,262	41,161
Deferred tax asset	1,724	(713)
Deferred revenues	11,406	16,818
Due to related party	<u>1,157,361</u>	<u>698,138</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,640,189</u>	<u>1,909,800</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Fixed asset purchases	<u>(2,680)</u>	-
NET CASH USED BY INVESTING ACTIVITIES	<u>(2,680)</u>	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Stockholder distributions	(2,448,915)	(2,867,454)
Principal payments on related party note payable	<u>(49,769)</u>	<u>(192,723)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(2,498,684)</u>	<u>(3,060,177)</u>
NET CHANGE IN CASH	<u>138,825</u>	<u>(1,150,377)</u>
CASH, AT BEGINNING OF YEAR	<u>601,218</u>	<u>1,751,595</u>
CASH, AT END OF YEAR	<u>\$ 740,043</u>	<u>\$ 601,218</u>
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 2,449</u>	<u>\$ 8,903</u>
Cash paid for income taxes	<u>\$ 18,000</u>	<u>\$ 2,000</u>

See accompanying notes to financial statements.

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 1 – GENERAL

Nature of Business – Pittsburg Disposal & Debris Box Service, Inc. (the “Company.”) was incorporated on July 1, 1980. The Company is primarily engaged in the solid waste collection and recycling business in and around the City of Pittsburg operating under agreements with the City of Pittsburg and Contra Costa County, California.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Pittsburg Disposal & Debris Box Service, Inc. is presented to assist in understanding the Company’s financial statements. The financial statements and notes are representations of the Company’s management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles in the United States of America and have been consistently applied in the preparation of the financial statements.

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

Accounts Receivable –The carrying value of the receivables represents their estimated net realizable value. The Company considers all receivables to be fully collectible. Accordingly, no allowance for uncollectible amounts receivable has been recorded. When, and if, receivables are considered to be uncollectible, amounts are charged directly against earnings and a credit is made to accounts receivable. No significant accounts were written off against earnings during the years ended December 31, 2018 and 2017.

Property and Equipment – Property and equipment are recorded at historical cost in the financial statements. Depreciation is provided using straight-line and declining balance methods over the estimated useful lives as follows:

Refuse containers	5 – 7 years
Furniture and fixtures	5 – 7 years
Leasehold improvements	7 – 15 years

Long-Lived Assets – The carrying value of intangible assets and other long-lived assets is reviewed on a regular basis for the existence of facts or circumstances, both internally and externally, that may suggest impairment. To date, no such impairment has been indicated.

Revenue Recognition – Revenues are generated from the fees charged for waste and recycling collection and recycling sales. The fees charged for the services are generally defined in the service agreements and vary based on contract specific terms such as frequency of service, weight, volume and the general market factors influencing the region’s rates. The Company generally recognizes revenue

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

as services are performed or when materials are delivered. For example, revenue typically is recognized as waste is collected.

The Company bills for certain services prior to performance. Cash collections on these advance billings are included in deferred income and recognized as revenue in the period service is provided.

Income Taxes – The Company provides for the federal and state income tax effect of transactions reported in the financial statements. The provision includes taxes currently due plus deferred state income taxes.

The Company accounts for income taxes in accordance with the FASB ASC 740, *Income Taxes*. ASC 740 requires that deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. The temporary differences relate primarily to depreciation and net operating losses available to offset future taxable income (differences in methods used for financial statement and income tax purposes).

The Company, with consent of its stockholders, has elected under the Internal Revenue Code (and comparable state regulations) to be an “S” corporation on December 17, 1986 for the tax years beginning 1986 and thereafter. In lieu of federal corporate income taxes the stockholders of an “S” corporation are taxed on their proportionate share of the Company’s net taxable income or loss. Therefore, no provision or liability for federal income taxes will be recognized in future periods, and no assets or liabilities for the future effects of federal income taxes are included on the balance sheets at December 31, 2018 and 2017. The franchise tax laws of the State of California provide for a tax at the reduced rate of 1.5% for “S” corporations. Accordingly, the Company has included in the provision for income taxes estimates of the state income taxes currently due and the deferred state income taxes relative to the temporary timing differences described above.

The Company follows FASB ASC 740-10, Accounting for Uncertainty in Income Taxes, which provides guidance on accounting for uncertainty in income taxes recognized in the Company’s financial statements. As of December 31, 2018, the Company had no uncertain tax positions that require either recognition or disclosure in the Company’s financial statements. Generally, the tax years before 2015 and 2014 are no longer subject to examination by federal and California authorities, respectively.

Leases – Leases which meet certain criteria are classified as capital leases, and assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the lease properties at the beginning of the respective lease terms. Such assets are amortized over their estimated useful lives or over the term of the lease, whichever is shorter. Interest expense relating to the lease liabilities is recorded to effect constant rates of interest over the terms of the leases. Leases which do not meet such criteria are classified as operating leases and related rentals are charged to expense as incurred.

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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. Significant estimates used in preparing the financial statements include those used in recording liabilities for litigation claims and costs for probable and estimatable losses. 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.

Recent Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board amended the Accounting Standards Codification and created Topic 606, Revenue from Contracts with Customers, to clarify the principles for recognizing revenue. This guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. Early adoption is permitted for nonpublic entities for an annual reporting period beginning after December 15, 2016. Management is currently assessing the method of adoption and the potential impact this guidance may have on its financial position, results of operations and cash flows.

In February 2016, the FASB issued guidance that requires lessees to recognize a right of use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. The new standard is effective for entities other than public business entities for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company has not determined the effect the adoption of this lease accounting guidance will have on its financial position or results of operations.

In June 2016, the FASB issued ASU 2016-13 associated with the measurement of credit losses on financial instruments. The amended guidance replaces the current incurred loss impairment methodology of recognizing credit losses when a loss is probable, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to assess credit loss estimates. The amended guidance is effective for the Company on

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

January 1, 2020, with early adoption permitted beginning January 1, 2019. The Company is assessing the provisions of this amended guidance and evaluating the impact on its financial statements.

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715), which requires companies that offer postretirement benefits to present the service cost, which is the amount an employer has to set aside each quarter or fiscal year to cover the benefits, in the same line item with other current employee compensation costs. Other components of net benefit cost will be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Nonpublic companies must follow the accounting changes for fiscal years that start after December 15, 2018, and for interim reporting periods beginning after December 15, 2019. Early adoption is permitted. Management is currently assessing the potential impact this guidance may have on its financial position, results of operations and cash flows.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Containers	\$ 2,536,391	\$ 2,536,391
Furniture and fixtures	<u>27,815</u>	<u>25,136</u>
	2,564,206	2,561,527
Accumulated depreciation	<u>(2,461,565)</u>	<u>(2,347,570)</u>
	<u>\$ 102,641</u>	<u>\$ 213,957</u>

NOTE 4 – INCOME TAXES

Income tax expense (benefit) consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Current tax expense:		
State	<u>\$ 16,974</u>	<u>\$ 17,791</u>
Subtotal	<u>16,974</u>	<u>17,791</u>
Deferred tax expense (benefit):		
State	<u>1,724</u>	<u>(713)</u>
Total provision	<u>\$ 18,698</u>	<u>\$ 17,078</u>

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 4 – INCOME TAXES – (CONTINUED)

The income tax provision differs from the expense that would result from applying California statutory rates to income before income taxes due to certain permanent differences, such as meals and entertainment and political donations, which are not tax deductible.

NOTE 5 – LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at December 31:

	2018	2017
Unsecured note payable due related party, interest at a rate of 7.75% paid in monthly installments of \$4,352, commencing November 1, 2012, maturing February 2019.	\$ 4,323	\$ 54,092
Total long-term obligations	4,323	54,092
Less current maturities	(4,323)	(49,769)
Long-term obligations, net of current portion	<u>\$ -</u>	<u>\$ 4,323</u>

Maturities – Principal payments due on long term obligations are as follows:

Year Ending December 31,	Debt Maturities
2019	\$ 4,323
Total	<u>\$ 4,323</u>

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Credit Facility – The Company with its affiliates (the “Companies”) have a revolving credit facility collateralized by substantially all of their assets. The current facility has a \$40,000,000 revolving credit facility that matures on July 6, 2021 (the “Facility”). All outstanding loans on the facility are reported by an affiliated company. As of December 31, 2018, the total commitment balance was \$40,000,000 and the undrawn amount under the Facility was \$7,645,000. The Companies are required, among other provisions, to maintain certain financial ratios and to limit additional debt and asset acquisitions, unless specifically approved by the bank.

In the normal course of business there are various outstanding commitments and contingent liabilities, such as commitments under previous and existing garbage collection contracts and contingent liabilities arising from threatened and pending litigation.

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 6 – COMMITMENTS AND CONTINGENCIES – (CONTINUED)

Environmental Risks – The Company is subject to extensive and evolving federal, state and local environmental, health, safety and transportation laws and regulations. Under these current laws and regulations, the Company may be subject to liability for any environmental damage that its collection and disposal operations may cause to neighboring landowners or residents, particularly as a result of the contamination of soil, groundwater or surface water, and especially drinking water, including damage resulting from conditions existing prior to the liability for any off-site environmental contamination caused by pollutants or hazardous substances whose transportation, or disposal was arranged by the Company. Any substantial liability for environmental damage incurred by the Company could have a materially adverse effect on the Company financial condition, results of operations, or cash flows. As of December 31, 2018, the Company is not aware of any such environmental liabilities.

In addition, due to the numerous complex rules, orders and interpretations governing environmental protection, health, safety, land use, zoning, transportation and related matters, among other things, the Company's operations may incur additional unanticipated costs. The costs of complying with these regulations could have a materially adverse effect on the Company's financial condition, results of operations, or cash flows. Such conditions include, but are not limited to, the following: limitations on siting and constructing new waste disposal, transfer or processing facilities or expanding existing facilities; limitations, regulations or levies on collection and disposal prices, rates and volumes; limitations or bans on disposal or transportation of out-of-state waste or certain categories of waste; price volatility of recycling commodities; or mandates regarding the disposal of solid waste. As of December 31, 2018, the Company is not aware of any such additional unanticipated costs.

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 7 – RELATED PARTY TRANSACTIONS

The Company has engaged related parties to provide equipment, insurance, services and facilities for its collection services. Additionally, revenue is recognized for the sale of recycling materials to a related party. The related party activity is as follows:

Expenses	2018	2017
Equipment rental	\$ 3,910,349	\$ 3,655,234
Refuse preparation and transfer service	3,940,079	3,748,564
Debris box disposal fee	2,478,352	2,400,971
Workers compensation insurance	97,652	100,963
Accounting services	45,207	37,266
Facilities and office space rental	38,277	37,335
Interest expense	2,499	8,726
	<u>\$ 10,512,415</u>	<u>\$ 9,989,059</u>
Revenues		
Recycling materials	<u>\$ 7,749</u>	<u>\$ 45,241</u>

Included in accrued expense due to a related party for disposal and debris boxes at December 31, 2018 and 2017 was \$512,687 and \$487,530.

The Company leases equipment and office space from related parties under various operating leases. The lease agreements require monthly payments of \$283,056 and are on a month to month basis. The amount of expense recognized under these lease agreements for the years ended December 31, 2018 and 2017 was \$3,948,626 and \$3,692,569, respectively.

The Company also purchased containers from a related party during the year ended December 31, 2018 and 2017 totaling \$69,179 and \$26,741, respectively.

The Company maintains a depository relationship with Mallard Financial Group (Mallard), a related entity. The Company's majority stockholder is the sole owner of Mallard and guarantees all related party assets and liabilities of the entity. The balance due from Mallard, presented as due from related party, is \$4,418,851 as of December 31, 2018 and 2017, respectively. Management is evaluating the collectability of the balance. The nature of how the asset will be settled has not been determined as of the date of the auditors' report.

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 8 – OPERATING LEASE

The Company leases office space under an operating lease. The current lease agreement expired February 1, 2017. The amount of expense recognized under this lease agreement for the years ended December 31, 2018 and 2017 was \$-0- and \$14,695, respectively.

NOTE 9 – PENSION PLANS AND RETIREMENT BENEFITS

The Company provides a 401(k) retirement plan covering all non-union employees with one or more years of service and who have reached the age twenty and one-half years. The Company may make discretionary matching contributions for the benefit of its employees. Discretionary contributions for the non-union employees' 401(k) plan was \$23,438 and \$23,646 for the years ended December 31, 2018 and 2017, respectively.

Union employees are covered under the union's pension plan. As of December 31, 2018, the Company makes contributions to a collectively bargained, multiemployer defined benefit pension plan (the "Plan"). The Company is required to contribute amounts per employee hour to the Plan, as determined by the terms of the union contract. The Plan's administrator does not provide sufficient information to enable the Company to determine its share, if any, of the Plan's assets or unfunded vested benefits. The summary of the Plan is as follows:

Pension Plan Name	EIN/PN	Pension Protection Act Zone Status		Contributions		Surcharge Imposed
		2018	2017	2018	2017	
Western Conference of Teamsters Pension Plan	91-6145047/001	Green	Green	\$ 158,531	\$ 96,202	Yes

Western Conference of Teamsters Pension Plan – As of October 15, 2018, the date for which the most recent publicly made available correspondence letter from the plan's actuary to the Internal Revenue Service, the plan is not currently subject to any funding improvement or rehabilitation period or plan. The expiration date of the collective-bargaining agreement requiring contribution to the plan is February 28, 2020. The contributions do not represent more than 5 percent of the total contributions to the Plan as indicated in the Plan's most recently available Form 5500.

In addition to providing pension benefits, the Company also provides certain health care benefits for retired employees covered by the union agreement. The current agreement requires the Company to pay \$258 per month for medical insurance premiums for non-Medicare eligible retirees and their non-Medicare eligible spouses and \$25 per month for Medicare eligible retirees and their Medicare eligible spouse for the duration of the contract. Substantially all of the Company's employees may become eligible for those benefits if they reach normal retirement age while working for the Company. This and similar benefits are provided for active employees. The Company funds the benefit cost on a pay-

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 9 – PENSION PLANS AND RETIREMENT BENEFITS – (CONTINUED)

as-you-go basis, accordingly, there are no plan assets. The effect of the health care cost trend is not applicable because the benefit amount is a fixed sum independent of health care cost changes.

The Company recognizes the cost of providing these benefits by expensing the annual insurance premiums. For 2018 and 2017, there were four eligible retirees. The cost of providing those benefits for the years ended December 31, 2018 and 2017 was \$4,896 and \$6,527.

NOTE 10 – CONCENTRATIONS

Concentration of Credit Risk – Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. At times, cash in banks is in excess of the FDIC insurance limit. The Company has not experienced any loss as a result of those deposits and does not expect any in the future.

Concentration of Labor Force – A significant portion of the Company's employees are subject to a collective bargaining agreement with Teamsters Local 315, which expires February 28, 2020.

Concentration of Risk – The Company's revenues are derived primarily from customers in the San Francisco Bay Area. As such, the Company's revenue and operations can be negatively impacted by the San Francisco Bay Area economy.

NOTE 11 – FRANCHISE AGREEMENTS

The Company has a franchise agreement with the City of Pittsburg. The term is set to expire on June 30, 2026. Each year the contract shall automatically extend for an additional one year so that, upon each anniversary date of the agreement, the term shall always be fifteen years. Both the City and the Company have the option to terminate the automatic renewal, at which time the automatic renewal shall terminate and the franchise agreement will terminate at the expiration of the remaining term. The agreement requires the Company to pay a 12% franchise fee for the total gross fees collected. Total fees for the years ended December 31, 2018 and 2017 were \$1,916,893 and \$1,773,283.

The Company also has a franchise agreement with Contra Costa County to provide refuse collection services to the unincorporated areas of Contra Costa County. The agreement expires May 8, 2025. The agreement provides for payments to the county of 7% of gross collections for services. Total fees for the years ended December 31, 2018 and 2017 were \$134,344 and \$122,367.

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the report, the date which the financial statements were available to be issued. Management noted no significant events subsequent to the balance sheet date.

SUPPLEMENTAL INFORMATION





Accounting
Associates, LLP

Jeff Vathayanon, CPA
Paul Tibma, CPA
Jason Reecy, CPA/ABV

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors
Pittsburg Disposal & Debris Box Service, Inc.
Concord, California

We have audited the financial statements of Pittsburg Disposal & Debris Box Service, Inc. (a California S Corporation) as of and for the years ended December 31, 2018 and 2017 and our report thereon dated May 17, 2019, which expressed an unmodified opinion on those financial statements, appears on Page 3. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Debris Box Charges and Schedule of Revenue and Expenses by Jurisdiction are presented for purposes of additional analysis and are not a required part of the financial statements. 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 statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 statements taken as a whole.

VT Accounting Associates, LLP

Carson City, Nevada
May 17, 2019

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

SCHEDULE OF DEBRIS BOX CHARGES

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>City</u>	<u>Bay Point</u>	<u>Total</u>
OPERATING EXPENSES:			
Waste disposal	\$ 1,267,729	\$ 65,727	\$ 1,333,456
Equipment rental	650,438	33,723	684,161
Labor and related	418,747	21,710	440,457
Other direct costs	55	3	58
TOTAL OPERATING EXPENSES	<u>2,336,969</u>	<u>121,163</u>	<u>2,458,132</u>
GENERAL AND ADMINISTRATIVE:			
Administration salaries and related	4,158	216	4,374
Office and administration	11,740	609	12,349
Professional fees	3,325	172	3,497
TOTAL GENERAL AND ADMINISTRATIVE	<u>19,223</u>	<u>997</u>	<u>20,220</u>
TOTAL DEBRIS BOX CHARGES	<u>\$ 2,356,192</u>	<u>\$ 122,160</u>	<u>\$ 2,478,352</u>

See independent auditors' report on supplemental information.

PITTSBURG DISPOSAL & DEBRIS BOX SERVICE, INC.

SCHEDULE OF REVENUE AND EXPENSES BY JURISDICTION

FOR THE YEAR ENDED DECEMBER 31, 2018

	Pittsburg	Bay Point	Other	Total
REVENUES				
Residential refuse collection services	\$ 8,467,920	\$ 1,354,902	\$ -	\$ 9,822,822
Commercial refuse collection services	5,159,652	368,277	2,796,226	8,324,155
Recycling sales	53,652	483	-	54,135
Debris box service revenue	2,605,929	190,297	(2,796,226)	-
TOTAL REVENUES	<u>16,287,153</u>	<u>1,913,959</u>	<u>-</u>	<u>18,201,112</u>
OPERATING EXPENSES				
Waste disposal	3,509,713	430,366	-	3,940,079
Equipment rental	3,125,402	784,947	-	3,910,349
Debris box charges	2,356,192	122,160	-	2,478,352
Labor and related	1,938,847	277,079	(57,443)	2,158,483
Franchise fees	1,927,718	147,705	-	2,075,423
Depreciation	77,188	36,184	-	113,372
Other operating costs	63,107	2,650	-	65,757
Repairs and maintenance	4,565	776	-	5,341
TOTAL OPERATING EXPENSES	<u>13,002,732</u>	<u>1,801,867</u>	<u>(57,443)</u>	<u>14,747,156</u>
GROSS PROFIT (LOSS)	<u>3,284,421</u>	<u>112,092</u>	<u>57,443</u>	<u>3,453,956</u>
GENERAL AND ADMINISTRATIVE				
Administration salaries and related	1,326,272	168,036	57,443	1,551,751
Office and administration	515,041	84,246	-	599,287
Professional fees	44,129	7,502	-	51,631
Depreciation	533	91	-	624
TOTAL GENERAL AND ADMINISTRATIVE	<u>1,885,975</u>	<u>259,875</u>	<u>57,443</u>	<u>2,203,293</u>
INCOME (LOSS) FROM OPERATIONS	<u>1,398,446</u>	<u>(147,783)</u>	<u>-</u>	<u>1,250,663</u>
OTHER INCOME (EXPENSE)				
Interest expense	-	(2,449)	-	(2,449)
Contributions and sponsorships	(5,020)	(853)	-	(5,873)
Other expenses	(3,178)	(1,088)	-	(4,266)
TOTAL OTHER INCOME (EXPENSE)	<u>(8,198)</u>	<u>(4,390)</u>	<u>-</u>	<u>(12,588)</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>1,390,248</u>	<u>(152,173)</u>	<u>-</u>	<u>1,238,075</u>
INCOME TAX PROVISION	<u>15,981</u>	<u>2,717</u>	<u>-</u>	<u>18,698</u>
NET INCOME (LOSS)	<u>\$ 1,374,267</u>	<u>\$ (154,890)</u>	<u>\$ -</u>	<u>\$ 1,219,377</u>

See independent auditors' report on supplemental information.

Attachment C: Exhibit III-1 From Manual

Chapter III. Base Year Rate Setting Methodology

**Exhibit III-3
[Page 1 of 3]**

**Contra Costa County
Garaventa Enterprises Rate Setting Methodology
Base Year Projection Methodology Guidelines¹**

Category	Base Year Projection Methodology
<i>Revenue Projection in Base Year</i>	
Residential	Estimated residential revenues in "Current Year" multiplied by one plus the average annual compounded rate of change in residential customer revenues over the prior two years. ²
Commercial	Estimated commercial revenues in "Current Year" multiplied by one plus the average annual compounded rate of change in commercial revenues over the prior two years.
Debris Boxes	Estimated debris box revenue in "Current Year" multiplied by one plus the average annual compounded rate of change in debris box revenues over the prior two years.
Recyclable Revenues	Currently equal to \$5 per ton multiplied by the estimated "Current Year" total recycled materials tonnage. As an alternative to the \$5 per ton amount currently used, the County, at its discretion, may also elect to instead have Garaventa include the revenues (i.e., commodity sales) and costs associated with processing curbside recycled materials within the Application.
<i>Cost Projection in Base Year</i>	
Direct Labor – Wages	Estimated direct labor wages in "Current Year" multiplied by one plus the average annual compounded rate of change in direct labor wages over the prior two years; or detailed direct labor modeling by employee.
Direct Labor – Payroll Taxes	Estimated direct labor payroll taxes in "Current Year" multiplied by one plus the average annual compounded rate of change in direct labor payroll taxes over the prior two years; or detailed direct labor modeling by employee.
Direct Labor – Health and Welfare	Estimated direct labor health and welfare costs in "Current Year" multiplied by one plus the average annual compounded rate of change in direct labor health and welfare costs over the prior two years; or detailed direct labor modeling by employee.
Direct Labor – Workers Compensation	Estimated direct labor workers compensation costs in "Current Year" multiplied by one plus the average annual compounded rate of change in direct labor workers compensation costs over the prior two years; or detailed direct labor modeling by employee.
Direct Labor – Pension	Estimated direct labor pension in "Current Year" multiplied by one plus the average annual compounded rate of change in direct labor pension over the prior two years; or detailed direct labor modeling by employee.
Dumping Costs	Equal to a verifiable tipping fee rate multiplied by the projected "Base Year" total disposal tonnage. The projected "Base Year" disposal tonnage is equal to the estimated "Current Year" total disposal tonnage multiplied by one plus the average annual compounded rate of change in disposal tonnage over the prior two years.

¹ Subject to alternative Base Year projection methods only when provided in writing by the company and approved by the County.

² Where the average annual compounded rate of change over the prior two years is defined as

$[(\text{Current Year Revenues} \div \text{First Year Actual Revenues (i.e., Prior Base Year Revenues)})^{\text{raised to the 0.5 power}} \text{ minus } 1]$.

Chapter III. Base Year Rate Setting Methodology

Exhibit III-3
[Page 2 of 3]

Contra Costa County
Garaventa Enterprises Rate Setting Methodology
Base Year Projection Methodology Guidelines (continued)¹

Category	Base Year Projection Methodology
<i>Cost Projection in Base Year (continued)</i>	
Depreciation and Other Operating Costs – Customer Repairs, Medical Costs (Drug Testing), Laundry, and Uniforms	Estimated customer repair costs in “Current Year” multiplied by one plus the average annual compounded rate of change in customer repair, medical costs (drug testing), laundry, and uniform costs over the prior two years.
Depreciation and Other Operating Costs – Furniture and Fixtures	Estimated furniture and fixture depreciation costs in “Current Year” multiplied by one plus the average annual compounded rate of change in furniture and fixture depreciation costs over the prior two years, or as computed per a detailed depreciation schedule.
Curbside Recycled Materials Processing Costs (optional – will need to add a line to the Application if used)	Direct – the average of actual County processing costs in the prior two years, multiplied by one plus the average annual compounded rate of change in the April-to-April, San Francisco-Oakland-San Jose Consumer Price Index (CPI) (<i>Series Id: CUURA422SA0</i>) over the prior three years. ³
General and Administrative (G&A) – Accounting	Direct – the average of actual G&A accounting cost in the prior two years, multiplied by one plus the average annual compounded rate of change in the April-to-April, San Francisco-Oakland-San Jose Consumer Price Index (CPI) (<i>Series Id: CUURA422SA0</i>) over the prior three years.
G&A – Legal	Direct – the average of actual G&A legal cost in the prior two years ⁴ , multiplied by one plus the average annual compounded rate of change in the April-to-April, San Francisco-Oakland-San Jose Consumer Price Index (CPI) (<i>Series Id: CUURA422SA0</i>) over the prior three years.
G&A – Medical Expenses	Direct – the average of actual G&A medical cost in the prior two years, multiplied by one plus the average annual compounded rate of change in the April-to-April, San Francisco-Oakland-San Jose Consumer Price Index (CPI) (<i>Series Id: CUURA422SA0</i>) over the prior three years.

³ An example of the average annual compounded rate of change in the CPI over the prior three years, for year 2010, would be [(Year 2010 April Index ÷ Year 2007 April Index) raised to the 0.33 power] minus 1], or [((227.7 ÷ 215.86) raised to the 0.33 power) - 1] = 1.78%.

⁴ Where the average annual compounded rate of change over the prior two years is defined as [(Current Year Costs ÷ First Year Actual Costs (i.e., Prior Base Year Costs)) raised to the 0.5 power] minus 1].

Chapter III. Base Year Rate Setting Methodology

Exhibit III-3
[Page 3 of 3]

**Contra Costa County
Garaventa Enterprises Rate Setting Methodology
Base Year Projection Methodology Guidelines (continued)¹**

Category	Base Year Projection Methodology
<i>Cost Projection in Base Year (continued)</i>	
G&A – Other Categories	Estimated G&A costs, excluding the three specified G&A items, in the “Current Year” multiplied by one plus the average annual compounded rate of change in the April-to-April, San Francisco-Oakland-San Jose Consumer Price Index (CPI) (<i>Series Id: CUURA422SA0</i>) over the prior three years. Total G&A costs, including the three specified G&A items above, are allowed up to a capped limit of 12.2 percent of the total revenue requirement. ⁵ In any base year, if total G&A costs, as a percent of the total revenue requirement, exceed the capped limit, total G&A costs will be set to equal 12.2 percent of the total revenue requirement. The capped limit will be re-calculated each base year, based on publicly traded company data available, over a prior five-year period
County Administrative Fees	Direct – the average of actual County administrative fees in the prior two years, multiplied by one plus the average annual compounded rate of change in the April-to-April, San Francisco-Oakland-San Jose Consumer Price Index (CPI) (<i>Series Id: CUURA422SA0</i>) over the prior three years.
Household Hazardous Waste Fees	Direct – the average of actual County franchise area HHW fees in the prior two years, multiplied by one plus the average annual compounded rate of change in the April-to-April, San Francisco-Oakland-San Jose Consumer Price Index (CPI) (<i>Series Id: CUURA422SA0</i>) over the prior three years.
Trucking Costs	Estimated trucking costs in “Current Year” multiplied by one plus the average annual compounded rate of change in trucking costs over the prior two years; or the number of equipment pieces/units multiplied by a verified SEG trucking lease rate, for each truck and equipment item
Franchise Fees	Direct – equal to a percentage of the projected revenue requirement in “Base Year”. The County will set the percentage franchise fee and the amount may change over time (currently the franchise fee is five (5) percent of total revenues, and upon implementation of the three cart system, the franchise fee will increase to seven (7) percent of total revenues.

⁵ The weighted average ratio of G&A to total revenues, for nine (9) publicly traded companies, over a recent five-year period (2006 to 2010), was 11.07 percent. With an additional 10 percent margin to account for variability in the distribution of G&A costs by company, the capped limit is 12.2 percent of the total revenue requirement (11.07% * (1 + 10%) = 12.2%).



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Attachment D: Adjusted Rate Model

Exhibit D-1, on the next page, of this appendix provides the adjusted base year rate model based on Crowe adjustments. The model reflects the following general adjustments:

Revenues

- Moderate increase to residential revenues
- Significant increase to commercial and industrial revenues
- Moderate increase to recycled material sales revenues

Allowable Costs/Profits

- Minor decrease to direct labor
- Minor decrease to tipping fees (w/profit)
- Minor increase to general and administrative costs
- Minor decrease to depreciation and other operating costs
- Minor increase to account for recycling software specialist and diversion specialist
- Significant increase to cost of processing recyclable materials
- Significant decrease to services provided to County costs
- Moderate increase to operating profit

Pass Through Costs

- Minor decrease to County administrative fee
- Minor decrease to household hazardous waste fees
- Significant decrease to trucking and equipment costs
- Minor decrease to tipping fees (pass through)
- Minor increase in franchise fees.



**Exhibit D-1
Schedule of Rate Review Findings, Projection Year 2020**

Contra Costa County

Base Year Rate Change Application

Financial Information

	Audited	Audited	Estimated	Projected		Adjusted
	Year 1	Year 2	Current	Base Year	Crowe Adjustments	Base Year
	2016	2017	2018	2019		Year 4
Section I--Allowable Costs						
1. Direct Labor	\$ 1,194,542	\$ 1,157,186	\$ 1,188,713	\$ 1,213,676	\$ (24,441)	\$ 1,189,235
2. Tipping Fees (Profit Allowed)	719,116	730,082	767,807	788,680	(33,698)	754,983
3. Corporate and Local General and Administrative Costs	741,116	783,980	780,692	805,903	1,466	807,369
4. Depreciation and Other Operating Costs	162,934	178,064	164,697	179,024	(13,439)	165,586
5a. Recycling Software Specialist					1,170	1,170
5b. Additional Diversion Specialist					5,213	5,213
5c. Cost of Processing Recyclable Materials					397,613	397,613
5d. Services Provided to County					(64,762)	(64,762)
6. Total Allowable Costs (Lines 1+2+3+4+5)	\$ 2,817,708	\$ 2,849,312	\$ 2,901,909	\$ 2,987,283	\$ 269,123	\$ 3,256,406
Section II--Allowable Operating Profit						
7. Operating Ratio	94%	83%	103%	90%	90%	90%
8. Allowable Operating Profit [(Line 6 + 0.9) - Line 6]]	\$ 187,073	\$ 575,377	\$ (71,256)	\$ 331,920	\$ 29,903	\$ 361,823
Section III--Pass Through Costs without Franchise Fees						
9. County Administrative Fee	\$ 2,126	\$ 2,196	\$ 2,244	\$ 2,626	\$ (2,626)	\$ -
9a. Household Hazardous Waste Fees	51,989	53,688	46,303	54,176	(2,581)	51,595
10. Trucking and Equipment	1,843,110	1,703,809	2,021,828	2,117,584	(104,444)	2,013,140
11. Tipping Fees (Pass Through)	793,078	851,458	940,324	1,016,923	(14,756)	1,002,166
12. Total Pass Through Costs (without Franchise Fees) (Lines 9+10+11)	\$ 2,690,303	\$ 2,611,150	\$ 3,010,700	\$ 3,191,309	\$ (124,408)	\$ 3,066,901
Section IV--Revenue Requirement without Franchise Fees						
13. Total Allowable Costs (Line 6) plus Allowable Operating Profit (Line 8) plus Total Pass Through Costs (without Franchise Fees) (Line 12)	\$ 5,695,084	\$ 6,035,839	\$ 5,841,352	\$ 6,510,513	\$ 174,618	\$ 6,685,131
Section V--Revenue without Rate Change in Base Year						
14. Residential Revenue			\$ 4,764,896	\$ 5,025,038	\$ 57,652	\$ 5,082,691
Totals			-	-		
15. Less Allowance for uncollectible Residential Accounts			26,207	27,638	(27,638)	(0)
16. Total Residential Revenue (without Rate Change in Base Year)	\$ 4,525,889	\$ 4,789,709	\$ 4,738,689	\$ 4,997,400	\$ 85,290	\$ 5,082,691
17. Commercial Revenue			\$ 1,265,001	\$ 1,322,405	\$ 138,824	\$ 1,461,229
Light Industrial Revenue			290,154	397,234	72,215	469,450
18. Less Allowance for uncollectible Commercial and Light Industrial Accounts						
19. Total Commercial/Light Industrial Revenue (without Rate change in base year)	\$ 1,555,155	\$ 1,640,853	\$ 1,555,155	\$ 1,719,640	\$ 211,039	\$ 1,930,679
20. Recycled Material Sales	\$ 38,683	\$ 39,327	\$ -	\$ -	\$ 91,393	\$ 91,393
21. Total Revenue (Lines 16+19+20)	\$ 6,119,727	\$ 6,469,888	\$ 6,293,845	\$ 6,717,040	\$ 387,722	\$ 7,104,762
Section VI--Net Shortfall (Surplus)						
22. Net Shortfall (Surplus) without Franchise Fees (Line 13-Line 21)			\$ (434,049)	\$ (452,493)	\$ (206,528)	\$ (213,104)
23. Residential/Commercial/Light Industrial Franchise Fees (see calculation below)	\$ 424,644	\$ 434,049	\$ 452,493	\$ 490,039	\$ 13,143	\$ 503,182
24. Net Shortfall (Surplus) with Franchise Fees (Lines 22+23)	\$ -	\$ -	\$ -	\$ 283,511	\$ (199,961)	\$ 83,550
Section VII--Percent Change in Rates						
25. Total Commercial/Light Industrial Revenue Prior to Rate Change (Lines 16+19)	\$ 6,430,562	\$ 6,293,845	\$ 6,717,040	\$ 296,329	\$ 7,013,370	
26. Percent Change in Existing Residential/Commercial/Light Industrial Rates (Line 24 + Line 25)	0.00%	0.00%	4.22%	-3.03%	1.19%	
Franchise Fee Calculation						
Franchise fees are set by the County at 7 percent of the revenue requirement	27.	Allowable Costs	\$ 2,849,312	\$ 2,901,909	\$ 2,987,283	\$ 269,123
Solve for two equations with one unknown, and identify franchise fees as X =>	28.	Operating Profit	575,377	(71,256)	331,920	29,903
Equation 1) Revenue Requirement x 0.07 = X	29.	Pass-thru + franchise	3,045,199	3,463,192	3,681,348	(111,264)
Equation 2) Revenue Requirement = Line 13 ÷ X, or	30.		\$ 6,469,888	\$ 6,293,845	\$ 7,000,551	\$ 187,761
Substitute equation 2) into equation 1) and solve for X =>						\$ 7,188,313
\$ 7,188,313 ÷ X) x .07 = X, or X = \$						503,182

Year: 2019

1.19%

Year: 2020

Includes Addition of CPI of 3.22% 4.45%



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Attachment E: Consumer Price Index Data Applicable for 2020



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CPI for All Urban Consumers (CPI-U)

Series Id: CUURS49BSA0,CUUSS49BSA0

Not Seasonally Adjusted

Series Title: All items in San Francisco-Oakland-Hayward, CA, all urban

Area: San Francisco-Oakland-Hayward, CA

Annual %
Change 3.22%

Item: All items

Base Period: 1982-84=100

Years: 2009 to 2019

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	HALF1	HALF2
2009		222.166		223.854		225.692		225.801		226.051		224.239	224.395	223.305	225.484
2010		226.145		227.697		228.110		227.954		228.107		227.658	227.469	226.994	227.944
2011		229.981		234.121		233.646		234.608		235.331		234.327	233.390	232.082	234.698
2012		236.880		238.985		239.806		241.170		242.834		239.533	239.650	238.099	241.201
2013		242.677		244.675		245.935		246.072		246.617		245.711	245.023	243.894	246.152
2014		248.615		251.495		253.317		253.354		254.503		252.273	251.985	250.507	253.463
2015		254.910		257.622		259.117		259.917		261.019		260.289	258.572	256.723	260.421
2016		262.600		264.565		266.041		267.853		270.306		269.483	266.344	263.911	268.777
2017		271.626		274.589		275.304		275.893		277.570		277.414	274.924	273.306	276.542
2018		281.308		283.422		286.062		287.664		289.673		289.896	285.550	282.666	288.435
2019		291.227		294.801		295.259		295.490		298.443				293.150	



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Attachment F: Comparative Rate Survey

Tables F-1 through **F-3** that follow include results of a survey of current comparative residential, commercial, and industrial rates. We provide comparisons between Garaventa's County rates and the rates charged to customers served in other neighboring unincorporated and incorporated franchise areas:

- Incorporated areas
- Antioch
- Clayton
- Concord
- Danville (served through Central Contra Costa Solid Waste Authority, or CCCSWA)
- Lafayette (CCCSWA)
- Martinez
- Moraga (CCCSWA)
- Orinda (CCCSWA)
- Pleasant Hill
- Walnut Creek (CCCSWA)

Unincorporated County areas

- Alamo & Unincorporated Central CCC (CCCSWA)
- Crockett Garbage served areas – West CCC (County)
- Allied Waste (Republic) served areas – Central/East CCC (County)
- Richmond Sanitary Service (Republic) served areas – West CCC (County).

Table F-1
Comparison of Current Unincorporated Contra Costa County
Residential Rates with Neighboring Jurisdictions (Per Customer, Per Month)

Jurisdiction	Residential Rates			
	20 Gallon	32 Gallon	64 Gallon	96 Gallon
1. Antioch	\$25.67	\$30.15	\$48.67	\$57.16
2. Clayton	27.90	29.52	42.81	46.62
3. Concord	26.30	32.05	43.30	53.10
4. Danville (CCSWA)	25.26	28.00	47.63	70.70
5. Lafayette (CCSWA)	30.40	34.74	65.55	98.31
6. Martinez	24.91	35.68	41.07	83.57
7. Moraga (CCSWA)	27.94	32.26	64.52	96.77
8. Orinda (CCSWA)	36.52	41.74	78.31	117.55
9. Pleasant Hill	24.28	28.09	38.31	57.47
10. Walnut Creek (CCSWA)	19.35	22.84	43.13	64.42
Average	\$26.85	\$31.51	\$51.33	\$74.57
Garaventa County rates	\$30.27	\$37.77	\$43.81	\$52.12
Difference	13%	20%	-15%	-30%
Unincorporated County Areas				
1. Alamo & Uninc Central CCC (CCCSWA)	\$22.07	\$25.05	\$47.70	\$71.57
2. Crockett Garbage – West CCC (County)	27.82	33.00	57.85	70.28
3. AWS (Republic) – Cent/East CCC (County)	17.26	22.60	33.68	43.69
4. Richmond Sanitary – West CCC (County)	28.37	34.73	66.50	99.06
Average	\$23.88	\$28.85	\$51.43	\$71.15
Garaventa County rates	\$30.27	\$37.77	\$43.81	\$52.12
Difference	27%	31%	-15%	-27%

Table F-2
Comparison of Current Unincorporated Contra Costa County
Commercial Rates with Neighboring Jurisdictions (Per Customer, Per Month)

Jurisdiction	1 Time per Week		2 Times per Week	
	2 cu. yd.	3 cu. yd.	2 cu. yd.	3 cu. yd.
1. Antioch	\$279.44	\$558.88	\$420.44	\$840.88
2. Clayton	258.52	516.95	349.14	698.27
3. Concord	321.25	610.05	461.85	875.05
4. Danville (CCSWA)	316.54	633.13	474.83	949.66
5. Lafayette (CCSWA)	424.26	848.52	626.87	1,253.75
6. Martinez	319.59	544.86	409.73	655.30
7. Moraga (CCSWA)	374.17	748.34	561.28	1,122.54
8. Orinda (CCSWA)	485.72	971.42	728.58	1,457.15
9. Pleasant Hill	243.21	485.27	364.34	728.16
10. Walnut Creek (CCSWA)	223.80	488.64	366.49	732.97
Average	\$324.65	\$640.61	\$476.36	\$931.37
Garaventa County rates	\$329.43	\$598.22	\$460.13	\$859.61
Difference	1%	-7%	-3%	-8%
Unincorporated County Areas				
1. Alamo & Uninc Central CCC (CCCSWA)	\$301.31	\$602.59	\$451.93	\$903.88
2. Crockett Garbage – West CCC (County)	201.77	304.85	n/a	n/a
3. AWS (Republic) – Cent/East CCC (County)	224.76	449.53	329.56	659.07
4. Richmond Sanitary – West CCC (County)	192.16	351.87	262.95	489.53
Average	\$230.00	\$427.21	\$348.15	\$684.16
Garaventa County rates	\$329.43	\$598.22	\$460.13	\$859.61
Difference	43%	40%	32%	26%



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Table F-3
Comparison of Current Unincorporated Contra Costa County
Industrial Rates with Neighboring Jurisdictions
(Per Pull, 4 Tons of Material)

Jurisdiction	20 yard
1. Antioch	\$632.19
2. Clayton	519.26
3. Concord	707.00
4. Danville (CCSWA)	749.42
5. Lafayette (CCSWA)	848.08
6. Martinez	586.04
7. Moraga (CCSWA)	839.31
8. Orinda (CCSWA)	940.83
9. Pleasant Hill	446.70
10. Uninc. Co (CCCSWA)	720.80
11. Walnut Creek (CCSWA)	909.24
Average	\$718.08
Garaventa County rates (2016)	723.00
Difference	1%