

**Interlocal Agreement
Concerning Phase IV Sewer Treatment Plant Improvements
Between Clark County, the Hazel Dell Sewer District
and the City of Battle Ground**

This Interlocal Agreement Concerning Phase IV Sewer Treatment Plant Improvements (the "Phase IV Agreement") is by and among the Hazel Dell Sewer District (the "District"), the City of Battle Ground (the "City") and Clark County (the "County") (collectively, the "Parties"), each a municipal corporation of the State of Washington.

The District, the City and the County hereby agree as follows:

1. Recitals

1.1. Various of the Parties are parties to: (a) The Joint Contract Among Clark County, the City of Battle Ground and Hazel Dell Sewer District for Sewage Treatment, Disposal and Transport Services, effective as of March 28, 1995 (the "3-Way Agreement"); the Contract Between Hazel Dell Sewer District and the City of Battle Ground for Sewage Treatment Capacity and Payment, effective as of March 28, 1995 (the "2-Way Agreement"); and the Memorandum of Understanding Pertaining to Continuing Authorization and Continuing Funding for the Phase 4 Expansion of the Salmon Creek Wastewater Management System, entered into on December 24, 2004 (the "MOU").

1.2. Paragraph 4 of the 3-Way Agreement provides that if "the County is required to upgrade the Facilities beyond the Improvements to provide a higher level of Wastewater treatment, to modify the methods or locations of effluent discharge, or to comply with applicable laws or regulations, the District shall pay the cost of providing such Additional Improvements or adding needed equipment, and acquiring land, whether by purchase or lease."

1.3. Paragraph 5.3 of the 2-Way Agreement provides that the “City shall be responsible to pay to the District its share of the cost of Additional Improvements made in accordance with Section 4 of the [3-Way Agreement].”

1.4. Because of Department of Ecology (“DOE”) requirements, other applicable legal requirements and the requirements of increased growth and development, the Parties have jointly concluded that there is a need to carry out the improvements described in Exhibit A attached and incorporated herein by reference (the “Phase IV Improvements”) at an estimated cost of \$71,000,000 in 2005 dollars. The Parties agree that the Phase IV Improvements constitute required improvements for which the Parties are responsible under Paragraph 4 of the 3-Way Agreement and Paragraph 5.3 of the 2-Way Agreement.

1.5. The Parties are engaged in a process of evaluating the preferred approach for ownership and operation of the sewage treatment Facilities on a long-term basis, and recognize that they may desire to revise or replace the 3-Way Agreement and the 2-Way Agreement at a future time and as permitted by applicable bond covenants. The purpose of this Phase IV Agreement is to establish a common understanding concerning the allocation of costs for the Phase IV Improvements, the allocation of capacity after those improvements are completed, and to proceed with financing and construction of the Phase IV Improvements while maintaining the ability to provide for future adjustments in ownership and operation of the Facilities.

2. **Definitions**

2.1. Unless another meaning is clearly intended, for the purposes of this Phase IV Agreement capitalized terms shall have the meanings given in the 3-Way Agreement, or, if not defined in the 3-Way Agreement, the meanings given in the 2-Way Agreement. The Phase IV Improvements shall constitute a “Project” as defined in the 3-Way Agreement, and the costs of

carrying out the Phase IV Improvements shall constitute "Project Costs" as defined in the 3-Way Agreement.

3. Scope of Phase IV Agreement

3.1 This Phase IV Agreement supplements and amends the 3-Way Agreement and the 2-Way Agreement for the limited purpose of providing for the financing and construction of the Phase IV Improvements. Except as otherwise provided herein or as the various Parties may later agree, both the 3-Way Agreement and the 2-Way Agreement, including all provisions not expressly amended herein or subsequently amended, shall remain in full force and effect.

4. Phase IV Improvements

4.1 The County shall administer the planning, design, acquisition, construction and construction management of the Project comprising the Phase IV Improvements, carrying out the same role that the County performed under Paragraph 2 of the 3-Way Agreement.

5. Financing of the Phase IV Improvements

5.1 The estimated Project Cost of the Phase IV Improvements is estimated to be \$71,000,000 in 2005 dollars. The exact cost of the Phase IV Improvements shall be determined by the County, acting reasonably, after construction, installation and acceptance of the Project and the resolution of any disputes relating thereto.

5.2 As between the District and the City, upon completion of the Phase IV Improvements, it is currently estimated that the District will be responsible for 73% of the Project Costs of the Phase IV Improvements and the City will be responsible for 27% of the Project Costs. The final allocation of Project Costs will be determined based on the total actual costs of each of the elements of the Phase IV Improvements, prorated based on the District's and the City's respective capacity in each element as described in Exhibit A attached and

incorporated herein by reference. The final allocation shall be determined by the County after completion of construction. The County shall not be directly responsible for any Project Costs. The City shall provide for its share of the Project Costs by paying that share to the District, and that amount shall be promptly transmitted to the County. The District and the City will each provide for its respective share in periodic payments during development and construction of the Phase IV Improvements, as and in the amounts requested by the County by ten days notice. The District and the City may make their payments from available cash, borrowings or grants.

5.3 In order to satisfy the requirement in Section 7.1 of the 3-Way Agreement that the District pay Sewer Treatment Charges (including "amounts necessary to satisfy the Coverage Requirement" as a component of Other Bond Costs), the District agrees with the County that Sewer Treatment Charges shall include amounts sufficient to provide 1.15 times Aggregate Annual Debt Service on the County's outstanding Parity Bonds (as the terms "Aggregate Annual Debt Service" and "Parity Bonds" are defined in the resolutions authorizing the issuance of the County's outstanding sewer revenue bonds). Amounts paid by the District to the County to provide for the County's Coverage Requirement, but in excess of the amount needed for debt service on the County's Parity Bonds in any year, shall be deposited in an appropriate County fund or account for repairs and replacement of the Facilities; such excess amounts shall be credited against the District's obligation to provide for repair and replacement costs through Sewer Treatment Charges.

5.4 Each of the Parties shall use its best efforts to obtain grants and low interest loans to pay for the Phase IV Improvements Project Costs. To the extent that the District or the City obtains grants, the amount of such grants shall reduce that Party's obligation for its share of Project Costs. Low interest loans obtained by the District or the City (e.g. Public Works Trust

Fund loans) shall remain the sole obligation of the District or the City, respectively, and shall reduce that Party's obligation for its share of Project Costs. Low interest loans obtained by the County for the Project shall reduce the District's proportionate share of responsibility for Project Costs and shall be repaid through Sewage Treatment Charges.

6. Allocation of Capacity

6.1 The District and the City agree that upon the completion of the Phase IV Improvements, the interest in the Allocated Capacity in the Facilities shall be as set forth in Exhibit A.

7. Term

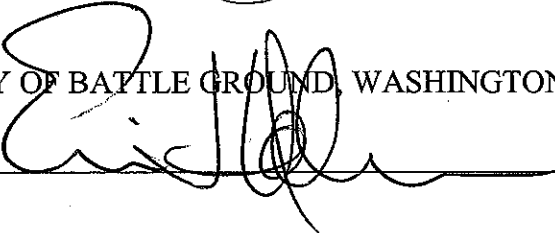
7.1 This amendatory Phase IV Agreement shall be effective to 2016 or so long as the 3-Way Agreement and/or the 2-Way Agreement (as such agreements may be amended or replaced) are in effect.

EXECUTED IN TRIPLICATE this 28 day of June, 2005, or such later effective date as may be required under Chapter 39.34 RCW, if applicable.

HAZEL DELL SEWER DISTRICT

By 

CITY OF BATTLE GROUND, WASHINGTON

By 

CLARK COUNTY

By 

EXHIBIT A
To Phase IV Interlocal Agreement

CAPACITY AND CAPITAL COST ALOCATION SUMMARY

**Salmon Creek Wastewater Management System (SCWMS)
Phase 4 Expansion Program
Capacity and Capital Cost Allocation Summary**

System Component	Phase 3 Existing Capacity (MMF)	Phase 4 Added Capacity (MMF)	Phase 4 Total Capacity (MMF)	Design Basis
Interceptor System				
Existing Interceptor System				
District Allocation	8.33	0.00	8.33	No Increase in Flow, No Work Planned
City Allocation	1.97	0.00	1.97	No Increase in Flow, No Work Planned
New Interceptor System				
District Allocation	0.00	19.75	19.75	Ultimate Buildout Projection
City Allocation	0.00	8.13	8.13	Ultimate Buildout Projection
Combined Interceptor System				
District Allocation	8.33	19.75	28.08	Ultimate Buildout Projection
City Allocation	1.97	8.13	10.10	Ultimate Buildout Projection
Total System			38.18	Ultimate Buildout Projection
Pump Station System				
Existing 36th Avenue Pump Station				
District Allocation	5.95	0.00	5.95	No Increase in Flow, R&R Work Planned
City Allocation	1.45	0.00	1.45	No Increase in Flow, R&R Work Planned
New Kline Line Pump Station Facility				
District Allocation	0.00	14.11	14.11	20-Year Projection
City Allocation	0.00	4.85	4.85	20-Year Projection
Kline Line Pump Station Pumping Equipment				
District Allocation	0.00	7.62	7.62	10-Year Projection
City Allocation	0.00	3.02	3.02	10-Year Projection
Combined Pump Station System				
District Allocation	5.95	7.62	13.57	10-Year Projection
City Allocation	1.45	3.02	4.47	10-Year Projection
Total System			18.04	10-Year Projection
Force Main System				
Existing 36th Avenue Pump Station Force Main				
District Allocation	5.95	0.00	5.95	No Increase in Flow, No Work Planned
City Allocation	1.45	0.00	1.45	No Increase in Flow, No Work Planned
New Kline Line Pump Station Force Main				
District Allocation	0.00	14.11	14.11	20-Year Projection
City Allocation	0.00	4.85	4.85	20-Year Projection
Combined Force Main System				
District Allocation	5.95	14.11	20.06	20-Year Projection
City Allocation	1.45	4.85	6.30	20-Year Projection
Total System			26.36	20-Year Projection
Salmon Creek Wastewater Treatment Plant and Outfall/Diffuser				
Existing Plant/Outfall Capacity				
District Allocation	8.33	0.00	8.33	No Increase in Flow, R&R Work Planned
City Allocation	1.97	0.00	1.97	No Increase in Flow, R&R Work Planned
New Plant/Outfall Capacity				
District Allocation	0.00	3.15	3.15	5-Year Projection
City Allocation	0.00	1.50	1.50	5-Year Projection
Total Plant/Outfall Capacity				
District Allocation	8.33	3.15	11.48	5-Year Projection
City Allocation	1.97	1.50	3.47	5-Year Projection
Total System			14.95	5-Year Projection

Notes:

1. Capital costs for all components will be allocated in proportion to the 'Phase 4 Total Capacity' flow values indicated.