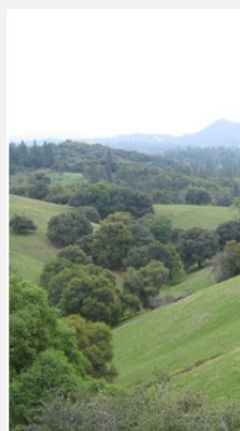


FINAL REPORT

**Review of ACES Waste Service's 2015
Detailed Rate Adjustment Application**



SUBMITTED TO:

City of Sutter Creek

July 2, 2015

Table of Contents

Table of Contents

Introduction	1
Objectives	1
Company's Rate Application	1
Company's Calculated Rate Adjustment	2
R3's Calculated Rate Adjustment	2
Methodology / Approach.....	3
Rate Comparison.....	4
Operational Performance	5
Other Related Issues	7
Kiefer Landfill Increase (Dump Expense)	7
Franchise Fees	7
Shareholders and Related Parties	7
Roll-Off Rates.....	8
Potential Rate Year 2016 Adjustments	8

R3

Table of
Contents

Tables

1	Company's Calculated Rate Adjustment.....	2
2	R3's Calculated Rate Adjustment	3
3	City vs. County Weighted Average Rate Comparison with Calculated Rate Adjustment	5
4	Rate Review Cost Impacts	8

Figures

1	Historical Modification Factors.....	6
---	--------------------------------------	---

Appendices

A	Article J of the Franchise Agreement	
---	--------------------------------------	--

Introduction

The City of Sutter Creek (City) entered into a franchise agreement (Agreement) with ACES Waste Services (Company) effective January 1, 2015, for Solid Waste Collection, Disposal and Recycling Services. The initial term of the Agreement expires December 31, 2024.

Article J of the Agreement (Rates) (Appendix A) states, among other things, that:

- Contractor agrees that the rates will not be increased prior to July 1, 2015;
- The Rate Adjustment Process will be on a three-year cycle with a cost-based adjustment (Detailed Rate Adjustment) in Rate Year 1 followed by Indexed Rate Adjustments (Refuse Rate Index) in Rate Year 2 and Rate Year 3; and
- Detailed Rate Adjustments under the Agreement shall occur in the same years and simultaneously with, detailed rate adjustments that occur in accordance with Contractor's separate Franchise Agreement with the County of Amador (County).

Article J also:

- Specifies Non-Allowable Expenses and Pass-Through Expenses that are not subject to profit;
- Sets the profit level at an Eighty-Seven point Five percent (87.5%) Operating Ratio;
- Provides the City with the right to increase or decrease the Company's profit, at its sole discretion, based on its assessment of the extent to which the Company has or has not complied with all terms and conditions of the Agreement.

Objectives

To review Company' Rate Year 2015 Rate Adjustment Request (Rate Application) and recommend appropriate adjustments for purposes of setting the rates for the City's franchise.

Company's Rate Application

The Company's Rate Application is based on its reported 2014 actual revenues and expenses for all of its operations as presented in its Income Statement.¹ The

¹ The Company's income statement includes all of the Company's revenues and expenses, including those for the City of Sutter Creek, as well as its services in Amador County and the other county incorporated cities, and its (limited) services outside Amador County.

2015 Detailed Rate Review

Company then assigned or allocated those revenues to the City's franchise, as well as each of its other non-City franchises and operations. Once the revenues and expenses were allocated among the Company's various franchises and operations, it then made a number of adjustments, including disallowing certain expenses, adjusting for projected changes in depreciation and interest expenses, changes in transfer station tipping fees and accounting for a number of additional expense items (e.g., detailed rate review costs), prior to calculating its rate adjustment for the City's franchise.

Company's Calculated Rate Adjustment

The Company followed the methodology agreed to with the County and accounted for items for which adjustments were made as part of the County's recent detailed rate review in its 2015 Rate Application to the City. This included disallowing certain expenses including meals and entertainment, gifts and promotional expenses, among other items. The methods used by the Company to allocate expenses among the various services it provides, including those in the City, as well as those in the County and the other jurisdictions it services were consistent with the methods used during the County's 2012 detailed rate review, as well as the County's recent 2015 detailed rate review. Our review did not identify any mathematical errors or logical consistency issues, unless otherwise noted below.

The Company's calculated rate adjustment for the City's franchise was 73.22% as summarized in Table 1 below.

Table 1
COMPANY'S CALCULATED RATE ADJUSTMENT

Company's Calculated Rate Adjustment	
Total Revenues	\$ 353,160
Rate Revenue	\$ 344,431
Total Expenses	\$ 605,353
Net Revenue Surplus / (Shortfall)	\$ (252,193)
Required Rate Increase / Decrease	73.22%

R3's Calculated Rate Adjustment

As mentioned above, the Company's Rate Application to the City included various adjustments to the costs reflected in its Income Statement, including limiting or excluding the following expenses:

- Auto allowance
- Business promotion

R3

- Cable television
- Citations
- Computer allowance
- Depreciation expense
- Employee meals
- Gifts/promotion
- License and permits
- Meals & Entertainment
- Payroll taxes on company cars

All of the above adjustments were factored into the Company's calculated rate adjustment. In addition to confirming the Company made the proper adjustments above, as part of our review we also:

- Exclude the Company's requested adjustment of \$737 to reflect its projected decrease in Recycling Revenues of as a result of recent market issues that have negatively impacted recycling revenues;²
- Disallowed penalty expenses of \$172; and
- Set the Shareholder's compensation at the limits established by the County (resulting in a \$6,723 expense reduction).

Accounting for these adjustments results in a calculated rate increase of 71.00%, as shown in Table 2 below.

Table 2
R3'S CALCULATED RATE ADJUSTMENT

R3's Calculated Rate Adjustment	
Total Revenues	\$ 353,160
Rate Revenue	\$ 344,431
Total Expenses	\$ 597,721
Net Revenue Surplus / (Shortfall)	\$ (244,561)
Required Rate Increase / Decrease	71.00%

Methodology / Approach

Our review of the Company's Rate Application included, but was not limited to, the following:

² The County's Rate Adjustment Guidelines, which we followed for purpose of conducting the City's rate review, specifically state that the rate adjustment for the current year is to be based on the rate adjustment methodology applied to the results of the prior year, and does not provide for material sales or other revenue and expense adjustments.

2015 Detailed Rate Review

- Tying the Company's Rate Application to its Income Statement;
- Verifying that the Rate Application is mathematically accurate and logically consistent;
- Analyzing line item revenue and expense variances for 2014 compared to information provided by the Company for 2011 for the City's franchise;
- Reviewing the Company's handling of the following expenses and making any appropriate adjustments:
 - Pass-Through expenses (not subject to profit);
 - Non-Allowable expenses; and
 - Any unreasonable or unnecessary expenses.
- Reviewing the reasonableness and appropriateness of related party transactions;
- Assessing the reasonableness of methods used to allocate revenues and expenses among the Company's various operations;
- Verifying the use of the proper operating ratio (profit level) and accuracy of the Company's profit calculation;
- Assuring that expenses that are limited per the County's Rate Adjustment Guidelines do not exceed those limitations;
- Correctly calculated its profit level including use of the proper Operating Ratio and the correct handling of Pass-Through Expenses; and
- Calculating the required rate adjustment accounting for any appropriate revenue or expense adjustments.

Rate Comparison

For purposes of assessing the general "reasonableness" of the calculated rate increase we projected the City's rates assuming the 71.00% calculated rate increase. We then compared the resulting weighted rate³ to the rates to the average weighted rate in the County. That comparison is provided in Table 3 below.

³ The 'weighted rate' accounts for the number of residential accounts that subscribe to each service level (i.e., 32-, 64-, and 96 gallons).

Table 3
CITY vs. COUNTY WEIGHTED AVERAGE RATE COMPARISON
WITH CALCULATED ADJUSTMENT

Name	Solid Waste	Yard Waste	Recycling	Rates (weekly gallons of service)			Weighted Average Rate
				32-gals	64	96	
County Area 1	weekly		biweekly	\$21.66	\$29.04	\$36.41	\$ 31.23
County Area 2	weekly		biweekly	\$19.92	\$24.29	\$29.82	
County Area 3	weekly		biweekly	\$27.41	\$35.24	\$37.03	
Amador City	weekly	biweekly	biweekly	\$15.89	\$20.56	\$28.27	
Ione	weekly	biweekly	biweekly	\$11.28	\$15.44	\$16.65	
Jackson	weekly	biweekly	biweekly	\$11.28	\$16.89	\$18.01	
Plymouth	weekly		biweekly	\$14.50	\$19.09	\$23.64	
Sutter Creek	weekly	biweekly	biweekly	\$13.36	\$17.27	\$23.47	\$16.52
Calculated City Rate Increase							71.00%
City Projected New Rate (weighted average)							\$ 28.25
Proposed County Rate Increase							3.67%
County Projected New Rate (weighted average)							\$ 32.37
City Projected New Rate vs. County Projected New Rate \$ variance							\$ (4.12)
City vs. County Rate % variance							-14.6%

As shown, even accounting for R3's calculated increase 71.00%, the City's weighted average rate would still be almost 15% less than the County's weighted average rate. While you would expect that there are some operational efficiencies that are realized within the City, as compared to the County with its more dispersed service area, it is also important to note that the City receives a higher level of service than accounts in the County, with biweekly yard waste service that is not provided in the County.

Operational Performance

When considering rate adjustments, it is helpful to understand the effectiveness of the operations that drive the costs that form the basis for any such rate adjustments. While we did not perform an operational review of the Company as part of this engagement, R3 did perform such review in 2012 on behalf of Amador County. That review found among other things that:

- Collection operations appear to be effectively managed and staffed using effective vehicle and crew configurations;
- The transfer stations appear to be effectively operated and managed; and
- The Company's safety record compared favorably to the industry.

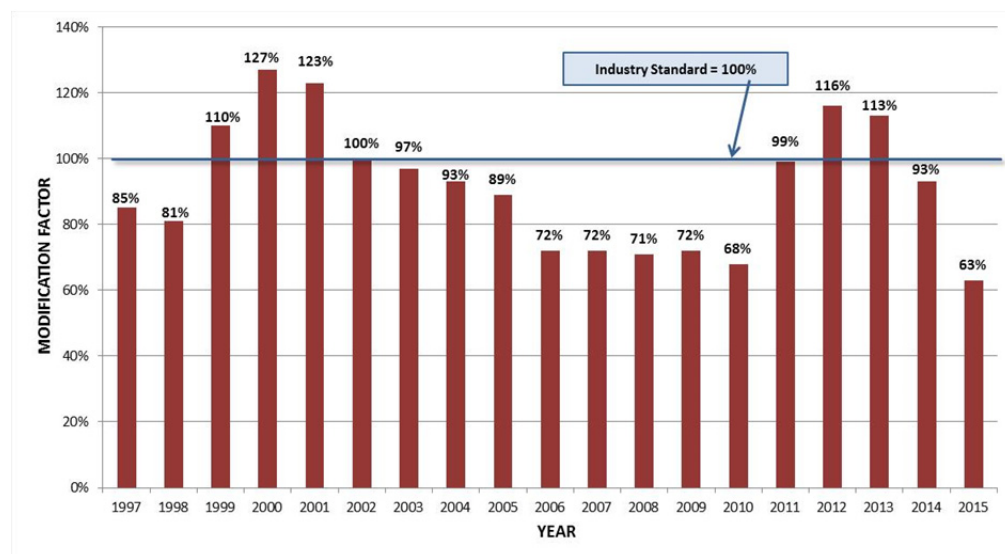
R3

2015 Detailed Rate Review

The consideration of “Safety First” is central to effective operations, and as part of our detailed rate review for the County we updated our 2012 review of the Company’s safety record. While not universal, a company’s safety record is often a good indication of the overall effectiveness of its management and operations. One way of assessing the safety record of a company is by reviewing its experience modification factor. An experience modification factor adjusts an employer's premium to reflect the difference between the employer's loss experience and the average experience that is expected for its classification(s) and size.⁴

Figure 1 below provides the Company’s historical modification factors for the past 19 years. With the exception of 1999 through 2001, and more recently in 2012 and 2013, the Company’s modification factor was at or below the industry standard - which is good. The Company’s average modification factor is 90% over the past three years; 97% over the past five years 97%, 84% over the past 10 years and 92% since 1997. All of which are all better than the industry standard.

Figure 1
HISTORICAL MODIFICATION FACTORS



⁴ The Experience Rating Plan places an emphasis on the number (frequency) of claims and (to a lesser extent) the severity of workplace accidents. If an employer has better experience than is expected for an average employer in the same industry with similar payroll, the employer receives a premium credit. On the other hand, if the employer's experience is worse than the comparable average, the employer receives a premium debit. The ability of the employer to directly affect his/her premium in this manner serves as an incentive to control or eliminate workplace injuries.

Other Related Issues

Kiefer Landfill Increase (Dump Expense)

The Company's Rate Application assumed a 3.0% increase in the Kiefer Landfill Disposal expense. The actual adjustment is based on the changes to both the San Francisco- San Jose All Urban Consumers Index and the US Energy Information Administration's No. 2 Diesel Index, and cannot be exactly determined until the April index figures are made available, likely in May or June of this year.

Franchise Fees

The Company paid the City a total of \$16,809.14 in franchise fees in 2013. Based on a franchise fee of 5% of gross revenues (not defined, but assuming all revenues, including recyclable material sales revenues), the City would be due \$17,658.02, or approximately \$849, in additional franchise fee payments for 2013.

Shareholders and Related Parties

Shareholders

The Company has five (5) Officers/Shareholders who are each actively involved in the Company and work full-time.

Related Parties / Related Party Transactions

The Company reported that it has two related parties:

- **MIAMI Amador LLC** – This is an entity in which the five (5) primary shareholders of Company each hold a 20% partnership interest. The business activity of the LLC is strictly the holding of real estate property. Company leases storage space on a monthly basis from the LLC. Loan payments for the properties are paid through Company and charged to an intercompany receivable account. Company reported that there has been no change in the rents it is charged since the inception of the LLC in 2003.
- **EZ Clean-Up Service** – This is an entity in which the five (5) primary shareholders of Company each hold a 20% partnership interest. The primary business activity consists of EZ Cleanup Service, which provides clean-up services throughout the County. Labor for these services is provided primarily from outside sources with minimal service provided by employees of the Company. Debris from clean-up jobs is hauled to the Buena Vista Transfer Station and EZ Cleanup is charged full transfer station prices. An intercompany

R3

receivable account is maintained for all transactions between Company and EZ Cleanup Service.⁵

Roll-Off Rates

The City may wish to consider setting roll-off rates separately from residential and commercial solid waste rates or having the County set roll-off rates for the entire County, rather than having roll-off revenues and expenses included in the overall calculated rate adjustment, as is currently the case.

Potential Rate Year 2016 Adjustments

The Rate Year 2015 rate adjustments account for the following one-year expenses that will be recovered in Rate Year 2015 through the rates that are established. These expenses (and the associated Profit and Franchise Fee expenses) will need to be removed from the Rate Year 2016 calculated index rate adjustment if the Company's entire rate adjustment is implemented.

1. **Rate Year 8 Rate Review Expense** - Rate Year 1 Detailed Rate Review pass-through expense of \$17,500; and
2. **Audit Fees** - \$2,000 for Financial Audit required every three (3) years by the County Contract.

These two expense items, which account for \$19,500 in one-time expenses, represent 5.7% of the required 2015 Rate Adjustment. The associated impact on the residential rates is shown below.

Table 4
RATE REVIEW COST IMPACTS

Service Level	Monthly Rate	Rate Review Cost Impact	
		\$	%
32 gallons	\$ 13.36	\$ 0.76	5.7%
64 gallons	\$ 17.27	\$ 0.98	5.7%
96 gallons	\$ 23.47	\$ 1.33	5.7%

⁵ The Company reported that the development of E-Z Cleanup's operations has not been actively pursued and there has been minimal activity (an average of 19 jobs annually over the past 3 years). Intercompany labor charges to EX Cleanup totaled \$17,000 in 2014.

Appendix A

Article J of the Franchise Agreement

R3

FRANCHISE FOR SOLID WASTE COLLECTION, DISPOSAL AND RECYCLING SERVICES

THIS FRANCHISE AGREEMENT is made and entered into effective January 1, 2015 ("Effective Date") between the City of Sutter Creek, a municipal corporation of the State of California, hereinafter referred to as "City"; and ACES WASTE SERVICES, INC., a California corporation, hereinafter referred to as "Contractor" or "ACES". This Agreement supersedes the previous franchise agreement between the City and Contractor, dated [date] 2009.

WHEREAS, the public health, safety and welfare, and Public Resources Code § 40059 require measures be taken by the City to provide for collection and disposal of refuse; and

WHEREAS, Contractor desires to collect and dispose of all garbage, rubbish and waste matter including recyclables, accumulated in City and any service area over which it has jurisdiction.

NOW, THEREFORE IT IS HEREBY AGREED between the parties hereto as follows:

ARTICLE A. DEFINITIONS.

1. As used in this Franchise, the terms "collection", "collection vehicle or equipment", "garbage", "litter", "putrescible", "recyclable material", "recycling", "removal", "refuse", "resource recovery", "rubbish", "scavenging" and "solid waste" shall have the meaning and be defined as set forth in Article 8.04.020 of the Sutter Creek Municipal Code and any amendments thereto.

ARTICLE B. REFUSE COLLECTION AREA.

The collection area for the collection of refuse by Contractor as herein provided is described as follows:

All residential, commercial, and industrial areas within the boundaries of the City of Sutter Creek as they existed on the effective date of this Franchise Agreement, and as they may be hereafter modified or increased by annexation or de-annexation. Territory annexed to the City shall be added to the franchise area granted by this Agreement, and Contractor shall be permitted to adjust rates to be consistent with his corresponding schedule within said area.

ARTICLE C. FRANCHISE PURPOSE, TERM, AND COMMENCEMENT

perform by the City Council, elects to draw upon the performance bond or other alternative security. Such funding shall only be made after a public hearing of which Franchisee shall be duly noticed at which Franchisee will be allowed an opportunity to be heard. It is understood that franchisee's waiver does not bind the principal/obligor issuing the bond.

3. Termination of Performance Bond. Under no circumstances shall Contractor change, or allow the expiration of the Performance Bond or alternative Performance Security provided under this Agreement without written notice to the City and without written authorization from the City to allow such change or expiration. In the event of Contractor's default, the Performance Bond shall remain in effect until the City or its designated agent has completed all of Contractor's obligations under the Agreement.

ARTICLE J. RATES.

1. Rates. For all services required to be performed under this Franchise, Contractor shall not charge any amount in excess of the rates fixed pursuant to the Rate Adjustment Methodology described below. Contractor agrees that the rates will not be increased prior to July 1, 2015. The second year of this contract will be treated as Rate Year 2 for the purposes of the Rate Adjustment Process described below.

2. Rate Adjustment Methodology. The Rate Adjustment Process will be on a three-year cycle with a cost based adjustment (Detailed Rate Adjustment) in Rate Year 1 followed by Indexed Rate Adjustments (Refuse Rate Index) in Rate Year 2 and Rate Year 3. The cycle will then repeat with a Detailed Rate Adjustment in Rate Year 4 and so forth in successive years.

Detailed Rate Adjustments under the Agreement shall occur in the same years, and simultaneously with, detailed rate adjustments that occur in accordance with Contractor's separate Franchise Agreement with the County of Amador, if Contractor is providing franchise service to the County. The Parties recognize that coordinating the City's and County's detailed rate reviews in this manner will provide efficiency in the review process, achieve an economy of scale in the review, and result in lower review costs. For purposes of this Agreement, and to conform the City's rate-review schedule to the County's schedule, a Detailed Rate Review shall be conducted for Fiscal Year 2015 (i.e. July 1, 2015 through June 30, 2016), which shall be treated as a Rate Year 1. Fiscal Year 2016 will be considered a Rate Year 2 and Fiscal Year 2017 will be considered a Rate Year 3. Notwithstanding the foregoing, or any provision of the Agreement to the contrary, the parties shall mutually have the right to waive a Detailed Rate Review for any year for which such a review would be required. If the parties mutually elect to waive a Detailed Rate Review, any adjustment in rate for that year shall be adjusted pursuant to the Refuse Rate Index, as the Agreement provides. If the parties mutually elect to waive a Detailed Rate Review for a particular year, a Detailed Rate Review shall not occur until the next regularly scheduled year in which a Detailed Review would be

authorized under this Section (i.e., every third year, after two successive years of adjustments per the Refuse Rate Index).

A) DETAILED RATE REVIEW. A Detailed Rate Review will be performed in each Rate Year that requires a Detailed Rate Adjustment.

Non-Allowable Expenses

1. Fines.
2. Liquidated Damages.
3. Penalties and Violations.
4. Income Taxes.
5. Charitable or Political Contributions (including CRRC PAC Expense; CRRC dues other than PAC expenses are an "Allowable Expense").
6. Good Will.
7. Employee free services in excess of normal weekly garbage service and limited roll off service (debris box/employee/year).
8. Related party charges in excess of that which would otherwise reasonably be charged by an unrelated party.
9. Long-term rental or lease charges for collection vehicles or equipment which are greater than the cost of acquisition (although normal interest/financing charges and costs borne by the leasing/rental company that would normally be the responsibility of the hauling company if they owned the assets directly. These costs include but are not limited to license fees, property taxes, insurance, repairs and maintenance).
10. Costs that are not reasonable or necessarily incurred in the performance of the services provided in accordance with the Franchise Agreement.
11. Unless specified in this section, all other reasonable or necessary expenses incurred by ACES in the performance of the services provided in accordance with the Franchise Agreement are allowable.

Pass Through Costs and Expenses (Not Subject to Profit)

1. Third-party Transfer, Processing and Disposal Expenses (ACES material transport costs are an "Allowable Expense").
2. Host Fees, Franchise Fees, and Administration Fees.
3. Regulatory or Other Fees.
4. Third-party Rate Review Costs. The cost of third-party review shall be passed through to ratepayers over a period of three years, commencing in the fiscal year that follows final completion of the DRR, and recovered in equal quarterly installments during each fiscal year.

5. Reimbursement for expenses of Proposition 218 compliance.

Other Allowable Expenses. Reasonable Franchise-related Marketing Expense, Promotional Expense and Travel Expenses are Allowable Expenses.

Variance Analysis. ACES to provide line item revenue and expense variance analysis for prior 4 years (since last Detailed Rate Review) and provide explanation of significant variances as part of Detailed Rate Application.

Other Terms Related To Profit

1. Eighty Seven point Five percent (87.5%) Operating Ratio contingent upon the City's compliance with all terms and conditions of the Franchise Agreement and any and all other related requirements. Determination of compliance shall rest solely with the City.
2. City reserves the right to increase or decrease the ACES' profit, at its sole discretion, based on its assessment of the extent to which ACES has or has not complied with all terms and conditions of the Franchise Agreement and any and all other related requirements.

Basis for Rate Adjustment Calculation. The rate adjustment for the Current Year is to be based on the Rate Adjustment Methodology applied to the results for the Prior Year (e.g., FYE 2015 Actual results will serve as the basis for 2016 Rate Adjustment.)

Schedule for Annual Rate Adjustments

1. Detailed and Indexed Rate Applications due to City by March 15th
2. Detailed Rate Review to be completed by May 1st.
3. Rate Adjustment to become effective on July 1st.

Other Terms Related to Detailed Rate Adjustment

1. ACES to provide Income Statements annually including Indexed Rate Adjustment Rate Years.
2. Income Statement to be audited for Detailed Rate Review year only (with exception of Material Sales Revenues which City reserves the right to have audited every year).
3. Notwithstanding the Schedule for Annual Rate Adjustments, if an extraordinary or unanticipated event should occur, including change in law, new or increased/decreased governmental or regulatory fees or tip fees or other event that materially affects ACES' compensation and over which they have no control, then ACES or City may request an Interim Compensation Adjustment. At the City's discretion, the Interim Compensation Adjustment

may be incorporated into the base rate, but not more frequently than quarterly. ACES shall clearly document the reason for the proposed adjustment, calculation of the proposed cost adjustments and supporting documentation. The City reserves the right to determine what constitutes a material affect that would trigger an Interim Compensation Adjustment as a result of events other than a change in law, increase/decrease in governmental or regulatory fees or tip fees.

4. There are to be no Balancing Accounts associated with the Rate Adjustment process. Either party may request a full cost based rate application (Detailed Rate Review) in place of an Indexed Rate Application. If allowed, any associated third party cost in excess of \$5,000 is to be paid by the party making the request.
5. ACES is to identify any revenues and/or expenses that are allocated and identify the specific allocation methods. City reserves the right to review any such allocations for reasonableness.
6. City reserves the right to review ACES' franchised operations to obtain assurances that ACES is operating in a cost effective manner. City recognizes that there are many reasonable and cost effective ways of providing solid waste services and the City is not interested in dictating the specific collection methodologies, the City's concern is that the chosen methods are reasonable and can be reasonably justified by ACES.
7. Any third-party cost of future rate reviews are to be paid by ACES and are to be allowed as a Pass Through Cost not subject to profit.

B) INDEXED RATE ADJUSTMENT. An Indexed Rate Adjustment will occur in Rate Year 2 and 3 and as set forth above. An Indexed Rate Adjustment will be based upon the Refuse Rate Index ("RRI").

Rate Year 2

1. RRI to be applied to the total of each applicable category (e.g., labor, fuel, R&M, depreciation, Other: from detailed rate review Income Statement (Rate Year 1) to generate Year 2 Indexed Expenses that will serve as the basis for the Year 2 Rate Adjustment Calculation.
2. Disposal expenses to be projected based on best available information.
3. Material Sales revenues to be set to prior year actual revenues during RRI years to account for commodity price fluctuations. City reserves the right to require that Material Sales revenue be audited during RRI years.

Rate Year 3. RRI to be applied to Rate Year 2 Indexed Expenses that will serve as the basis for the Rate Year 3 Adjustment calculation. Material Sales revenue to be set to prior year actual revenues during RRI years to account for commodity price fluctuations.

Other Terms Related To Refuse Rate Index

1. Indexed Adjustment for "All other" costs to be set at 100% of CPI rather than 75% as originally proposed.
2. Consideration to be given to the use of CA No 2 Diesel Fuel Index or other proposed index (e.g., CA No 2 Diesel Ultra Low Sulfur Fuel) mutually agreed upon by ACES and City.
3. Material Sales Revenues to be set to prior year actuals during RRI years to account for commodity price fluctuations.

ARTICLE K. FRANCHISE FEES

1. **Payment.** In consideration of the franchise privileges granted by City, Contractor shall pay to City on a quarterly basis a franchise fee of five percent (5%) of the gross revenues from Contractor's operations in the City annually. Contractor guarantees a minimum fee equal to those paid by the Contractor under the previous Franchise Agreement with the City, based on quarterly receipts for the quarter than ended on December 31, 2014. Franchise fees shall be paid to and received by City on or before the last business day of each quarter. Any late franchise fee payment shall be subject to a 1.5% per month late fee. In addition, Contractor shall pick up all City garbage and refuse at the locations and in the frequencies detailed in Attachment 6, without charge.

The City is authorized, separately or as part of any application for rate adjustments, to increase the franchise fee the Contractor pays the City to up to 10% of the gross revenues from Contractor's operations in the City annually. No increase in the franchise fee shall take effect unless and until the Proposition 218 process set forth in Article V of this Agreement has been followed.

2. **Profits from Recycling Operation.** In addition to franchise fees paid on the basis of gross revenues derived from solid waste collection and disposal services, Contractor shall include revenues and expenses from the collection and sale of recyclable materials generated from ACES' Sutter Creek recycling program as separate line items on its operating statements.

3. **City Administration.** In addition to the franchise fee required under section 1 of this Article, Contractor shall pay the City an annual Administration Fee to cover the City's administrative, legal, and other costs associated with or arising from the City's performance of the City's duties under this Agreement. On or before the last day of a