

**CLEARVIEW WATER SUPPLY AGENCY
INTERLOCAL JOINT OPERATING AGREEMENT**

This Interlocal Joint Operating Agreement (the "Agreement") is made and entered into by and between the following parties:

Alderwood Water and Wastewater District, a Washington municipal corporation (hereinafter referred to as "AWWD");

Cross Valley Water District, a Washington municipal corporation (hereinafter referred to as "CVWD"); and

Silver Lake Water District, a Washington municipal corporation (hereinafter referred to as "SLWD").

All the parties to this Agreement may be referred to individually as "District" and collectively referred to as "Districts."

RECITALS

A. WHEREAS, the Districts provide water service to residents in Southwest Snohomish County; and

B. WHEREAS, the Districts entered into an interlocal agreement to construct a project known as the "Clearview Project", which includes a water pump station, approximately eight miles of water transmission line, a river crossing, and a reservoir (the "Clearview Project Facilities"); and

C. WHEREAS, the Districts will jointly operate the Clearview Project Facilities into the future to provide water to the residents of each respective District; and

D. WHEREAS, each District will benefit from the joint operation of the Clearview Project Facilities; and

E. WHEREAS, the purpose of this Agreement is to provide for joint management, administration, and funding of the Clearview Project Facilities; and

F. WHEREAS, this Agreement is entered into by the undersigned Districts, municipal corporations organized under the laws of the State of Washington, pursuant to the Interlocal Cooperation Act, Chapter 39.34 RCW, and after authorization by the legislative bodies of each of the Districts.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and conditions contained herein, the Districts hereby agree as follows:

I. CREATION AND ORGANIZATION

1. Creation of Organization. The Districts hereby agree to create an administrative entity under the provisions of Chapter 39.34 RCW to be known as Clearview Water Supply Agency.

1.1. Initial Formation Expenses. All expenses incurred by AWWD in the formation of Clearview Water Supply Agency shall be submitted to Clearview Water Supply Agency for reimbursement, and such expenses shall be borne equally by all the Districts.

1.2. Initial Board of Directors. Clearview Water Supply Agency shall be governed by a Board of Directors. The initial Board of Directors of Clearview Water Supply Agency shall consist of one representative appointed by each District, who must be an elected official for that District.

1.3. Adoption of Bylaws. The Board of Directors may adopt bylaws for the efficient operation of Clearview Water Supply Agency.

2. Membership in Clearview Water Supply Agency. Membership in Clearview Water Supply Agency shall be limited to water districts organized pursuant to Chapter 57 RCW or other government agencies that provide water services.

2.1. Initial Members. The undersigned Districts shall constitute the three initial members of Clearview Water Supply Agency.

2.2. New Members. Additional members may be added to this Agreement by the unanimous agreement of each District. Additional members shall be required to reasonably participate in the funding and financing of Clearview Project Facilities and the Clearview Water Supply Agency upon terms and conditions recommended by the Board of Directors and approved by all Districts.

2.3. Annual Meeting of the Members. Each year, the Boards of Commissioners of each District shall hold a joint meeting to receive a report from the Board of Directors of Clearview Water Supply Agency concerning the status of Clearview Water Supply Agency and the Clearview Project Facilities. The annual

meeting shall be held at a place directed by the Board of Directors and shall be held on the third Wednesday of June of each and every year, at 7:00 p.m., or such other date and time as the Districts may agree.

3. Governance of Clearview Water Supply Agency. Clearview Water Supply Agency shall be governed by a Board of Directors consisting of one representative from each District (the "Board of Directors"). By execution of this Agreement, each District fully authorizes its appointed Director to act on its behalf regarding all matters within the authority of the Board of Directors relating to Clearview Water Supply Agency and the Clearview Project Facilities.

3.1. Appointment of Director and Alternate. The Board of Commissioners of each District shall appoint its representative to serve on the Board of Directors. The Board of Commissioners may also designate an Alternate Director; provided that alternates shall be designated in writing prior to any meeting of the Board of Directors at which the alternate attends and acts on behalf of a District. These Directors and Alternate Directors shall serve under the terms and conditions of this Agreement until such time as they resign or are replaced. Individuals eligible to serve as Directors and Alternate Directors must be elected officials of each District. Directors and Alternate Directors shall not receive any compensation from the Clearview Water Supply Agency, but rather may be paid by their Districts.

3.2. Lead Agency. By execution of this Agreement, the Districts agree that AWWD shall be the initial lead agency of Clearview Water Supply Agency (the "Lead Agency"). The Lead Agency shall be authorized and required to execute all actions, including execution of all contracts, properly authorized by the Board of Directors. The Board of Directors may select a new District to serve as the Lead Agency upon a majority vote of the Board of Directors. Clearview Water Supply Agency shall reimburse the District for administrative staff time directly associated with the operation and maintenance of the Clearview Project Facilities, with the exception that no reimbursement to AWWD's designee shall be made for attendance at meetings of the Technical Committee or Board of Directors.

3.3. Board of Directors – President. The Director representing AWWD shall serve as initial President of Clearview Water Supply Agency. Thereafter, and annually, the Board of Directors shall elect one of the Directors as President. The President shall preside over meetings of the Board of Directors. The President shall be the official public spokesperson for Clearview Water Supply Agency.

3.4. Board of Directors – Secretary. The Board of Directors shall annually elect one of the Directors as Secretary.

3.5. Meetings of the Board of Directors. The Board of Directors shall hold regular meetings on a monthly basis or upon a schedule determined by the Board of Directors. In addition, any District, through its Director, may call a special Board meeting by providing two (2) business days prior written notice of the time and place of the meeting to all other Directors. The Board of Directors shall be responsible for providing any required legal notice of meetings to other parties interested in Clearview Water Supply Agency or Clearview Project Facilities matters. The Lead Agency shall provide services for notice of meetings and meeting facilities, as legally required, unless otherwise authorized by the Board of Directors.

3.6. Vacancy on Board of Directors. The District shall appoint a new Director within sixty (60) days should a vacancy occur.

3.7. Quorum. A quorum is required to conduct a valid meeting of the Board of Directors. A quorum is defined as the physical presence of the majority of the Directors. Any other director may attend by electronic communication.

3.8. Decisions of the Board of Directors. Except as otherwise provided in this Agreement, all actions of the Board of Directors authorizing contracts or budgets shall be unanimous. All emergency decisions and other decisions affecting Clearview Water Supply Agency or the Clearview Project Facilities shall be by majority vote of the Directors. The Board of Directors shall take no action at a regular or special Board meeting unless a quorum is present. The Board of Directors shall act in good faith to ensure that all Directors are properly notified of all regular and special Board meetings.

3.9. Compliance with Laws. The Board of Directors, and each Director and alternate, shall comply with all applicable laws and regulations.

4. Purpose of Agreement. The purpose of this Agreement and of the establishment of Clearview Water Supply Agency is to provide for the administration and funding for the operation and maintenance of the Clearview Project Facilities which are held in common by the Districts.

II. FINANCES AND OPERATIONS

5. Powers of Clearview Water Supply Agency. Pursuant to Chapter 39.34 RCW and this Agreement, Clearview Water Supply Agency shall have the powers, privileges, and authority as provided by law and as delegated by the Districts pursuant to this Agreement, including, but not limited to the power to:

- a. acquire, construct, receive, own, manage, purchase, sell, and lease real, personal, and intangible property;
- b. operate and maintain facilities;
- c. enter into contracts;
- d. hire and fire personnel;
- e. sue and be sued;
- f. exercise the power of eminent domain (through its member Districts at their individual discretion unless and until Clearview Water Supply Agency has that power under applicable law);
- g. purchase and sell water and services;
- h. provide services or facilities to any District, other governmental water utilities, or governmental service providers;
- i. invest its funds;
- j. establish policies, guidelines, or regulations to carry out its powers and responsibilities;
- k. purchase insurance, including participation in pooled insurance and self-insurance programs, and indemnify its member Districts, officers, and employees in accordance with law;
- l. exercise all other powers within the authority of, and that may be exercised individually by all of its member Districts with respect to water supply, conservation, reuse, treatment, and transmission; and
- m. exercise all other powers that Clearview Water Supply Agency may exercise under the law relating to its formation and that are not inconsistent with this Agreement or with Chapter 39.34 RCW or other applicable law.

In carrying out its duties under this Agreement, Clearview Water Supply Agency shall utilize, operate, and maintain real and personal property that is owned by one or more of the member Districts. This property includes the pump station site owned by CVWD, the reservoir site owned by AWWD, and Clearview Project Facilities owned in

common by the Districts. Except as provided in this Agreement, none of the Clearview Project Facilities or other assets of the Clearview Water Supply Agency may be sold without a unanimous affirmative vote of the Board of Directors and the written authorization of the District that holds title to the asset proposed to be sold. Any party may convey its unused capacity to other parties to this Agreement or any municipal purveyor. Capacity Conveyances to another municipal purveyor shall not include membership in the Clearview Water Supply Agency, except in compliance with Section 2.2 hereof. No water supply capacity in the Clearview Facilities may be sold to non-members of the Clearview Water Supply Agency without unanimous affirmative vote of the Board of Directors. Except as provided by this Agreement or as otherwise unanimously agreed to by the Districts in writing, Clearview Water Supply Agency shall have no power or authority to act on behalf of, or in the stead of, the undersigned Districts.

6. Ownership of Clearview Water Supply Agency. Each District's initial ownership interest in Clearview Water Supply Agency is based on and in proportion to each District's percentage share of the total capacity as shown on Exhibit "A" of this Agreement. The Board of Directors may amend the respective ownership interests of the member Districts only by unanimous consent. The Board of Directors is authorized to admit new members into Clearview Water Supply Agency and to sell ownership interests, by unanimous consent, to any authorized entity that is approved for admission by the Boards of Commissioners of the Districts pursuant to Section 2.2 of this Agreement.

7. Technical Committee. The Board of Directors shall establish a technical committee (the "Technical Committee") consisting of one designee provided by each respective member of Clearview Water Supply Agency. The Technical Committee shall be responsible for day-to-day management of the Clearview Project Facilities operations. Any disputes or disagreements amongst the members of the Technical Committee shall be presented to and resolved by a majority vote of the Board of Directors at a properly held meeting of the Board of Directors. The members of the Technical Committee will not be compensated by the Clearview Water Supply Agency, but rather will be reimbursed by their respective Districts for attendance at Technical Committee meetings or Clearview Water Supply Agency meetings.

8. Operations. The Technical Committee shall develop, and update from time to time, an "Operations and Maintenance Manual" which shall be submitted for final review and approval to the Board of Directors. The Operations and Maintenance Manual shall detail the necessary functions required by each District to provide safe and efficient operation and maintenance of the Clearview Project Facilities.

9. Excess Capacity. Each District's allocated share of total water supply capacity for each of the Clearview Project Facilities is attached to this Agreement as Exhibit "A". Nothing in this Agreement shall be construed to prevent a member District from selling or transferring water supply capacity allocated to that District to another member District. An agreement between two member Districts to reallocate water supply capacity amongst those two Districts shall not require the approval or consent of the Board of Directors.

10. Operating Fund. Upon execution of this Agreement by all Districts, the Lead Agency shall establish an operational fund (the "Fund"). Each District shall provide AWWD with the initial amount listed below for the purpose of establishing the Fund. The initial payment shall be based upon the Clearview Water Supply Agency Budget and in proportion to each District's respective share of the Budget. It is agreed that the Fund shall be initiated by payment of the initial three months of the annual budget. The Fund shall be maintained separately from all other Lead Agency funds and accounts. All interest shall accrue to the benefit of the Fund. The Lead Agency shall maintain all accounting records related to the Fund and may charge the Fund for the reasonable costs of accounting services. The Lead Agency shall provide all Districts with a monthly accounting of the Fund income and expenses and the balance of funds on hand. The Lead Agency shall provide for the annual state audit of the Fund and may charge the Fund for the reasonable costs of the audit.

III. ADMINISTRATIVE SERVICES

11. Administrative Services. The Lead Agency, selected per Section 3.2, shall perform and be responsible for all general administrative tasks necessary to carry out the functions and operations of Clearview Water Supply Agency and the Clearview Project Facilities. Such administrative tasks include, but shall not be limited to, clerical and secretarial tasks, word processing and document creation, scheduling, file organization and retention, payment of expenses and other financial services, providing of notices and facilities for meetings, and recordkeeping.

12. Budget. Prior to the beginning of each year, the Lead Agency shall, in conjunction with the Technical Committee, prepare a proposed budget for the estimated costs of performing the necessary administrative and operations services for Clearview in the upcoming year. This budget shall be presented to the Clearview Board of Directors for final approval not later than the November meeting of the Board of Directors, and may be increased or decreased thereafter by the Board of Directors. The Lead Agency shall prepare financial reports on a periodic basis and submit them to the Board of Directors.

13. Reimbursement.

13.1 The Lead Agency's personnel who perform administrative tasks related to Clearview Water Supply Agency or the Clearview Project Facilities shall track and record the amount of time and expenses that is spent working on such matters. On a monthly basis, the Lead Agency shall calculate the amount of personnel time and expenses allocated to Clearview administrative tasks and shall bill Clearview Water Supply Agency the reasonable costs of performance of those tasks. Clearview Water Supply Agency shall reimburse the Lead Agency the reasonable costs of all personnel time and expenses properly allocated to Clearview Water Supply Agency administrative tasks; however no reimbursement shall be had for attendance at meetings of the Technical Committee or Board of Directors. Bills shall be payable to the Lead Agency within thirty days of receipt. Clearview agrees to pay interest at the rate of one percent (1%) per month for any delinquency greater than sixty (60) days after the billing date.

13.2 In Addition to Lead Agency administrative services, from time to time personnel and equipment of the Districts may be used on Clearview Water Supply Agency administrative matters and operations and maintenance of Clearview Project Facilities. Districts incurring such expenses shall on a monthly basis calculate the amount of personnel time and expenses and shall bill the Clearview Water Supply Agency for the reasonable costs of the performance of such tasks. The Clearview Water Supply Agency shall reimburse the Districts for the reasonable costs of all personnel time and expenses and equipment use so allocated to Clearview Water Supply Agency administration and operations and maintenance tasks. No reimbursement shall be had for attendance at meetings of the Technical Committee or Board of Directors. Bills shall be payable to the District within thirty (30) days of receipt by the Lead Agency. Clearview agrees to pay interest at the rate of one percent (1%) per month on any delinquency greater than sixty (60) days after billing date.

14. Responsibility for Employees. The Lead Agency shall retain full control over its personnel and shall remain responsible for payment of the wages, salaries, and benefits, as applicable, of its personnel. Nothing in this Agreement shall be construed to make Clearview Water Supply Agency the employer of any personnel of the Lead Agency or any other District.

15. Insurance. The Lead Agency shall assist the Clearview Water Supply Agency in obtaining quotes for a contract for comprehensive personal liability and property damage insurance covering the Clearview Project facilities. Such insurance (i) shall include coverage for any accident resulting in bodily injury to or death of any person and consequential damages arising therefrom; (ii) shall include comprehensive property damage insurance; (iii) shall be in an amount of not less than \$1 million per occurrence; and (iv) shall be issued by a financially responsible insurance company or companies. The Clearview Water Supply Agency shall name its members as additional insureds on such insurance.

16. Allocation of Liability. The Lead Agency and Clearview Water Supply Agency shall be legally responsible for their own conduct in the

performance of their respective obligations arising under this Agreement. Neither the Lead Agency nor Clearview Water Supply Agency assumes any responsibility or liability for actions or omissions taken by or under the control of the other party.

IV. MISCELLANEOUS TERMS

17. Term of Agreement. The initial term of this Agreement shall commence upon execution by all the Districts, and shall continue in effect through December 31, 2054. Unless the Board of Directors unanimously agrees otherwise by ten (10) years before the end of a term, this Agreement shall automatically renew for additional twenty-year terms. A District may withdraw from this Agreement only by providing ten (10) years prior notice to the other Districts of its intent to withdraw.

18. Dissolution. Clearview Water Supply Agency may be dissolved prior to the expiration of a term only upon the unanimous consent of the member Districts. Upon dissolution, all valid outstanding expenses, liabilities, and obligations of Clearview Water Supply Agency on the effective date of dissolution shall be paid in accordance with this Agreement. Any remaining balance on hand in the Fund on the effective date of dissolution shall be distributed to the Districts in proportion to their respective ownership interests on the effective date of dissolution. Any other assets of Clearview Water Supply Agency on the effective date of dissolution shall be liquidated, with the proceeds distributed to the Districts in proportion to their ownership interest on the effective date of dissolution. Assets of Clearview Water Supply Agency that are unable to be liquidated prior to the effective date of dissolution shall be held in common by the Districts in proportion to their ownership interest on the effective date of dissolution until such liquidation occurs.

19. Dispute Resolution. If a dispute cannot be resolved by mediation, any District may petition for arbitration.

A petition for arbitration shall be in writing directed to each District having membership in the Clearview Water Supply Agency and shall state: (1) the nature of the dispute, (2) the relief requested, (3) the name and address of the Co-Arbitrator appointed by the Petitioning District, and (4) a list of three or more Arbitrators (with background information) nominated by the Petitioning District to be the Chief Arbitrator on the arbitration panel.

Within thirty (30) days of mailing of the Petition for Arbitration, each of the other Districts having membership in the Clearview Water Supply Agency shall submit to all other parties a Response Petition, stating: (1) the nature of the dispute, (2) the relief requested, (3) the name and address of the Co-Arbitrator appointed by the

Responding District, and (4) a list of three or more arbitrators (with background information) nominated by the Responding District to be the Chief Arbitrator on the arbitration panel.

Within sixty (60) days of mailing of the Petition for Arbitration, the Co-Arbitrators shall confer on and select, by unanimous agreement, the Chief Arbitrator.

The Co-Arbitrators appointed by the Districts and the Chief Arbitrator shall constitute the arbitration panel to hear and decide the dispute. The Co-Arbitrators may participate in the hearing and all deliberations of the panel. Co-Arbitrators shall submit a recommended decision to the Chief Arbitrator. The Chief Arbitrator alone shall make a Final Decision that will be binding on all parties.

A District may participate without a Response; provided that, if a District fails to submit a timely Response naming its Co-Arbitrator and nomination for the Chief Arbitrator(s), then the remaining District(s) submitting timely Responses and the Petitioning District may agree on the Chief Arbitrator.

Should the Petitioner and District(s) submitting timely Responses fail to agree unanimously in the selection of Chief Arbitrator, then any party may petition the Superior Court of the State of Washington for Snohomish County for an Arbitration Order. The Court shall select the Chief Arbitrator only from persons nominated by the parties in the Petition and Responses.

20. Governing Law. This Agreement, and the rights of the parties hereto, shall be governed by and construed in accordance with the laws of the State of Washington, and the Districts agree that any litigation that arises out of this Agreement shall take place in Snohomish County, Washington.

21. Severability. In case one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

22. Counterparts. This Agreement may be executed in any number of counterparts, and each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts shall together constitute one integrated agreement.

23. Amendments. No modification, termination, or amendment of this Agreement may be made except by unanimous vote of the Board of Directors.

24. Neutral Authorship. Each provision of this Agreement has been reviewed and negotiated, and represents the combined work product of all Districts hereto. No presumption or other rules of construction that would interpret the provisions of this Agreement in favor of or against the District preparing the same shall be applicable in connection with the construction or interpretation of any of the provisions of this Agreement.

25. Entire Agreement. The entire agreement between the Districts hereto is contained in this Agreement, and this Agreement supersedes all of their previous understandings and agreements, written and oral, with respect to the subject matter of this Agreement. This Agreement may be amended only by written instrument executed by the Districts subsequent to the date hereof.

ADOPTED in open public meetings of the Boards of Commissioners of the undersigned Districts on the dates indicated below.

ALDERWOOD WATER AND WASTEWATER DISTRICT

Phillip B. Lay
President
Anna J. Cross
Secretary

FEBRUARY 22, 2005
Date

SILVER LAKE WATER DISTRICT

Roger Sumner
President
Rod Ryzler
Secretary

02-10-05
Date

CROSS VALLEY WATER DISTRICT

Mike Deering
President
Wesley DeHoff
Secretary

FEB 15 2005
Date

EXHIBIT "A"
Clearview Phase II

Table I
Initial Construction Capacities

Agency	Pump Station \$5,870,000			River Crossing \$3,460,000			Pipeline A \$15,378,470			Pipeline B \$1,366,780			Reservoir \$6,080,000		
	Capacity	% Share	Cost	Capacity	% Share	Cost	Capacity	% Share	Cost	Capacity	% Share	Cost	Capacity	% Share	Cost
Alderwood	18.5	55.22%	\$3,241,642	18.5	40.66%	\$1,406,813	18.5	55.22%	\$8,492,588	18.5	71.98%	\$983,869	7.5	63.03%	\$3,831,933
Silver Lake	9	26.87%	\$1,577,015	9	19.78%	\$684,396	9	26.87%	\$4,131,529	1.2	4.67%	\$63,819	2.4	20.17%	\$1,226,218
Cross Valley	6	17.91%	\$1,051,343	18	39.56%	\$1,368,791	6	17.91%	\$2,754,353	6	23.35%	\$319,093	2	16.81%	\$1,021,849
total	33.5	100.00%	\$5,870,000	45.5	100.00%	\$3,460,000	33.5	100.00%	\$15,378,470	25.7	100.00%	\$1,366,780	11.9	100.00%	\$6,080,000

Table II
Future Capacities

Agency	Pump Station			River Crossing			Pipeline A			Pipeline B			Reservoir		
	Capacity	% Share	incremental capacity	Capacity	% Share	incremental capacity	Capacity	% Share	incremental capacity	Capacity	% Share	incremental capacity	Capacity	% Share	incremental capacity
Alderwood	18.5	33.14%	0	18.5	38.14%	0	18.5	38.14%	0	18.5	45.45%	0	13.9	58.40%	6.4
Silver Lake	12	24.74%	3	12	24.74%	3	12	24.74%	3	4.2	10.32%	3	2.4	10.08%	0
Cross Valley	18	37.11%	12	18	37.11%	0	18	37.11%	12	18	44.23%	12	7.5	31.51%	5.5
total	48.5	100.00%	15	48.5	100.00%	3	48.5	100.00%	15	40.7	100.00%	15	23.8	100.00%	11.9