

**SECOND SUPPLY PROJECT  
PARTNERSHIP AGREEMENT**

**OCTOBER, 2002**

**AGREEMENT FOR THE  
SECOND SUPPLY  
PROJECT**

**BETWEEN  
THE CITY OF TACOMA,  
DEPARTMENT OF PUBLIC UTILITIES, WATER DIVISION,**

**THE CITY OF KENT,**

**COVINGTON WATER DISTRICT,**

**AND**

**LAKEHAVEN UTILITY DISTRICT**

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This Agreement for the Second Supply Project (Project Agreement) between the City of Tacoma, Department of Public Utilities, Water Division (Tacoma); the City of Kent (Kent); Covington Water District (CWD), and Lakehaven Utility District (Lakehaven), is made and entered into effective this 19<sup>th</sup> day of December, 2002 (Effective Date); and

WHEREAS, in order to satisfy long term water needs in Tacoma's service area, and in south King County, Tacoma's 1980 Water Supply Plan envisioned the application for a permit for the right to divert water from the Green River (Second Diversion Water Right); and

WHEREAS, Tacoma's 1980 Water Supply Plan proposed that approximately 15 million gallons per day (mgd) of the Second Diversion Water Right would be made available to water purveyors in south King County; and

WHEREAS, since that time Tacoma has worked with various south King County water purveyors to procure the Second Diversion Water Right, and Tacoma has obtained rights of way, regulatory permits and taken other actions in order to facilitate the delivery and use of the Second Diversion Water Right by Tacoma and its Project partners; and

WHEREAS, in 1985 Tacoma entered into a contract with the Regional Water Association of South King County, and certain members thereof, in order to participate in the funding, development and use of the Second Supply Project to facilitate the delivery and use of water to be diverted from the Green River under the Second Diversion Water Right, among other matters; and

WHEREAS, the Second Supply Project evolved to include additional water storage at the Howard Hanson Dam; and

WHEREAS, a programmatic Environmental Impact Statement for the Second Green River Diversion & Transmission Project was prepared in 1980, a project specific Environmental Impact Statement was prepared in 1987 and updated in 1994, all in accordance with the Washington State Environmental Policy Act, RCW 43.21C; and

WHEREAS, the delivery and use of water from the Second Diversion Water Right and the construction of the facilities, as set forth in this Project Agreement, are consistent with state and local planning requirements, including the plans and programs of the Participants; and

WHEREAS, gravity fed surface water sources, such as the Second Diversion Water Right, provide a desirable and complimentary source of water supply to augment groundwater sources, and will maximize the benefits to residents of the State; and

WHEREAS, development of the Project as set forth in this Project Agreement will provide increased flows in the Green River to benefit the migration and spawning of

anadromous fish as specified in the agreement between Tacoma and the Muckleshoot Indian Tribe, as well as offering additional recreational opportunities to residents of the region; and

WHEREAS, the health of the chinook salmon in the Green River compares favorably to runs in other Puget Sound rivers, the environmental benefits associated with the Project will maintain and improve the health of the Green River salmon runs by providing downstream fish passage at the Howard Hanson Dam, fish screening and fish handling facilities at Tacoma's diversion dam and numerous environmental enhancement activities along the Green River, thereby providing a major contribution to recovery of salmon listed as threatened under the Endangered Species Act; and

WHEREAS, Tacoma has developed a Habitat Conservation Plan for its Green River operations that has been approved by the National Marine Fisheries Service and the U. S. Fish and Wildlife Service, resulting in the issuance of an Incidental Take Permit to Tacoma pursuant to the Endangered Species Act, and

WHEREAS, the increasing urbanization of south King County, growth in the region, compliance with Growth Management Act objectives and listings of salmon stocks pursuant to the Endangered Species Act have caused a critical need to utilize existing water supply sources in the most efficient and effective manner, which is made possible by the Second Supply Project; and

WHEREAS, developing a Green River water source using the Second Diversion Water Right in the manner envisioned by this Project Agreement offers to all the Participants a source of water with the benefits of joint development, tax exempt financing and economies of scale; and

WHEREAS, the lack of a source of water supply has become critical to certain south King County water purveyors, who have been forced to impose new hook-up moratoria, making the expeditious completion of the Project as set forth in this Project Agreement imperative; and

WHEREAS, in February, 1998, Tacoma, CWD, Kent and Lakehaven executed a Conceptual Agreement, which set forth the principles to be used in the development of this Project Agreement; and

WHEREAS, each of the parties to this Project Agreement recognizes and is committed to meeting their joint responsibilities to fulfilling the needs of both fish and people for water, and each of the parties believes that the timely completion and operation of the Second Supply Project are critical to meeting such joint responsibilities; and

WHEREAS, each of the parties to this Project Agreement has the statutory authority to execute and implement this Project Agreement under the applicable provisions of Washington law; and

WHEREAS, it is the intention of the Participants that his Project Agreement replace a certain Second Supply Project Agreement that was executed by some but not all of the parties needed for that Second Supply Project Agreement to become effective.

NOW, THEREFORE, the Participants agree as follows.

1. DEFINITIONS

- 1.1 When used with initial capitalization in this Project Agreement, the following terms shall have the meanings set forth below.
- 1.1.1 “Additional Water” means water from any source, other than the First Diversion and Second Diversion Water, that is proposed by any Participant for introduction into the Project, and such introduction is approved by the Project Committee, pursuant to sections 8 and 21.
- 1.1.2 “Annual Operating Plan” means the plan for the operation of the Project during any Operating Year that is prepared in accordance with section 20.
- 1.1.3 “Capital Expenditures” means expenditures of funds subsequent to Initial Project Construction, which are in excess of five hundred dollars (\$500.00), or such other amount as may be established by the Project Committee pursuant to section 8, are made to enhance the value or extend the life of the Project, and are contained in the Capital Expenditures element of any Project Annual Budget. This definition is to be used after Initial Project Construction for the purpose of categorizing costs for preparing the Project Annual Budget. This definition has no application to the treatment of costs incurred during Initial Project Construction, or to costs incurred pursuant to agreements entered into prior to the Project being placed in operation, and does not in any way limit or require the Participants to utilize a similar definition in accounting for the costs of the Project on such Participant’s books of account.
- 1.1.4 “Delivery Meter” means each of the meters which is located at or in the vicinity of the Points of Delivery of each of the Participants, and which measures the amount of Project Water delivered to each Participant from the Project. The approximate locations of the Delivery Meters are set forth on Exhibit A.
- 1.1.5 “Due Date” means the date by which payment of any invoice issued pursuant to section 25 is due to Tacoma or to an established escrow agent, which date shall be the close of business on the thirtieth (30th) day after an invoice is issued pursuant to this Project Agreement, provided, however, that if such thirtieth day falls on a Saturday, Sunday or legal holiday

observed by Tacoma, the Due Date shall be extended until the close of business of the next regular business day of Tacoma.

- 1.1.6 “Excess Project Capacity” means any capacity of the Project that is available during any Operating Year, or any portion thereof, as a result of one or more Participants not making full use of their Project Capacity Share.
- 1.1.7 “Financing Plan” means a plan for the funding of Project Costs which includes the issuance (or multiple issuances) of Project Bonds as approved by the Project Committee pursuant to section 8, and shall generally be in the form of Exhibit H.
- 1.1.8 “First Diversion Water” means water obtained under Tacoma’s First Diversion Water Right Claim.
- 1.1.9 “Fixed O&M Costs” means the costs incurred by Tacoma to operate and maintain the Project in accordance with this Project Agreement, which are neither Capital Expenditures nor Variable O&M Costs, and that do not vary based on the quantity of Project Water delivered to the Participants. Exhibit B sets forth examples of costs that comprise Fixed O&M Costs.
- 1.1.10 “Flow Control Valve” means the valve located in the vicinity of the Point(s) of Delivery for each Participant that controls the volume of Project Water that is delivered to each Participant, as set forth on Exhibit E. Flow Control Valves are not part of the Project.
- 1.1.11 “Headworks” means those Tacoma water system facilities located along a certain one-half mile section of the Green River near Palmer, Washington, that generally include the river diversion structures and the water control building/employee residence area.
- 1.1.12 “Howard Hanson Dam Additional Storage Project” means, under Phase I, the construction of certain environmental enhancement features and raising the summer storage pool to elevation 1,167 which will make available additional storage for water for municipal water supply purposes, and under Phase II, the construction of additional environmental enhancement features and raising the summer storage pool to elevation 1,177, which will make available additional water for fishery and municipal water supply purposes.
- 1.1.13 “Initial Project Construction” means the design, construction and placing in commercial operation those Project elements set forth in the Initial Project Construction Budget and the Initial Project Construction Schedule, attached hereto as Exhibits C and D.

- 1.1.14 "Initial Project Construction Budget" means the budget for Initial Project Construction, as set forth in Exhibit C.
- 1.1.15 "Initial Project Construction Schedule" means the schedule for Initial Project Construction, as set forth in Exhibit D.
- 1.1.16 "Interest Rate" means for each day that it is applied a rate equal to one-three hundred and sixty-fifth ( $1/365$ ) of the prime interest rate for preferred customers established from time to time by the Bank of America, or such other bank as may be designated by the Project Committee pursuant to section 8. When used to calculate the late payment charge pursuant to section 25, three (3) percentage points shall be added to such prime interest rate for each thirty (30) days that the payment of any invoice remains past due.
- 1.1.17 "Master Meter" means the meter located at or near the Headworks that measures the flow of Project Water into the Second Supply Pipeline through the Headworks. The approximate location of the Master Meter is set forth on Exhibit A.
- 1.1.18 "Operating Life" means the period of time during which the Project is operational and capable of fulfilling its delivery function in a reasonably efficient and economical manner. Section 7 sets forth the expectations of the Participants regarding the Operating Life.
- 1.1.19 "Operating Year" means any consecutive twelve (12) month period commencing on each July 1<sup>st</sup>, and ending on the following June 30<sup>th</sup>.
- 1.1.20 "Participants" means the parties to this Project Agreement set forth in section 3.
- 1.1.21 "Participant Share" means that fraction of the Project and Project Costs that, as provided in this Project Agreement, each Participant is entitled to use and each Participant is obligated to pay. Each Participant's Share is as follows: Tacoma-  $15/36$ ; Kent-  $7/36$  ; CWD-  $7/36$  ; and Lakehaven-  $7/36$ .
- 1.1.22 "Point of Delivery" means the point where facilities have been constructed that permit a Participant or Participants to divert and take delivery of Project Water from the Project, and which serve to interconnect the Project and the water supply system of such Participant or Participants. An example of the line of demarcation between the Project and the Point of Delivery facilities is set forth on Exhibit E.
- 1.1.23 "Project" shall have the meaning ascribed to such term in section 4.

- 1.1.24 "Project Annual Budget" means the budget for all of the costs of the Project for each Operating Year, including without limitation the costs of operation, maintenance, insurance, renewal, replacement, additions and improvements to the Project, that are approved by the Project Committee pursuant to section 8.
- 1.1.25 "Project Bonds" means those bonds issued by Tacoma's separate system pursuant to section 11 for the purpose of providing funds for the payment of certain Project Costs.
- 1.1.26 "Project Capacity Share" means the right of each Participant to use its Participant Share of the Project available under varying operating conditions to move Second Diversion Water from the Headworks to their respective Point(s) of Delivery, and for such other uses as set forth in this Project Agreement. Examples of the ability of the Project to do so under specific operating conditions is set forth on Exhibit N.
- 1.1.27 "Project Committee" means the committee constituted pursuant to section 8 of this Project Agreement.
- 1.1.28 "Project Costs" means costs, including but not limited to Fixed O&M Costs, Variable O&M Costs, Initial Project Construction Costs and Capital Expenditures, which Tacoma incurs to permit, design, construct, operate, maintain, insure, decommission, improve, renew, add to or replace Project pursuant to the terms of this Agreement, and the costs incurred by Tacoma or any other Participant which qualify as Reimbursable Costs pursuant to section 13.
- 1.1.29 "Project Cost Estimate" means the estimate of the costs of Initial Project Construction, as set forth in Exhibit G.
- 1.1.30 "Project Map" means the map of the Project set forth on Exhibit I.
- 1.1.31 "Project Operator" means the Participant that is designated pursuant to this Project Agreement to operate and maintain the Project, which Participant shall be Tacoma.
- 1.1.32 "Project Quality Assurance Procedures" means the quality assurance procedures that will be followed during Initial Project Construction, as set forth on Exhibit J.
- 1.1.33 "Project Specifications" means the specifications that will govern Initial Project Construction, as set forth in Exhibit K.

- 1.1.34 "Project Water" means any and all water, including without limitation First Diversion Water, Second Diversion Water and Additional Water, that is introduced into and that uses some portion of the Project, regardless of its source.
- 1.1.35 "Prudent Utility Practice" means at a particular time any of the practices, methods or acts which, in the exercise of reasonable judgment in light of the facts known at the time a decision is made (including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the water utility industry in the Puget Sound region), would be expected to accomplish the desired result at the lowest reasonable cost consistent with Project longevity, reliability, safety and expedition.
- 1.1.36 "Reasonable Costs" means the costs that are consistent with, and not in excess of, the level of costs that a water utility operating water facilities in the Puget Sound region and acting consistent with Prudent Utility Practice and in a manner expected to produce the lowest total project cost would incur to design, construct and operate such facilities, taking into account any circumstances particular to the facility or facilities.
- 1.1.37 "Reimbursable Costs" mean costs incurred by a Participant, other than costs incurred pursuant to this Project Agreement, to plan, design and construct facilities that are subsequently incorporated into the Project, and which are reviewed and approved pursuant to section 13, and may include to the extent incurred the costs of project specific environmental documents, rights of way, real property acquisition, engineering and design, permitting and regulatory approvals, surveying, field investigations, inspections, material, labor expenses, financing costs, state and local taxes, project administration up to and including the project manager, special legal counsel, consulting services related to the project, and indirect costs of up to ten percent (10%) of the direct labor costs of the project, but shall not include the costs of programmatic environmental documents, project administration costs for personnel above project manager, costs of in-house legal counsel, accounting or purchasing personnel, or gross earnings taxes.
- 1.1.38 "Second Diversion Water" means water that is obtained under the provisions of the Second Diversion Water Right, attached hereto as Exhibit L.
- 1.1.39 "Storage" means the retention of water at the Howard Hanson Dam until withdrawn therefrom, all pursuant to this Project Agreement.
- 1.1.40 "Surcharge Rate" means a rate equal to four times the highest wholesale water rate for sales to retail water utilities that Tacoma then has in effect.

1.1.41 “Treatment Facilities” means facilities that are necessary, now and in the future, to ensure that the quality of Project Water is in compliance with all applicable federal and state drinking water regulations, laws and standards, including without limitation chlorination, fluoridation, corrosion control and filtration facilities.

1.1.42 “Uncontrollable Force” means any event or occurrence that is beyond the reasonable control of a Participant and which by the exercise of due diligence and reasonable foresight such Participant could not have reasonably been expected to avoid or remove, and includes but is not limited to flood, earthquake, storm, accident, fire, lightning and other natural catastrophes, epidemic, war, labor or material shortage, strike or labor dispute, or sabotage, and also includes restraint by an order of a court of competent jurisdiction or by regulatory authorities against any action taken or not taken by a Participant, after a good faith effort by such Participant to obtain: (a) relief from such order; or (b) any necessary authorizations or approvals from any governmental agency or regulatory authority. In no event shall the duty of a Participant to make any payment hereunder be excused by reason of an Uncontrollable Force.

1.1.43 “Variable O&M Costs” means the costs incurred by Tacoma to operate and maintain the Project in accordance with the Project Agreement, and which are neither Capital Expenditures nor Fixed O&M Costs, and which costs vary based on the quantity of Project Water delivered to a Participant during an Operating Year. Exhibit B sets forth examples of the type of costs that comprise Variable O&M Costs.

## 1.2 Other Terms Defined in the Project Agreement

1.2.1 The following terms are defined in the context of this Project Agreement:

1.2.1.1 “Effective Date” as defined in the Introductory section.

1.2.1.2 “Pre-Construction Activities” as defined in subsection 8.9.1.

## 2. EXHIBITS TO THE PROJECT AGREEMENT

2.1 The following exhibits, which are attached to this Project Agreement, are hereby made a part of and incorporated into this Project Agreement as if fully set forth herein:

- Exhibit A-Approximate Location of Master Meter and Delivery Meters
- Exhibit B-Fixed and Variable O&M Costs Examples
- Exhibit C-Initial Project Construction Budget
- Exhibit D-Initial Project Construction Schedule

Exhibit E-Typical Point of Delivery  
Exhibit F-Project Annual Budget  
Exhibit G-Project Cost Estimate  
Exhibit H-Financing Plan for Initial Project Construction  
Exhibit I-Project Map  
Exhibit J-Project Quality Assurance Procedures  
Exhibit K-Project Specifications  
Exhibit L-Second Diversion Water Right Permit  
Exhibit M-Environmental Enhancement Agreements and Estimated Costs  
Exhibit N-Allocation of Project Capacity  
Exhibit O-Allocation of Headworks Costs  
Exhibit P-Prepayment of Project Costs  
Exhibit Q-Special Provisions for CWD and Kent  
Exhibit R-Special Provisions for Lakehaven  
Exhibit S-Sample Calculation of Tacoma Treatment Payment and Credit  
Exhibit T-Sample Calculation of Monthly Accounting of Water Deliveries  
Exhibit U-Sample Calculation of Variable O&M Costs  
Exhibit V-Howard Hanson Dam Project Cooperation Agreement  
Exhibit W-Sample Allocation of Howard Hanson Phase II  
Exhibit X-Sample Weekly Operations Report

- 2.2 If and to the extent that there is a conflict between the terms set forth in any of the foregoing Exhibits and those set forth in the body of this Project Agreement, the terms set forth in the body of this Project Agreement shall prevail for purposes of construing this Project Agreement.
- 2.3 Exhibit AA, an Agreement of Tacoma, CWD and Lakehaven for Mutual Aid, is attached hereto for informative purposes only, and shall not be interpreted as being part of this Project Agreement.

### 3. PARTICIPANTS.

The Participants in this Project Agreement are: (1) The City of Tacoma, Department of Public Utilities, Water Division (2) the City of Kent; (3) the Covington Water District; and (4) the Lakehaven Utility District.

### 4. THE PROJECT

- 4.1 The Participants have entered into this Project Agreement to permit, design, finance, construct, operate, and maintain the Project and to receive deliveries of Project Water. For purposes of this Project Agreement, the Project consists of the following:

- 4.1.1 The water from the exercise of the Second Diversion Water Right (up to 100 cfs) as set forth on Exhibit L;

- 4.1.2 The Second Supply Pipeline commencing at the Headworks and continuing to Tacoma's Pipeline No. 4 near the Portland Avenue Reservoir (approximately thirty-four miles with a nominal capacity of seventy-two mgd);
  - 4.1.3 A portion of the improvements at the Headworks diversion dam and intake (associated with the Second Diversion Water Right), as set forth in Exhibit C;
  - 4.1.4 A portion of the Project fisheries and environmental enhancements, as set forth on Exhibit M;
  - 4.1.5 The right to store water as a result of the Howard Hanson Dam Additional Storage Project (up to 20,000 acre-feet per year of municipal water supply storage available for withdrawal during each Operating Year in Phase I and options to participate in Phase II);
  - 4.1.6 The expansion of existing or the construction of additional Treatment Facilities.
- 4.2 The Project has been designed to permit all Participants to receive at their point(s) of Delivery their respective Participant Share of Second Diversion Water simultaneously. The Participants understand and acknowledge that the capability of Project facilities at any point in time is dependent upon the use being made of the Project by the Participants, and external factors as well. Exhibit N demonstrates the amount of Project capability available to the Participants under various circumstances, and demonstrates that the Project is capable of delivering to all Participants at their Point(s) of Delivery their respective Participant Share of Second Diversion Water at the same time.
- 4.3 Tacoma shall own the Project, and all facilities related thereto.

## 5. RIGHTS AND OBLIGATIONS OF THE PARTICIPANTS

- 5.1 Pursuant to the terms of this Project Agreement, each Participant shall have the following contractual rights and obligations:
- 5.1.1 The contractual right to use an undivided share of the Project equal to its Project Capacity Share, and the contractual right to use available Excess Project Capacity.
  - 5.1.2 The contractual right to schedule for delivery and receive at its Point(s) of Delivery its Participant Share of Second Diversion Water, and the contractual obligation to take delivery of the Second Diversion Water so delivered. The

ability of the Project to do so under various operating scenarios is illustrated on Exhibit N.

- 5.1.3 The contractual right to schedule for delivery and receive at its Point(s) of Delivery Additional Water, and the contractual obligation to take delivery of the Additional Water so delivered.
- 5.1.4 The contractual right to its Participant Share of Storage.
- 5.1.5 The contractual obligation to pay its Participant Share of Project Costs, initially as a capital contribution in exchange for, and to qualify each Participant to enjoy, the rights and interests described in this section, and upon operation as a share of operating and maintenance costs of a Project providing water that is furnished by each of the Participants to its customers.

## 6. RIGHTS AND OBLIGATIONS OF TACOMA AS PROJECT OPERATOR

- 6.1 Tacoma shall be the Project Operator and shall be responsible for the day to day operation of the Project, including without limitation, coordination of Storage with the Army Corps of Engineers, delivery of Project Water to the Participants at their Points of Delivery, performance of maintenance, renewals, replacements, improvements and additions to the Project, reading and testing of the Master Meter and all Delivery Meters, obtaining and maintaining required permits, approvals and regulatory authorizations needed to operate the Project, all as set forth in this Project Agreement. As Project Operator, Tacoma shall, consistent with the terms of this Project Agreement and the approved Project Budget then in effect, operate and maintain the Project in a manner that is consistent with Prudent Utility Practice.
- 6.2 As Project Operator, consistent with Prudent Utility Practice and this Project Agreement, Tacoma shall:
  - 6.2.1 Deliver to each Participant at its Point(s) of Delivery Project Water as scheduled by each Participant pursuant to this Project Agreement.
  - 6.2.2 Ensure that all Project Water delivered to Participants at their Point(s) of Delivery is in compliance with all applicable state and federal drinking water laws, regulations and standards.
  - 6.2.3 Ensure that Project Water is delivered to Participants at their Point(s) of Delivery, and that such deliveries are made at the pressures specified in Exhibit A measured at the locations set forth therein.

- 6.3 Tacoma shall report to the other Participants its activities as Project Operator, as such reports are required pursuant to this Project Agreement. Notwithstanding Tacoma's duty to report to the other Participants, Tacoma may without consulting the other Participants take such actions as it determines to be appropriate under the circumstances as Tacoma understands them to fulfill its duties under this Project Agreement as Project Operator, consistent with Prudent Utility Practice.
- 6.4 In the event that circumstances require Tacoma to take actions not contemplated by the Project Annual Budget then in effect, Tacoma shall make a reasonable effort to consult with the other Participants if circumstances permit. However, Tacoma may take such actions as it judges to be appropriate under the circumstances as Tacoma understands them without prior consultation with the other Participants. If Tacoma takes such actions without prior consultation with the other Participants, it shall promptly notify the other Participants of the action taken and consult with them as soon as practicable.

## 7. TERM OF THE PROJECT AGREEMENT

- 7.1 This Project Agreement shall take effect when executed by all of the Participants, and shall remain in full force and effect during the Operating Life of the Project, including any and all renewals, replacements and additions thereto. Except for those sections and subsections that expressly survive the termination of this Project Agreement, this Project Agreement shall terminate for all Participants on the date that the Participants determine, pursuant to section 8, that the Operating Life of the Project has ended.
- 7.2 It is the expectation of the Participants that the Project will have an Operating Life of not less than one hundred (100) years. This is only the expectation of the Participants, and does not impose any duty, obligation, liability or responsibility on Tacoma regarding the Project other than as set forth in other sections of this Project Agreement.
- 7.3 Tacoma is the holder of the Second Diversion Water Right Permit. The rights of the other Participants to a share of the water available under the Second Diversion Water Right arise under the terms of this Project Agreement. Upon the termination of this Project Agreement pursuant to this section 7, each Participant shall have the right to participate in any subsequent project that is constructed, in whole or in part, to make available to one or more of the Participants Second Diversion Water, and shall include the right to obtain and use a share of Second Diversion Water and Storage then available on a basis and in amounts comparable to such Participant's right under this Project Agreement. The rights and obligations of the Participants set forth in this subsection 7.3 shall survive the termination of this Project Agreement, and shall be fully enforceable subsequent thereto.

7.4 All obligations incurred during the term of this Project Agreement shall survive the termination or expiration of this Project Agreement, and shall survive until satisfied.

8. PROJECT COMMITTEE

8.1 There shall be a Project Committee composed of one (1) representative of each Participant. Within thirty (30) days of the execution of this Project Agreement, each Participant shall designate its representative and any alternates in writing delivered to all Participants. Within sixty (60) days of the execution of this Project Agreement, Tacoma shall by written notice to all Participants convene the initial meeting of the Project Committee. Each Participant may change its representative and/or its alternate representative at any time by providing written notification to all other Participants.

8.2 The representatives of the Participants shall have the following votes at the Project Committee meetings:

Tacoma- Fifteen (15) votes  
CWD- Seven (7) vote  
Kent- Seven (7) vote  
Lakehaven- Seven (7) vote

8.3 For the Project Committee to take action, there must be present a quorum of not less than three (3) Participants, one of which must be the Project Operator. Tacoma shall be obligated to attend any Project Committee meeting convened pursuant to this Project Agreement. All decisions and actions of the Project Committee shall be taken by a vote of the Participants present. All matters decided by the Project Committee, other than those items specified in subsections 8.4 and 8.5, shall be by a simple majority of the votes cast by the Participants present.

8.4 The following matters shall require for approval the affirmative vote of twenty-nine thirty-sixths (29/36) of the Project Committee votes and three of the Participants: (i) any amendment or modification to the Project Specifications; (ii) approval of Treatment Facilities inconsistent with subsection 18.3; (iii) any amendment or modification to the Initial Project Construction Budget; (iv) any amendment or modification to the Initial Project Construction Schedule; (v) approval of any change order that exceeds one-half of the original contingency for the contract for which the change order is requested, or which exceeds the sum of \$500,000.00; (vi) approval of the Capital Expenditures contained in any Project Annual Budget; and (vii) approval or revision of any Financing Plan. In addition to the foregoing, in order for a representative to vote on any Financing Plan or revision thereto, the representative must present to the Project Committee a

resolution (or ordinance, as appropriate) passed in the sixty (60) days prior to the Project Committee vote by the governing body of the Participant on whose behalf the representative will vote, and indicating the nature of the vote to be cast by such representative.

- 8.5 Any determination of the Operating Life shall require the affirmative vote of all Participants. In order for a representative to vote on the determination of the Operating Life, the representative must present to the Project Committee a resolution (or ordinance, as appropriate) passed in the sixty (60) days prior to the Project Committee vote by the governing body of the Participant on whose behalf the representative will vote, and indicating the nature of the vote to be cast by such representative.
- 8.6 The Project Committee shall adopt such rules as it determines to be convenient and appropriate for the conduct of its business, including without limitation rules of procedure for meetings. Persons who are not designated representatives of any Participant but who are elected officials, directors, officers, employees, consultants or agents of a Participant may attend meetings of the Project Committee.
- 8.7 After the completion of Initial Project Construction, the Project Committee shall meet no less frequently than once each quarter. The Project Committee may meet more frequently should circumstances warrant. The dates for all regularly scheduled Project Committee meetings shall be established at the last Project committee meeting prior to the year in which such meetings shall take place.
- 8.8 Any Participant may convene a Project Committee meeting after the completion of Initial Project Construction by giving written notice to all other Participants no less than fourteen (14) days prior to the proposed date of the Project Committee meeting. The written notice shall indicate the time, location and agenda items to be discussed.
- 8.9 Activities Prior to Issuance of Project Bonds for Initial Project Construction
- 8.9.1 Prior to the issuance of Project Bonds for Initial Project Construction, Tacoma shall engage in activities necessary to obtain regulatory consents, finalize agreements and otherwise take the actions preliminary to the commencement of Initial Project Construction (Pre-Construction Activities).
- 8.9.2 Not less frequently than once each calendar year, Tacoma shall present to the Project Committee a proposed budget setting forth the anticipated Pre-Construction Activities that Tacoma will undertake in the next twelve (12) months, or any portion thereof, the expected costs of such activities, a

brief explanation of the need for such activities and a schedule for the payment of the proposed budget by the Participants.

- 8.9.3 The Project Committee shall review each proposed budget for Pre-Construction Activities submitted pursuant to subsection 8.9.2, and shall vote on such budget as submitted by Tacoma or as revised by the Project Committee.
  - 8.9.4 The Participants shall pay the costs in any budget for Pre-Construction Activities approved pursuant to this subsection 8.9 in proportion to their Participant Shares.
  - 8.9.5 At any time when a Pre-Construction Activities budget is in effect, Tacoma may propose to the Project Committee a revision to such budget, which proposed revision shall be considered by the Project Committee. Any revision to a budget for Pre-Construction Activities shall take effect if and when approved by the Project Committee.
  - 8.9.6 Prior to the issuance of Project Bonds for Initial Project Construction, the Project Committee shall meet no less frequently than once each quarter.
- 8.10 Activities During Initial Project Construction
- 8.10.1 The Project Committee shall meet no less frequently than once each month. Any Participant may convene a meeting of the Project Committee, other than a regularly scheduled meeting, by giving written notice to all Participants at least seven (7) days prior to the meeting date, and such notice shall indicate the Time, location and agenda items the Participant convening the meeting wishes to be discussed.
  - 8.10.2 The Project Committee shall monitor the construction of the Project. To aid in this effort, Tacoma shall report at the Project Committee meetings information relevant to the construction of the Project, including without limitation construction activity since the last Project Committee meeting, construction activity expected to be accomplished by the next Project Committee meeting, the percentage of Initial Project Construction Budget expended, and any developments in the construction of the Project which should be brought to the attention of the Project Committee. Participants shall have access during normal business hours to all documents, plans, records and correspondence relating to the construction of the Project.
  - 8.10.3 Tacoma shall seek the advice of the Project Committee on all substantial matters relating to Initial Project Construction, and the Project Committee shall advise Tacoma on such matters in a manner consistent with the terms and conditions of this Project Agreement, and with the objective of

constructing the Project within the Initial Project Construction Budget and consistent with the Initial Project Construction Schedule. Tacoma shall give due consideration to the advice of the Project Committee on such matters, and shall incorporate such advice to the extent that Tacoma determines that it is appropriate to do so.

8.10.4 The Project Committee will take such actions as are necessary to discharge its duties pursuant to subsection 8.10, including, among other matters, revising the Project Specifications or the Financing Plan for Initial Project Construction, attached hereto as Exhibit H.

#### 8.11 Activities Subsequent to Initial Project Construction

8.11.1 Subsequent to the completion of Initial Project Construction, the Project Committee shall be responsible for the activities set forth below, and for such other activities as the Project Committee agrees to undertake. The Project Committee shall be responsible for, among other matters, the following:

- Approving new Points of Delivery
- Approving and revising the Project Annual Budget
- Approving Additional Water deliveries
- Approving and revising Financing Plans
- Approving imposition of the Surcharge Rate
- Determining actions needed to maintain water quality
- Determining amounts and types of insurance and self insurance arrangements
- Determining Project Operating Life
- Disposition of unexpended funds from Initial Project Construction Budget
- Establishing operating ranges for the Master and Delivery Meters
- Establishing ramp rates for changes to scheduled flows
- Establishing scheduling procedures
- Establishing metering testing standards
- Establishing procedures for scheduling run of river Second Diversion Water
- Establishing procedures for excess deliveries of run of river Second Diversion Water
- Receiving the annual operator's report
- Resolving hydraulic issues
- Revising the commencement date of any Operating Year
- Revising deadlines set forth in sections 20, 21 and 22
- Revising dates for storage periods under section 19.2
- Revising the dollar limit for Capital Expenditures
- Revising reporting requirements by Project Operator
- Review and approval of the Capital Element of the Annual Budget

Review and approval of the Annual Operating Plan  
Selecting a substitute bank for computing Interest Rate  
Selecting a third party auditor pursuant to section 13

- 8.12 Decisions of the Project Committee taken pursuant to this section 8, and any impasse or inability of the Project Committee to reach a decision on any topic, shall not be subject to the dispute resolution process set forth in section 28. By unanimous agreement, the Participants may voluntarily elect to submit to mediation or arbitration any topic that is subject to disposition by the Project Committee.

## 9. INITIAL PROJECT CONSTRUCTION

- 9.1 Tacoma shall, in accordance with the terms and subject to the conditions of this Project Agreement, and consistent with the Project Specifications and Project Quality Assurance Procedures, design, construct, test and place in operation the Project. Tacoma shall undertake its duties and responsibilities for Initial Project Construction under this Project Agreement professionally and with all appropriate skill, care and diligence in accordance with generally accepted water industry standards in effect in the Puget Sound region at the time of performance of the work, and shall hire and manage all necessary and appropriate contractors in connection therewith. No Participant other than Tacoma shall engage in any communication with any contractors, subcontractor or sub-subcontractor performing Initial Project Construction without giving Tacoma prior notice of and an opportunity to participate in such communication. Initial Project Construction shall commence as soon as practicable after the execution of this Project Agreement.
- 9.2 Tacoma shall maintain and provide to all Participants upon request complete and up-to-date plans, drawings and specifications and other documentation relating to the design, engineering, construction and operation of the Project.
- 9.3 Tacoma shall maintain and provide to all Participants copies of design decision reports, control decision reports and similar documents prepared by Tacoma with respect to the Project whenever Tacoma circulates any such document for review and signature. Whenever requested by a Participant, Tacoma shall make available for inspection wherever such records are maintained, copies of correspondence and other notices or written communications between Tacoma and any contractors, subcontractors and other third Participants relating to Initial Project Construction.

## 10. INITIAL PROJECT CONSTRUCTION SCHEDULE

- 10.1 The Project shall be permitted, designed and constructed in accordance with the Initial Project Construction Schedule, as may be revised from time to time by the Project Committee.
- 10.2 The Initial Project Construction Schedule shall be composed of schedules for the following Project elements:
- Project Permitting and Regulatory Approval Element
  - Project Design Element
  - Initial Project Construction Element
  - Project Testing Element
- 10.3 The Initial Project Construction Schedule, including schedules for all Project elements, is set forth in Exhibit D.

## 11. PROJECT FINANCING

- 11.1 Prior to the issuance of Project Bonds for Initial Project Construction, any Pre-Construction Activities shall be budgeted and approved pursuant to the procedures set forth in subsection 8.9.
- 11.2 Financing Initial Project Construction
- 11.2.1 The estimated costs of Initial Project Construction are set forth in the Initial Project Construction Budget and the Project Cost Estimate, attached hereto as Exhibits C and G. The Participants acknowledge that the actual costs incurred for the Initial Project Construction may vary from the estimates set forth on Exhibits C and G.
- 11.2.2 Tacoma shall be responsible, in consultation with the other Participants, for providing to the Project Committee the proposed financing plan and implementing the financing plan as approved by the Project Committee. Project Bonds may be issued by Tacoma's separate system to fund all or part of the costs of Initial Project Construction and shall generally be in accordance with the Financing Plan for Initial Project Construction set forth in Exhibit H. However, the Participants acknowledge that the Financing Plan for Initial Project Construction represents the best estimate of the Participants based on information available when this Project Agreement was executed, and that circumstances in the future may require financing activities and Project Bond issuances which vary from those set forth in the Financing Plan for Initial Project Construction. If the funding provided by the Financing Plan for Initial Project Construction proves to be inadequate or untimely, Tacoma may propose a revised Financing Plan

to the Project Committee to take into account such change in circumstances, including without limitation, additional issuances of Project Bonds to fund the costs of Initial Project Construction.

11.2.3 The Headworks modifications will provide benefits to both the Project and Tacoma's existing Pipeline No. 1. The costs of these modifications have been allocated between the Project and the Pipeline No. 1 to reflect the benefits derived by each of those facilities. Only those Headworks modifications costs allocated to the Project are contained in the Initial Project Construction Budget, attached hereto as Exhibit C.

### 11.3 Financing After Initial Project Construction

11.3.1 After the completion of Initial Project Construction, from time to time the Participants will be required to fund the replacement, renewal, repair, improvement or make capital additions to the Project pursuant to this Project Agreement. If all or any portion of the funding for the costs of such replacements, renewals, repairs, improvements and capital additions is to be provided by the issuance of Project Bonds, Tacoma shall submit to the Project Committee a Financing Plan setting forth the purpose, amount, repayment schedule and timing of the proposed issuance (or issuances). Upon approval by the Project Committee pursuant to section 8, Tacoma may cause to be issued by such separate system in accordance with the approved Financing Plan Project Bonds for such purposes, the repayment of which shall be secured by the payments to be made by the Participants to this Project Agreement.

11.3.2 The costs of operating and maintaining the Project shall be established in accordance with section 24, and other applicable sections of this Project Agreement.

### 11.4 Provisions Applicable to All Project Financing

11.4.1 Tacoma may establish a separate system for accounting and bond issuance purposes for the Project. All Project Bonds shall be issued in accordance with a Financing Plan approved by the Project Committee pursuant to section 8, shall be for the purpose of financing Project Costs, and may be issued by Tacoma's separate system. If and to the extent permitted by the then current law, such Project Bonds shall be issued as non-recourse, tax-exempt municipal bonds, the repayment of which shall be secured by the payments to be made by the Participants pursuant to this Project Agreement.

- 11.4.2 The Participants shall be given the opportunity to review and comment upon any preliminary and final official statements prepared in conjunction with the issuance of all Project Bonds.
- 11.4.3 If Tacoma issues project bonds on behalf of any other participants, Tacoma shall take all commercially reasonable actions necessary to ensure that the proceeds from such issuances are available in a timely manner to fund the construction, replacement, renewal, repair, improvement of or capital additions to the Project, while seeking to minimize the interest rates of such Project Bonds. Tacoma is hereby authorized to purchase bond insurance and other credit enhancement devices, issue bonds in series, and take all such other actions as may be commercially reasonable to reduce the costs to the Participants of Project Bonds issued in accordance with this section 11.
- 11.4.4 The costs incurred by Tacoma from time to time to cause the issuance of Project Bonds, including without limitation the costs of Tacoma staff and associated overheads, shall be treated as Project Costs. Exhibit H sets forth an example of such costs.
- 11.4.5 Except to the extent Participants elect to make payments pursuant to subsection 11.4.6, each of the Participants hereby agrees to pay its Participant Share of any and all amounts necessary to repay Project Bonds, including without limitation the costs of issuing such Project Bonds in accordance with this section 11, and such payments shall be made in such amounts and at such times as required by the covenants of such Project Bonds. Except as otherwise provided in this section 11, and sections 13 and 32, the obligation of the Participants to make all such payments shall be apportioned among the Participants based upon their Participant Shares.
- 11.4.6 In lieu of paying its Participant Share of amounts necessary to repay Project Bonds, any Participant may elect to fund all or any part of its Participant Share of a Project Cost, which is to be funded by the issuance of Project Bonds, by the payment of cash obtained by issuing its own bonds, by obtaining loans from private or public sources, or any other lawful means. Any Participant electing to pay cash for its Participant Share of any such Project Cost shall inform all other Participants of such election in writing not less than ninety (90) days prior to the proposed date of issuance of the Project Bonds, as set forth in the approved Financing Plan for such Project Bonds. Upon receipt of such written notice from any Participant, the timing and amounts of the payments any Participant electing to pay cash shall be obligated to make shall be established by the Project Committee, and shall be included in the Project Annual Budget and in the Financing Plan containing the Project Cost to be so paid. The

Participant so electing shall make the payments in the amounts and at the times specified by the Project Committee in the relevant Financing Plan and Project Annual Budgets.

- 11.4.7 Nothing in this section 11 shall prohibit two or more Participants from entering into an agreement under which one Participant funds the Participant Share of a Project Cost of the other Participant, provided however, that such agreement shall not serve to relieve any Participant of its obligation to pay its Participant Share of a Project Cost under this Project Agreement.
- 11.4.8 If and to the extent there is funding available from sources other than Project Bonds and cash payments made pursuant to subsection 11.4.6, including without limitation grants, cost sharing, federal, state or local government funding, such funding shall be applied to the costs of constructing, operating or enhancing the Project, as determined by the Project Committee, such that all Participants share the financial benefits of such funding in proportion to their Participant's Share. Federal, state or local loans to an individual Participant to assist the Participant in providing for its Participant Share of Project Cost (e.g. public works trust fund loans) shall not be required to be shared under this subsection 11.4.8.
- 11.4.9 If and to the extent there are funds remaining in any bond fund established in conjunction with Project Bonds after the repayment in full of all outstanding Project Bonds, such funds shall be used in accordance with the applicable covenants and bond resolutions, or if no such direction is provided by the applicable covenants or bond resolutions, at the discretion of the Project Committee for the benefit of the Project.
- 11.4.10 Notwithstanding any other provision of this Project Agreement, the obligation of the Participants to make payments to pay any and all amounts necessary to repay Project Bonds issued by Tacoma's separate system, including without limitation the costs of issuing Project Bonds, shall survive the expiration or termination of this Project Agreement, and shall be fully enforceable subsequent thereto.
- 11.4.11 To the extent necessary for Tacoma to comply with applicable securities laws and regulations, including continuing disclosure requirements under SEC Regulation 15c2-12, the Participants for whom Tacoma issues bonds shall provide information to Tacoma for inclusion in official statements, continuing disclosure filings and similar documents to filings.

## 12. TREATMENT OF CERTAIN COST OVERRUNS

- 12.1 Modifications to the Headworks as set forth in the Project Specifications will benefit both the Project and Pipeline No. 1. In the event that the modifications to the Headworks either exceed or fall short of the amounts budgeted for such work in the Initial Project Construction Budget, then any such overrun or surplus shall be apportioned between the Project and Pipeline No. 1 using the allocator that was applied to the costs of the constructing the Headworks modifications, as set forth on Exhibit O. The portion of any such overrun or surplus allocated to Pipeline No. 1 shall not be treated as a Project Cost.
- 12.2 In the event that the cost of constructing a Point of Delivery either exceeds or falls short of the amounts budgeted for such work, the Participant that will receive Project Water through such Point of Delivery shall pay for any cost overrun, or receive a credit in the amount of any surplus attributable to the construction of the Point of Delivery. The cost of constructing Points of Delivery shall not be treated as a Project Cost.
- 12.3 Except as provided in subsections 12.1 and 12.2, in the event that the cost of constructing any portion of the Project exceeds or falls short of the amounts budgeted therefore in the Initial Project Construction Budget, then any such amount shall be treated as a Project Cost or as surplus funds of the Project.

## 13. TREATMENT OF REIMBURSABLE COSTS

- 13.1 Prior to the execution of this Project Agreement, Participants have incurred certain Reimbursable Costs. The amount of such Reimbursable Costs and the Participant by whom they were made are set forth on Exhibit P. Any such Reimbursable Costs which are designated as final on Exhibit P, shall entitle the Participant that made such Reimbursable Costs to a credit in an amount equal to the Reimbursable Costs as set forth on Exhibit P, which credit shall be applied against each such Participant's Share of the Project Costs attributable to Initial Project Construction.
- 13.2 Any Participant that incurs any costs which are not listed on Exhibit P, may seek a credit for such costs as Reimbursable Costs as follows:
- 13.2.1 The Participant seeking a credit shall submit to the Project Committee complete documentation detailing the facilities for which such costs were incurred, and demonstrating that the facilities constructed for such costs have been incorporated into the Project.
- 13.2.2 The Project Committee may approve as Reimbursable Costs the costs submitted by a Participant by unanimous, affirmative vote of the Project Committee.

- 13.2.3 In the event that the Project Committee does not approve as Reimbursable Costs the costs submitted pursuant to subsection 13.2, the Project Committee shall designate a neutral third party to review and audit the cost information submitted by the Participant requesting the credit. Such third party shall employ standard accounting and auditing procedures in reviewing the cost information submitted.
- 13.2.4 The Participant seeking the credit shall cooperate with the third party, and shall promptly provide any information reasonably requested by the third party.
- 13.2.5 The third party shall make a written finding setting forth the amount of the costs, or any portion thereof, which are Reasonable Costs, and which were incorporated in the Project.
- 13.2.6 Costs found to satisfy subsection 13.2.5 above by the third party shall be added to Exhibit P as Reimbursable Costs, and the Participant shall be entitled to a credit therefore. Costs disallowed by the third party shall not be included on Exhibit P, and no credit shall be granted therefore.
- 13.2.7 Any decision regarding the Reimbursable Costs made pursuant to this section 13 shall be final, and shall not be subject to dispute resolution pursuant to section 28 by any Participant.

#### 14. RIGHTS UPON DELAY OR TERMINATION OF INITIAL PROJECT CONSTRUCTION

- 14.1 If Initial Project Construction is delayed such that it cannot be completed in accordance with the Initial Project Construction Schedule, some of the Participants have made provision for taking certain actions to secure a supply of water during any such delay. The actions that may be taken by such Participants, and the circumstances under which they may be taken, are set forth on Exhibits Q and R. As used in Exhibits Q and R, the term "Project Agreement" refers to the agreement between Tacoma and the other Participants under which facilities are designed and installed to provide water during the delay, and does not refer to this Project Agreement.
- 14.2 In the event that construction of the Project is terminated prior to the completion of Initial Project Construction, and the Participants having unanimously agreed in writing that there is no reasonable set of circumstances under which the Project can be expected to be completed, then in that event each Participant may take such actions as it may deem necessary to take delivery of its Participant Share of the Second Diversion Water as available during any calendar year. Prior to taking any such actions, each such Participant shall negotiate in good faith and reach

agreement with Tacoma to establish a payment to compensate Tacoma for the costs associated with the delivery and use of Second Diversion Water, including without limitation the costs of the fisheries and environmental enhancement agreements that were entered into to permit the Project to proceed, the costs of using Project rights of way and compensation for costs of the Project incurred by Tacoma. The rights and obligations of the Participants set forth in this subsection 14.2 shall survive the termination of this Project Agreement, and shall be fully enforceable subsequent thereto.

## 15. USE OF PROJECT FOR FIRST DIVERSION WATER

- 15.1 Tacoma shall have the right to use its Project Capacity Share to move First Diversion Water when Tacoma deems it appropriate to do so.
- 15.2 Tacoma shall have the right to use any Excess Project Capacity available to it under this Project Agreement to move First Diversion Water. In such event, the First Diversion Water shall have the same priority to Excess Project Capacity as Second Diversion Water.
- 15.3 First Diversion Water that is moved through the Project pursuant to this section 15 shall not be subject to the requirements of Section 21, but shall be subject to all other provisions of this Project Agreement.

## 16. USE OF PROJECT CAPACITY DURING CERTAIN EVENTS

- 16.1 Certain Participants have entered into an agreement pursuant to which they will provide aid and assistance upon the occurrence of specified events on their respective systems, which agreement is attached hereto as Exhibit AA. Nothing in the agreement between such Participants set forth in Exhibit AA shall entitle them to take any action or refrain from any action that would be inconsistent with the rights under this Project Agreement, or that would result in any other Participant being unable to fully exercise its rights hereunder.
- 16.2 Notwithstanding any other provision of this Project Agreement, the signatories to the agreement set forth on Exhibit AA retain the right to revise or modify the terms of their agreement set forth in Exhibit AA without the approval or consent of any Participant that is not a signatory thereto.
- 16.3 Should Tacoma receive from any Participant a request for deliveries of Project Water that exceeds the rights of such Participant under this Project Agreement, and such request is due to the occurrence of an Uncontrollable Force event on the requesting Participant's system that renders such Participant incapable of meeting the water supply needs of its retail customers, Tacoma shall promptly notify all other Participants of such request. Tacoma may, but shall not be obligated to, query the other Participants or convene a Project Committee meeting to determine

if there are voluntary actions that could be taken by some or all of the Participants to alleviate the situation on the system of the Participant making such request. Tacoma shall not take any action to comply with the request of any Participant subject to an Uncontrollable Force event without the consent of each and every Participant that will be affected by such action.

- 16.4 Notwithstanding anything to the contrary in this Project Agreement, should Tacoma lose the use, in part or in whole, of Tacoma's Pipelines Nos. 1, 2 or 4 due to an Uncontrollable Force event, and as a consequence thereof experience a water supply shortage on the Tacoma water system, then in that event Tacoma may use the Project to move First Diversion Water if so doing will alleviate such water supply shortage. In order to make such use of the Project, Tacoma may curtail or interrupt deliveries of Project Water to other Participants, so long as the reductions to the deliveries of Project Water to other Participants are: (i) made to all other Participants as nearly as practicable in proportion to the Participant Share of each Participant; (ii) do not exceed the reductions in deliveries of Project Water being experienced by Tacoma; and (iii) do not cause a water shortage on the water system of the other Participants that exceeds the water supply shortage being experienced by Tacoma.

## 17. DISCHARGE OF PROJECT WATER

- 17.1 From time to time as Project Operator, Tacoma may judge it necessary to discharge Project Water into the system of one or more Participants for purposes of maintaining water quality, performance of maintenance or for other purposes.
- 17.2 When Tacoma determines that it is necessary to discharge Project Water as described in subsection 17.1, and the Project Water so discharged will enter the system of any other Participant, Tacoma shall promptly notify the Participant or Participants into whose distribution systems the discharge will occur of the timing of such discharge, the volume of water involved, and the reason for such discharge. Tacoma shall not implement a proposed discharge unless and until it has received the permission therefore from the Participant or Participants into whose distribution systems the discharge will occur. Such Participant or Participants shall not unreasonably withhold permission for a discharge as proposed by Tacoma.
- 17.3 Project Water received by a Participant due to a discharge implemented by Tacoma pursuant to this section 17 in amounts equal to or less than the Project Water the Participant scheduled for delivery during the time period when the discharged Project water is received shall be considered as the delivery of Project Water for all purposes under this Project Agreement. If and to the extent the Project Water received by a Participant due to a discharge pursuant to subsection 17.1 exceeds the Project Water the Participant scheduled for delivery during the time period when the Discharged Project Water is received, such amount of

Project Water in excess of the scheduled amounts shall not be considered as the delivery of Project Water for any purpose under this Project Agreement, and shall be deducted from the amounts of Project Water metered pursuant to section 22.

- 17.4 Project Water discharged by Tacoma pursuant to this section 17 which is not considered as the delivery of Project Water pursuant to subsection 17.3, shall be deducted from the amount of Project Water available to all Participants in proportion to their respective Participant Share.

18. WATER QUALITY ✕

- 18.1 Project Water available to the Participants pursuant to this Project Agreement shall be in compliance with all applicable state and federal drinking water laws, regulations and standards.

- 18.2 The Participants agree that if applicable state or federal drinking water laws, regulations or standards require additional or different Treatment Facilities in order for Project Water to remain in compliance therewith, the Participants will take the steps necessary to add such Treatment Facilities to the Project. The costs of so doing shall be treated as Project Costs, and shall be apportioned to each of the Participants on the basis of their Participant Share.

- 18.3 The Project Committee shall make all necessary determinations regarding what Treatment Facilities should be added to the Project in order to comply with this section 18. For purposes of making all such determinations, any Treatment Facility shall be located at or near the Headworks, shall be capable of treating water in amounts equal to the maximum capacity of the Project as set forth in Exhibit N, and shall use the technology which is expected to have the lowest life cycle costs. Any decision by the Project Committee to take actions inconsistent with this subsection 18.3 must be approved in accordance with subsection 8.4.

- 18.4 Tacoma may elect to increase the capacity of the Treatment Facilities used for the chlorination of Project Water to enable such facilities to chlorinate First Diversion Water. To exercise this option, Tacoma must give written notice of its election to all Participants prior to the initiation of final Project design for Initial Project Construction. If Tacoma exercises this option to increase the capacity of such Treatment Facilities to chlorinate First Diversion Water, Tacoma shall be responsible for paying the incremental costs for such increased treatment capacity. The estimated incremental cost of adding such additional chlorination treatment capacity is set forth on Exhibit S.

- 18.5 Should Tacoma elect to increase the chlorination capacity of the Treatment Facilities to accommodate First Diversion Water, and it is subsequently required that First Diversion Water and Second Diversion Water must be given filtration treatment, then Tacoma shall pay to the Project, upon the commencement of

construction of such filtration facility, a credit calculated pursuant to the formula set out on Exhibit S.

## 19. AVAILABILITY OF STORAGE

- 19.1 Storage of Second Diversion Water shall be provided by Phase I of the Howard Hanson Additional Storage Project.
- 19.2 When Phase I is completed, each Participant shall have the right to store Second Diversion Water in proportion to their Participant Share of Second Diversion Water between February 15 and June 30. In most years, the total amount of stored water will equal 20,000 acre-feet if all Participants commit the full amount of their allocation of Second Diversion Water to Storage. Second Diversion Water used by any Participant during the February 15 through June 30 period for purposes other than Storage will be accounted for as a use of that Participant's share of Storage, unless full Storage has been achieved prior to June 30 and Second Diversion Water is available as run of the river water.
- 19.3 If the Howard Hanson Additional Storage Project proceeds to Phase II, then in that event the Participants shall be afforded the opportunity to participate in such Phase II in proportion to their respective Participant Share. Should any Participant decline to participate, in whole or in part, in Phase II, each Participant participating in Phase II shall have a right of first refusal to any portion of Phase II in which any other Participant declines participation. The share of Phase II which is declined by a Participant shall be made available to the Participants participating in Phase II based on their Participant Share, assuming that the sum of the Participant Shares of those Participants that will participate in Phase II equals one hundred percent of the Project. A sample of the allocation set forth in this subsection 19.3 is attached hereto as Exhibit W.
- 19.4 The timing and amount of Storage available to the Participants under this Project Agreement will be governed by the Howard Hanson Project Cooperation Agreement, to be executed by Tacoma and the Army Corps of Engineers. Upon execution by Tacoma and the Army Corps of Engineers, such agreement will be attached to this Project Agreement as Exhibit V.

## 20. MANAGEMENT OF PROJECT WATER AND STORAGE USE

- 20.1 Each Participant shall be entitled to schedule, pursuant to this section 20, the use of its Project Capacity Share to deliver Project Water to its Point(s) of Delivery, notwithstanding the use of such Project capacity as Excess Project Capacity by any other Participant. Excess Project Capacity shall be first made available to Participants for the delivery of Second Diversion Water to Participants Point(s) of Delivery, and in the case of Tacoma for the delivery of First and Second Diversion Water, and then any Excess Project Capacity remaining thereafter shall be made

available to Participants for the delivery of Additional Water. The foregoing rights and priorities shall apply to all aspects of section 20, including the review and revision of Participants' operating plans, review and approval of Annual Operating Plans, and the scheduling of Project Water within an Operating Year.

## 20.2 Participants' Operating Plans and Annual Operating Plan

20.2.1 On or before April 1<sup>st</sup> of each year during the term hereof, Tacoma shall provide to each Participant a written estimate of the expected availability of the Project for the next Operating Year, and the expected availability of Second Diversion Water. This will include, but will not be limited to, information regarding expected operating constraints and any additional information available to Tacoma that may be useful to Participants in planning their use of the Project in the next Operating Year.

20.2.2 Not later than thirty (30) days after receipt of the information from Tacoma pursuant to subsection 20.2.1, each Participant shall submit to Tacoma and to all other Participants a written draft operating plan for the next Operating Year. Each Participant's draft operating plan shall include, but not be limited to, the amount of Additional Water and Second Diversion Water that each such Participant expects to receive from the Project in each week during the next Operating Year, the amount of Second Diversion Water each Participant expects to place in Storage, and the timing and amount of expected withdrawals from Storage. If any Participant expects to make use of Excess Project Capacity during the next Operating Year, such Participant's draft operating plan shall identify the quantity, duration, timing and the specific facilities that are intended to be so used.

20.2.3 In making Excess Project Capacity available to the Participants as may be requested in their draft operating plans submitted pursuant to subsection 20.2.2, all requests for the use of Excess Project Capacity to move Second Diversion Water (and, in the case of Tacoma, to move First and Second Diversion Water) shall be satisfied first, and then any Excess Project Capacity remaining thereafter shall be made available to fulfill requests to move Additional Water.

20.2.4 Not later than thirty (30) days after receipt of the Participants operating plans, Tacoma shall prepare and submit to the Project Committee a draft Annual Operating Plan that incorporates the draft operating plans submitted to Tacoma pursuant to subsection 20.2.2. The Project Committee shall convene one or more meetings to consider the draft Annual Operating Plan prepared by Tacoma, and to approve the Annual Operating Plan as submitted or as may be revised by the Project Committee, for the next Operating Year. The Annual Operating Plan so

approved shall include, at a minimum, the Participants' operating plans and any revisions thereto, allocation of Excess Project Capacity among the Participants, scheduled maintenance outages, their timing and duration, and any constraints on the availability of Second Diversion Water or Storage. If and to the extent that the Annual Operating Plan reflects a constraint or diminution in the capability of the Project to deliver Project Water to the Participants, or in the amount or availability of Second Diversion Water or Storage, the Annual Operating Plan for the Operating Year in which such constraint or diminution occurs shall apportion to all Participants in proportion to their Participant Share the consequences of such constraint or diminution; *provided however*, that a constraint or diminution that affects facilities that serve some but not all of the Participants shall be borne only by those Participants served thereby.

20.2.5 If any operating plan submitted by a Participant includes the introduction by that Participant of Additional Water into the Project during the Operating Year, then as part of the consideration and approval process set forth in subsection 20.2.4, in addition to this section 20, all of the conditions set forth in section 21 shall apply thereto.

20.2.6 The Project Committee may elect to advance or delay the commencement of any Operating Year if it determines that it is necessary and appropriate to do so.

### 20.3 Scheduling Delivery of Project Water During an Operating Year

20.3.1 Prior to 10:00 A.M. on any Thursday during each Operating Year, any Participant may submit to Tacoma, in the manner and in the form established by the Project Committee, a schedule for Project Water deliveries for the following seven (7) days. Such schedule shall contain at a minimum a uniform rate of water deliveries for each day of the schedule, and shall take effect on the day following the Thursday the schedule is submitted. Schedules so submitted shall remain in effect until replaced by a subsequent schedule submitted in accordance with this subsection 20.3.1. As Project Operator, Tacoma shall, consistent with the priorities for the use of Project capacity as set forth in subsection 20.1, take all reasonable actions required to ensure that the amount of Project Water scheduled by each Participant is available to the scheduling Participant at its Point(s) of Delivery. Tacoma shall not be responsible for the operation of Flow Control Valves by which Participants withdraw water from the Project.

20.3.2 Tacoma may revise schedules submitted pursuant to subsection 20.3.1, if and to the extent any such schedule calls for deliveries that are in excess of the submitting Participant's rights under this Project Agreement, cannot be

accommodated within Excess Project Capacity available, or is inconsistent with Project operating constraints. Tacoma shall notify any Participant whose schedule is revised pursuant to this subsection 20.3.2. In the event that a change in circumstances necessitates a change to a schedule then in effect, the submitting Participant may request a change to such schedule, and Tacoma shall take all reasonable actions that are consistent with this Project Agreement to accommodate such schedule change.

- 20.3.3 If Tacoma receives a schedule pursuant to subsection 20.3.1 that exceeds the rights of the submitting Participant under this Project Agreement, Tacoma shall make reasonable efforts to accommodate such schedule by using any available Excess Project Capacity. To the extent that Tacoma receives more than one schedule that calls for deliveries in excess of the rights of the submitting Participants under this Project Agreement, Tacoma shall make reasonable efforts to accommodate such schedules by using Excess Project Capacity. If such schedules so submitted exceed the amount of Excess Project Capacity available, Tacoma shall, consistent with the priorities for the use of Project capacity set forth in subsection 20.1, prorate the available Excess Project Capacity to the schedules which require such Excess Project Capacity on the basis of the Participant Shares of the submitting Participants, and shall promptly notify each such Participant of the amount of the schedule that cannot be accommodated. Each Participant so notified shall have until 3:00 P.M. to notify Tacoma if, and the extent to which, it has been able to accommodate its schedule
- 20.4 The foregoing scheduling provisions are designed primarily to apply to the withdrawal and use of Second Diversion Water from Storage, and are not meant to apply to the scheduling of Second Diversion Water available as run of river water. The Project Committee shall formulate, and revise from time to time as appropriate, procedures under which Tacoma shall provide Participants with information regarding the availability of, and Participants shall schedule delivery of Second Diversion Water available as run of river water.
- 20.5 Each week during every Operating Year, Tacoma shall transmit to each of the Participants a report regarding the status of operations related to the Project. A sample weekly report is set forth in Exhibit X. The report will be transmitted to the Participants by means determined by the Project Committee. The Project Committee may from time to time revise the information to be included in the weekly report by Tacoma.
- 20.6 The Project Committee may modify the deadlines for the submission of information required by this section 20.

## 21. DELIVERY OF ADDITIONAL WATER

- 21.1 Subject to the requirements set forth in section 20 and this section 21, each Participant shall have the right to use its Project Capacity Share to move Project Water in accordance with this Project Agreement.
- 21.2 Any Participant wishing to use Project facilities to move Additional Water that was not included in the Annual Operating Plan then in effect shall make all reasonable efforts to notify all other Participants at the earliest practicable date of its intention to move such Additional Water. Such notification shall include, but shall not be limited to information regarding the quantity, source, duration, destination and water quality of any Additional Water proposed to be so moved.
- 21.3 A Participant wishing to move Additional Water shall submit to the Project Committee in writing the information required pursuant to subsection 21.2 not later than sixty (60) days prior to the date the Additional Water is proposed to be first introduced into the Project.
- 21.4 The Project Committee shall determine whether the proposed introduction of Additional Water is; (a) consistent with the proposing Participant's rights under this Project Agreement; (b) conforms with all applicable state and federal drinking water laws, regulations and standards; and (c) is compatible with the water quality of Project Water at the point of introduction into the Project. If the Project Committee makes a determination that such Additional Water does not meet all of the foregoing conditions, it shall disapprove the proposed introduction of the Additional Water.
- 21.5 The determination of the Project Committee set forth in subsection 21.4 shall be made within sixty (60) days of the date of receipt of the written notice required pursuant to subsection 21.3.
- 21.6 The testing and monitoring of the quality and quantity of any Additional Water introduced into the Project shall be the responsibility of Tacoma.
- 21.7 The Participant that proposes to introduce Additional Water into the Project shall pay the costs of acquiring and installing a separate meter that complies with Project meter standards, to measure the flow of Additional Water. Tacoma shall acquire, install and maintain such meter, and the meter shall be part of the Project.
- 21.8 The Participant which introduces Additional Water into the Project shall be responsible for paying any and all costs associated with the introduction of Additional Water as determined by the Project Committee, including without limitation, the costs of any testing and monitoring water quality, increased Variable O&M Costs attributable to such Additional Water, and the costs of additional metering.

## 22. METERING OF WATER DELIVERIES.

- 22.1 The Master Meter will be located at the Headworks to measure the flow of Project Water. Each Participant's Delivery Meter shall be located at the Point of Delivery for each such Participant. All Point of Delivery facilities will be designed and constructed as part of the Project, but the costs of designing and constructing such facilities will be billed separately to the Participant that will receive deliveries of Project Water at such Point (or Points) of Delivery, and will not be treated as Project Costs. Exhibit E sets forth the Point of Delivery facilities that are part of the Project and will be included in Project Costs, and those Point of Delivery facilities that will be billed to each Participant. Each Participant shall be responsible, at its own expense, for operating and maintaining those Point of Delivery facilities for which it is separately billed pursuant to this subsection 22.1. The approximate location of each Participant's Point (or Points) of Delivery and Delivery Meter, and of the Master Meter, are set forth on Exhibit A.
- 22.2 Unless alternative provision is made in the Project Annual Budget, the cost of installing the initial and any replacement Delivery Meter(s) for each Participant shall be borne of each such Participant. The cost of installing the Master Meter shall be a Project Cost. All such meters shall be considered a part of the Project.
- 22.3 As Project operator, Tacoma shall be responsible for the calibration and testing of the Master Meter and all Delivery Meters. No less frequently than once each year each meter, including the Master Meter, shall be tested for accuracy, and the results of such testing shall be made available to all Participants at no charge. The costs of the annual Delivery Meter tests, and the costs of the annual test of the Master Meter, shall be Project Costs. In addition to the annual meter test, any Participant may test any meter that measures Project Water at any reasonable time and at such Participant's expense. The results of any additional meter test shall be made available to all other Participants at no charge.
- 22.4 Any and all maintenance, repairs, and replacements to the Master Meter and to Delivery Meters shall be the sole responsibility of Tacoma as Project Operator, and the costs of any and all maintenance and repairs shall be Project Costs.
- 22.5 In the event there is a difference between the quantity of Project Water as measured at the Master Meter and the quantity of Project Water as measured by summing the readings on each of the Delivery Meters, such difference will be apportioned among the Participants based on the volumes as recorded on each of the Participants meters, unless the Project Committee determines that a different adjustment is appropriate under the circumstances. A sample calculation of such an adjustment is set forth on Exhibit T.

- 22.6 Pursuant to the procedures set forth in section 8, the Project Committee shall establish the size and the flow range within which each Delivery Meter must operate. Should Tacoma determine that any Delivery Meter is operating outside the flow range so established, it shall notify in writing the Participant whose Project Water deliveries are measured by such Delivery Meter, and the size of the replacement meter needed to operate within the flow range. Tacoma shall provide the Participant an opportunity to discuss the problem with the existing Delivery Meter, and the need for the proposed replacement Delivery Meter. After providing such written notice, Tacoma may replace the faulty Delivery Meter and bill the Participant for the costs of procuring and installing such meter, and such Participant shall be obligated to pay such bill.
- 22.7 The Flow Control Valve for each Participant shall be owned by and shall be under the control of each Participant. Flow Control Valves shall not be a part of the Project. Each Participant shall be responsible for the operation and control of its own Flow Control Valve. Upon reasonable notice and subject to scheduling with the other Participant, each Participant shall have the right to enter the meter and/or valve vault or vaults of any other Participant for any reason related to the Project.
- 22.8 As Project Operator, Tacoma shall have access to the control signals from each meter station, and access to each vault in which a Delivery Meter is located. Each Participant shall have the right to receive the control signal for its Delivery Meter(s), and the control signal from any other meters operated in conjunction with the Project. The costs of equipment necessary to receive any such control signals shall be borne by the Participant receiving such signals.

### 23. DELIVERIES OF PROJECT WATER IN EXCESS OF SCHEDULES

- 23.1 As Project Operator, Tacoma shall monitor the delivery of Project Water to each Participant to ensure that the withdrawals and deliveries of Project Water comport with the schedules submitted by each Participant pursuant to section 20.
- 23.2 Should Tacoma determine that a Participant is receiving deliveries of Project Water at their Point(s) of Delivery in excess of their scheduled amounts, Tacoma shall notify such Participant of the excess deliveries, and the Participant shall promptly take the steps necessary to reduce its deliveries to amounts equal to its scheduled amounts, or to revise its schedules to reflect the level of deliveries it is receiving.
- 23.3 If the Participant receiving deliveries in excess of its scheduled amounts has not taken action to revise its schedules or to reduce its deliveries to a level equal to its scheduled amounts within twenty-four hours of receiving notice from Tacoma pursuant to subsection 23.2, Tacoma may take any action it deems necessary to reduce the deliveries to a level equal to the Participant's scheduled amounts.

- 23.4 For any Participant that has received deliveries of Project Water in excess of its scheduled amount, Tacoma shall deduct from such Participant's balance of water remaining in Storage an amount equal to such excess delivery. If such excess deliveries exceed the water remaining in Storage for such Participant, Tacoma shall charge such Participant the Surcharge Rate for such excess deliveries that cannot be deducted from the Participant's Storage balance.
- 23.5 For any Participant that takes delivery of Project Water in excess of scheduled amounts, and does so in a manner that deprives any other Participant of their right to receive delivery of their Participant Share of Project Water without the agreement of such Participant, then if any Participant protests, or if Tacoma deems appropriate, Tacoma shall submit said matter to the Project Committee for its consideration on whether such excess deliveries be subject to the Surcharge Rate. If approved by the Project Committee, Tacoma shall charge such Participant the Surcharge Rate for such deliveries in excess of scheduled amounts.

#### 24. PROJECT ANNUAL BUDGETS

- 24.1 At each quarterly meeting of the Project Committee after the completion of Initial Project Construction, Tacoma shall present to the Participants a comparison of actual expenditures to expenditures projected in the Project Annual Budget for the then current calendar year, with an explanation of any material variations between budget and actual amounts.
- 24.2 Not later than each July 1<sup>st</sup>, Tacoma shall prepare and submit to the Project Committee a proposed Project Annual Budget for the next calendar year, the work papers supporting each of the elements set forth in such proposed Project Annual Budget and a comparison of actual expenditures to the expenditures projected Project Annual Budget for the then current calendar year. Each such proposed Project Annual Budget shall contain, at a minimum, the following elements:

Amounts necessary to operate and maintain the Project;

For Variable O&M Costs, the cost per million gallons (MG);

Proposed Capital Expenditures including proposed Capital Expenditures for any renewals, replacements, additions or improvements to the Project;

Amounts necessary to replenish any Project contingency fund;

Amounts and timing of any payments due on outstanding Project Bonds;

Amounts and timing of any proposed Project Bond issuances; and

Payment schedules for all elements in the Project Annual Budget.

- 24.3 Each proposed Project Annual Budget shall be prepared generally in the form set forth in Exhibit F. In preparing each proposed Project Annual Budget, Tacoma shall take into account any funds expected to remain, or liabilities left unfunded, which are expected to remain at the end of the then current calendar year.
- 24.4 The Project Committee shall have until October 15<sup>th</sup> to approve the Project Annual Budget as submitted by Tacoma, or to approve a Project Annual Budget as revised by the Project Committee. If the Project Committee has not approved a Project Annual Budget by the first day of any calendar year, then Tacoma may operate the Project and expend funds in accordance with the Project Annual Budget from the immediately prior calendar year, and the Participants shall be obligated to pay invoices issued by Tacoma in accordance with such Project Annual Budget unless and until the Project Committee approves a Project Annual Budget for the then current calendar year.
- 24.5 At any time during any calendar year, Tacoma may submit to the Project Committee a proposed revision to any Project Annual Budget then in effect if, in Tacoma's judgment, the Project Annual Budget then in effect will not be adequate to fund the operation of the Project. The proposed revision, as proposed by Tacoma or as revised by the Project Committee, shall take effect upon approval by the Project Committee.
- 24.6 The Project Committee may modify the deadlines for the submission of the proposed Project Annual Budget, and any action relating thereto, pursuant to this section 24.

## 25. PAYMENTS

- 25.1 Tacoma shall prepare and forward to each Participant invoices for the payment of costs as set forth in the Project Annual Budget then in effect. Each such invoice shall also set forth the operations and maintenance costs that vary with use based on the use of the Project by the Participant in the preceding month or months calculated using the rate for such use contained in the Project Annual Budget then in effect. Such invoices shall be prepared and forwarded to the Participants no more frequently than once each calendar month.
- 25.2 Any Participant may request from Tacoma, and Tacoma shall promptly provide to the requesting Participant, any documentation or other information that the requesting Participant may reasonably require to understand the nature of the costs contained in any invoice issued pursuant to this section 25.
- 25.3 Payment of any and all invoices forwarded to each Participant by Tacoma pursuant to this section 25 shall be due and payable by the Participant receiving such invoice on or before the Due Date, with payment to be made by wire transfer

or such other means as agreed to by Tacoma and the Participant, subject to the following:

- 25.3.1 For any and all amounts set forth in any such invoice that are required to be paid to satisfy principal and interest obligations set forth in Project Bonds and related covenants, payment shall be made to the Project Bond escrow agent or fiscal agent specified in the Project Annual Budget for such Operating Year.
- 25.3.2 For any and all amounts set forth in such invoice, other than those amounts described in subsection 25.3.1, payment shall be made to the bank and account designated by Tacoma; *provided however*, in the event that a Participant desires to make a cash payment towards its Participant Share of Project Costs (e.g. a capital contribution in aid to construction for Project Costs), said payment shall be made to the Project escrow agent, which shall then, as a common paymaster and subject to the approval of Tacoma or Project Committee, as appropriate, direct said payment for Project Costs.
- 25.4 If full payment of any invoice is not received by Tacoma on or before the Due Date, such payment shall be considered past due, and the unpaid amount of such invoice shall accrue a late payment charge for each day that the invoice remains unpaid in an amount equal to the product of the unpaid amount of the invoice and the Interest Rate. Such charge shall continue to accumulate until the unpaid amount of the invoice and all late payment charges are paid in full to Tacoma. Further, if an invoice or any portion thereof remains unpaid for a period of thirty (30) days after the Due Date, Tacoma may elect to suspend deliveries of Project Water scheduled pursuant to section 20 by any Participant who has failed to make full payment until such Participant has paid all amounts due and owing, and any late payment charges due thereon.
- 25.5 If any Participant disputes all or any portion of an invoice issued by Tacoma pursuant to this section 25, the Participant shall pay such invoice in full, and shall indicate in writing to Tacoma the portions of the invoice that the Participant disputes and the reasons therefore. The Participants shall make a good faith effort to resolve such dispute. If such efforts are unsuccessful, either Participant to the dispute may seek resolution of the dispute pursuant to section 28.
- 25.6 If the resolution of any dispute over an invoice, whether by agreement of the Participants or by dispute resolution pursuant to section 28, results in the payment of money from Tacoma to the Participant disputing a bill, such payment shall include an interest payment for the period commencing with the date the disputed invoice was paid, and ending on the date the payment resolving the dispute is made to the Participant, calculated using the Interest Rate.

- 25.7 Each Participant hereby covenants and agrees that it shall establish, maintain and collect rates or charges for water and other services, facilities and commodities sold, furnished or supplied by it which shall be adequate to provide revenues sufficient to enable the Participant to make the payments required to be made pursuant to the terms of this Project Agreement, and to pay all other charges and obligations payable from or constituting a charge or lien upon such revenues.
- 25.8 Each Participant shall make the payments required under this Project Agreement whether or not the Project is completed, operable or operating and notwithstanding the suspension, interruption, interference, reduction or curtailment in the operation of the Project for any reason whatsoever, in whole or in part. Such payments shall not be subject to any reduction, whether by offset or otherwise, and shall not be conditioned upon the performance or nonperformance of any Participant to this Project Agreement, including without limitation the Project Operator, or of any entity under this or any other agreement or instrument.

## 26. TRUE-UP OF VARIABLE O&M COSTS

- 26.1 Not later than sixty (60) days after the first day of each calendar year, Tacoma shall, using the actual costs incurred in the prior calendar year, calculate the cost per MG of all costs which vary with the usage of Project Water.
- 26.2 If the cost or costs per MG as calculated pursuant to subsection 26.1 vary from the cost per MG set forth in the Project Annual Budget for the immediately prior calendar year for such Project uses, Tacoma shall calculate for each Participant either the additional payment required or the credit due based on the actual usage of Project Water by each Participant during the prior calendar year. If any additional payment is due from a Participant, Tacoma shall issue an invoice for such payment pursuant to section 25. If a credit is due to a Participant, Tacoma shall deduct the amount of such credit from the next payment or payments due from such Participant. No interest shall be paid on any adjustment calculated pursuant to this section 26.
- 26.3 A sample calculation pursuant to this section 26 is set forth on Exhibit U.

## 27. AUDITS AND ACCESS TO RECORDS

Upon reasonable prior notice to Tacoma, any Participant, or any consultant of any Participant, shall be given access during normal business hours to the books, records and accounts related to the Project and this Project Agreement in the possession of Tacoma at the location where such books, records and accounts are located. Tacoma shall not be obligated to collate, organize or analyze the information sought by the Participant or by the Participant's consultant. The Participant shall pay Tacoma its established rate for any documents reproduced for the Participant or its consultant.

## 28. DISPUTE RESOLUTION

- 28.1 Except as otherwise provided in this Project Agreement, any and all disputes arising under this Project Agreement shall be resolved by binding arbitration pursuant to this section 28.
- 28.2 The Participants shall make good faith efforts to resolve by informal discussion any dispute arising under or in connection with this Agreement. If at any time a Participant to a dispute determines that such informal discussions will not result in a resolution, such Participant may initiate binding arbitration of any dispute arising under or in connection with this Agreement. Any such arbitration shall be conducted pursuant to the rules for commercial arbitration of the American Arbitration Association or the rules of such other non-judicial dispute resolution service as agreed to by the Participants to the dispute. In any such arbitration proceeding, the Participants to such dispute shall have the rights of discovery available to parties in civil litigation under the Federal Rules of Civil Procedure.
- 28.3 The award of the arbitrators shall be final, and may be enforced in any court having jurisdiction. In making any such award, the arbitrators shall have the authority to grant such relief as they deem appropriate, including without limitation the award of damages and the granting of specific performance.
- 28.4 Pending the decision in any binding arbitration process pursuant to this section 28, the Participants to such process shall continue to fulfill their respective duties under this Project Agreement.

## 29. UNCONTROLLABLE FORCES

- 29.1 A Participant shall not be in breach of this Project Agreement as a result of such Participant's failure to perform its obligations under this Project Agreement when such failure is due to an Uncontrollable Force, to the extent that such Participant, despite the exercise of due diligence, is unable to remove such Uncontrollable Force. Nothing in this Project Agreement shall be construed to require any Participant to prevent or settle any strike or labor dispute in order to obtain relief under this section 29.
- 29.2 Any Participant subject to an Uncontrollable Force that may impair its performance under this Project Agreement shall notify all other Participants as soon as practicable. Any Participant subject to an Uncontrollable Force shall be excused from performance under this Project Agreement only for the duration of and to the extent of the Uncontrollable Force. Any Participant subject to an Uncontrollable Force shall take all reasonable actions to remove the Uncontrollable Force. Neither the occurrence of an Uncontrollable Force nor the

provisions of this section 29 shall relieve any Participant of its obligation to pay money when due under the terms of this Project Agreement.

### 30. NOTICES

30.1 All notices, requests, demands, waivers, consents and other communications required hereunder shall be in writing, and shall be delivered by one or more of the following means: (i) in person, (ii) by overnight delivery service, (iii) by first class mail with postage prepaid, (iv) by facsimile providing confirmation of completed transmission, or (v) by such other means as may be approved by the Project Committee. Service of any such notice, request, demand, waiver, consent or other communication shall be deemed to have been duly given and to have become effective upon receipt.

30.2 Any and all notices, demands, waivers, consents and other communications shall be forwarded to each of the Participants at the following addresses:

To Tacoma:           Water Superintendent  
                          Tacoma Water  
                          P. O. Box 11007  
                          Tacoma, WA 98411

To CWD:               General Manager  
                          Covington Water District  
                          18631 SE 300<sup>th</sup> Place  
                          Kent, WA 98042

To Kent:               Public Works Director  
                          City of Kent  
                          220 - 4<sup>th</sup> Ave. South  
                          Kent, WA 98032-5895

To Lakehaven:       General Manager  
                          Lakehaven Utility District  
                          P. O. Box 4249  
                          Federal Way, WA 98063

30.3 Any Participant may change the address to which notices shall be given by giving notice of such change in accordance with subsection 30.1.

### 31. DEFAULT OF OBLIGATION

31.1 If any Participant fails to make any payment in full when due under this Project Agreement for a period of forty-five (45) days or more, Tacoma shall make written demand upon such Participant to make payment in full within ten (10)

days of the date of such written demand. If the failure to pay is not cured with the ten (10) day time period, the Participant shall be deemed to be in default.

- 31.2 In addition to the remedies provided in section 25, if the Participant has been in default of payment for a period of sixty (60) days or more, and the payment in default includes any amounts necessary to make payment on any Project Bonds, then the Project Committee shall offer for assignment to the non-defaulting Participants a pro rata share of the Participant Share of the defaulting Participant. The assignment of the defaulting Participant's Participant Share shall vest in the assignee all of the rights and obligations under this Project Agreement that the defaulting Participant could have exercised by virtue of such Participant Share, including without limitation, the right to use a pro rata share of the Second Diversion Water. If any non-defaulting Participant declines to accept all or any portion of the defaulting Participant's Participant Share under this Project Agreement, such Participant Share (or the remaining portion thereof) shall be re-offered to the remaining non-defaulting Participants until there is no unassigned Participant Shares of the defaulting Participant remaining, or no Participant wishes to accept any additional assignment. Any Participant accepting the assignment of all or any portion of the defaulting Participant's Participant Shares shall upon acceptance of such assignment cure a proportionate share of any existing default in payment, and shall be responsible for the payment of any and all obligations associated with the Participant Share so assigned under the Project Agreement. For purposes of this subsection 31.2, pro rata share shall mean for each non-defaulting Participant the ratio obtained by dividing its Participant share by the sum of the Participant Shares of the non-defaulting Participants.
- 31.3 If after following the process set forth in subsection 31.2 there remains unassigned all or a portion of the Participant Share of the defaulting Participant, then Tacoma shall have its Participant Share increased in an amount equal to the defaulting Participant's Participant Share remaining after any reassignment pursuant to subsection 31.2.
- 31.4 The fact that other Participants have assumed the obligation to make payments which were due and owing from the defaulting Participant shall not relieve the defaulting Participant of its liability for such payments, and the Participants assuming such obligations, whether individually or as a member of a group, shall have a right of recovery from the defaulting Participant. Any Participant, as its interests may appear, whether jointly or severally, may commence such suits, actions or proceedings, at law or in equity, including suits for specific performance, as may be necessary or appropriate to enforce the obligations of this Project Agreement against any defaulting Participant. To the extent that a Participant in said litigation is successful, then said Participant is entitled to recover its reasonable attorney fees and costs against the defaulting Participant.

- 31.5 In the event that the Participant Share of a defaulting Participant is assigned to another Participant(s) pursuant to this section 31, the non-defaulting Participants shall enter into good faith negotiations to revise by mutual agreement the apportionment of votes pursuant to subsection 8.3 and the approval requirements pursuant subsection 8.4. Any such revision shall be done in a manner that recognizes the change in Participant Share as a result of such assignment, while maintaining the initial intentions of the Participants as expressed therein. Absent a mutual agreement to such revision, notwithstanding any assignment pursuant to subsections 31.2 and 31.3, no Participant shall be entitled to cast the votes allocated to the defaulting Participant pursuant to subsection 8.3.
- 31.6 The actions taken pursuant to this section 31, including without limitation a determination of default, shall not be subject to dispute resolution pursuant to section 28.

## 32. REPRESENTATIONS AND WARRANTIES

- 32.1 The Participants hereby represent and warrant to one another the following:
- 32.1.1 Each Participant is duly authorized and validly existing under the laws of, and is authorized to exercise its powers, rights and privileges and is in good standing in, the State of Washington, and has full power and authority to carry on its business as presently conducted and execute this Project Agreement and perform the transactions on its part contemplated by this Project Agreement.
- 32.1.2 The execution, delivery and performance of this Project Agreement, and the consummation of the transactions contemplated hereby have been duly authorized by the appropriate board or council, and no other act or proceeding on the part of any Participant is necessary to authorize this Project Agreement, or the transactions contemplated hereby.
- 32.1.3 The execution, delivery and performance by each of the participants of this Project Agreement does not: (a) contravene any law; or (b) conflict with or result in a breach of or default under any material agreement or instrument to which any Participant is a party or by which it is bound.
- 32.1.4 There are no actions, suits, claims or proceedings pending or, to the best of each Participant's knowledge, threatened against any Participant that is likely to impair the consummation or the transactions contemplated hereby.
- 32.1.5 This Project Agreement, when executed and delivered, will constitute a valid and binding obligation of each Participant, and will be enforceable against each such Participant in accordance with its terms.

### 33. ASSIGNMENT AND OTHER ARRANGEMENTS

- 33.1 Except as otherwise provided in this Project Agreement, the rights and obligations of this Project Agreement may not be sold, assigned or otherwise transferred in whole or in part by a Participant to a party that is not a Participant without the prior written consent of all other Participants, which consent shall not be unreasonably withheld.
- 33.2 Nothing in the Project Agreement shall prohibit a Participant from transferring to any other Participant for a period longer than an Operating Year any right or privilege of such Participant under this Project Agreement. Prior to consummating any such transfer, the Participant transferring the right or privilege shall provide to all other Participants the contract under which the transfer will occur, and permit the other Participants a reasonable period of time to comment on the proposed transfer. Any such agreement between two or more Participants shall not change the rights and duties of such Participants under this Project Agreement.

### 34. WAIVERS

Except as otherwise provided herein or as agreed to by the Participants, no provision of this Project Agreement may be waived except as documented or confirmed in writing. Any waiver at any time by a Participant of its rights with respect to a default under this Project Agreement or with any other matter arising in connection therewith, shall not be deemed a waiver with respect to any subsequent default or matter. Any Participant may waive any notice or agree to accept a shorter notice than specified in this Project Agreement. Such waiver of notice or acceptance of shorter notice by a Participant at any time regarding a notice shall not be considered a waiver with respect to any subsequent notice required by this Project Agreement.

### 35. DISPOSITION OF FUNDS UPON TERMINATION OF THE PROJECT

- 35.1 When the Project is terminated pursuant to section 7, the Participants shall use any proceeds that are obtained by selling all or any portion of the Project for salvage to satisfy any obligation then outstanding on any Project Bonds issued pursuant to section 11. If after satisfying all such obligations, the remaining proceeds shall be used to satisfy any other cost of the Project that remains unpaid.
- 35.2 Any proceeds from the salvage of the Project that remain after satisfying the obligations set forth in subsection 35.1 shall be divided among the Participants in accordance with their Participant Shares.

36. AMENDMENTS

Except as provided in subsection 19.4, no change, amendment or modification of any provision of this Project Agreement shall be valid unless set forth in a written amendment to this Project Agreement signed by all Participants.

37. ENTIRE AGREEMENT

This Project Agreement sets forth the entire agreement of the Participants, and supersedes any and all prior agreements with respect to the subject matter of this Project Agreement, including without limitation any rights and duties which may exist by and between the Participants pursuant to the Contract Between the Regional Water Association of South King County, Its Member Utilities and the City of Tacoma, Department of Public Utilities dated April 16, 1985, and any and all amendments thereto. The rights and obligations of the Participants hereunder shall be subject and shall be governed by this Project Agreement.

38. INTERPRETATION OF THE PROJECT AGREEMENT

All of the Participants participated in the drafting of this Project Agreement. In interpreting this Project Agreement, no inference shall be drawn against any Participant as the drafter of this Project Agreement. The headings used herein are for convenience of reference only, and shall not affect the meaning or interpretation of this Project Agreement.

39. GOVERNING LAW AND VENUE

This Project Agreement shall be governed by and construed in accordance with the laws of the State of Washington (regardless of the laws that might otherwise govern under applicable principles of conflicts of law of such state). Except in respect of a lawsuit or judicial action or proceeding commenced by a third party or a Participant in another jurisdiction, the Participants (i) agree that any lawsuit, judicial action or proceeding arising out of or relating to this Project Agreement must be heard in the Superior Court of the State of Washington, in and for the County of Snohomish or Thurston, or the United States District Court for the Western District of Washington, (ii) waive any objection to the laying of venue of any such suit, action or proceeding, (iii) irrevocably submit to the jurisdiction of any such court in any such lawsuit or judicial action or proceeding. And (iv) consent to service of process by mail in respect to any such lawsuit or judicial action or proceeding.

40. DUTY OF GOOD FAITH

The Participants agree that in taking actions or making determinations required or provided for under this Project Agreement, each and every Participant shall act in fairness and in good faith.

41. LIABILITY

With respect to actions approved by the Project Committee, any liability, loss, cost, damages or expense suffered by the Project shall be deemed a Project Cost and shall be shared by all Participants in accordance with their respective Participant Share. With respect to actions or omissions by Tacoma, if related to Tacoma's duties in operating and managing the Project pursuant to this Project Agreement, then any liability, loss, cost, damages or expense suffered by the Project as a result of such actions or omissions shall be deemed a Project Cost, and shall be shared by each Participant in accordance with their respective Participant Share, excepting only those resulting from actions or omissions by Tacoma that are determined to be inconsistent with Prudent Utility Practice. This Section 41 shall not apply to nor alter specific cost allocations set forth in other sections of this Agreement.

42. COUNTERPARTS

This Project Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Participants have duly executed this Project Agreement on the date first above written.

City of Tacoma  
Department of Public Utilities  
Water Division

By: Kenneth J. Murray  
Title: Water Superintendent

Approved as to form and legality:

Mark Blank

City of Kent

By: [Signature]  
Title: Mayor

Approved as to form and legality:

[Signature]  
Kim Bullock

**Covington Water District**

By: Sup Hornsby

Title: President

Approved as to form and legality:

Ka. Clay

**Lakehaven Utility District**

By: Thomas M. Jaramah

Title: President

Approved as to form and legality:

Tom Jaramah

## **Exhibits to Second Supply Project Agreement**

Exhibit A-Approximate Location of Master Meter and Delivery Meters  
Exhibit B-Fixed and Variable O&M Costs Examples  
Exhibit C-Initial Project Construction Budget  
Exhibit D-Initial Project Construction Schedule  
Exhibit E-Typical Point of Delivery  
Exhibit F-Project Annual Budget  
Exhibit G-Project Cost Estimate  
Exhibit H-Financing Plan for Initial Project Construction  
Exhibit I-Project Map  
Exhibit J-Project Quality Assurance Procedures  
Exhibit K-Project Specifications  
Exhibit L-Second Diversion Water Right Permit  
Exhibit M-Environmental Enhancement Agreements and Estimated Costs  
Exhibit N-Allocation of Project Capacity  
Exhibit O-Allocation of Headworks Costs  
Exhibit P-Reimbursable Costs  
Exhibit Q-Special Provisions for CWD and Kent  
Exhibit R-Special Provisions for Lakehaven  
Exhibit S-Sample Calculation of Tacoma Treatment Payment and Credit  
Exhibit T-Sample Calculation for Accounting of Water Deliveries  
Exhibit U-Sample Calculation of Variable O&M Costs  
Exhibit V- Howard Hanson Dam Project Cooperation Agreement  
Exhibit W- Sample Allocation of Howard Hanson Phase II  
Exhibit X-Sample Weekly Operations Report

Exhibit AA-Agreement of Tacoma, CWD and Lakehaven for Mutual Aid

Note: Exhibit V is in Draft form. When it is finalized, the Final version will be sent to replace the Draft version.

October 2, 2002

**Approximate Location of the Master Meter and Delivery Meters**

<u>Meters</u>	<u>Location</u>	<u>Pipeline Min. Delivery Pressure (p.s.i.)</u>	<u>Pipeline Min. Hydraulic Grade Elev. (feet-USGS)</u>
• Project Master Meter:	1/2 mile downstream of the Headworks Control Building adjacent to Pipeline No. 1	N.A.	N.A.
• Covington Water District:	*1. 219th Ave. SE & SE 304th St. 2. 188th Ave. SE & SE 304th St. 3. 148 <sup>th</sup> Ave. SE & SE 296 <sup>th</sup> St.	107 74 130	749 715 677
• City of Kent:	1. 124th Ave SE & SE 296th St. 2. 118th Ave SE & SE 296th St.	101 120	669 667
• Lakehaven Utility District :	1. Military Rd. S. & S. 316 <sup>th</sup> St. **2. 1st Way S. & S. 332 <sup>nd</sup> St. **3. SW 356th St. & 15 <sup>th</sup> Ave. SW	24 63 71	561 556 555
• City of Tacoma:	1. SW 356th St. & 15 <sup>th</sup> Ave. SW	71	555

\* Includes water service to Kent through connection from Covington Water's system to Kent spring supply pipeline

\*\* Existing connection

Note: 1. Minimum pipeline pressures would be lower for Tacoma and Lakehaven if backfeeding from Pipeline No. 4. The above minimum pressures are with water flowing down the Second Supply Pipeline from the Headworks under normal operations.

2. The cost of the Project Master Meter will be charged to the Project. The cost of individual connections and meters, vaults and associated equipment will be charged to the applicable project participant.

## Fixed and Variable Operation and Maintenance (O & M) Cost Examples

### Fixed Costs: (Labor, Materials & Equipment)

- Routine right of way maintenance such as vegetation control, sign replacement or painting, fencing and barricade repair, property owner issues, access road repair and erosion/drainage control.
- Routine pipeline and appurtenance maintenance such as painting or coating, valve operation, replacing/repairing worn parts, cleaning and repairing structures, checking & repairing cathodic protection/grounding systems, lubricating equipment and checking & repairing meters.
- Routine operation of the Green River supply system such as operating the Headworks Water Control Center, maintaining watershed access and activity control, watershed patrol, checking and maintaining fluoride, chlorine, corrosion control and pumping equipment, performing water quality tests, completing reports, and handling issues with the public and watershed owners.
- Routine operation and maintenance of related project facilities such as the Howard Hanson Dam additional storage facilities, the Muckleshoot fish rearing facilities and off-site environmental enhancement facilities.

### Variable Costs: (Materials)

- Variable material costs based on the quantity of water produced such as chlorine, fluoride and corrosion control chemicals.
- Electricity

## Initial Project Construction Budget

Estimated future project design and construction costs are itemized below. Construction costs are estimated to mid point of anticipated construction for each project element (*date shown*). Where appropriate, the US Bureau of Reclamation (USBR) cost index (See note) was used for past and future cost escalation unless costs were already estimated to mid-point of construction or unless noted otherwise below.

- Headworks Modifications (August 2002):

Design (completed except for minor changes)	\$ 50,000
Construction (2001-2003)	\$12,245,000
Construction Management, Inspection, & Monitoring	\$ 2,164,000
Project Allowance (5%)	\$ 720,000
Sales Tax (8.2%)	\$ 1,241,000
Sub-total	<b>\$16,370,000*</b>
  
- Pipeline (1<sup>st</sup> Way S. to Headworks) (August 2002):

Design (2001-2002)	\$ 7,325,000
Construction (2002-2003)	\$66,278,000
Construction Allowance (5%)	\$ 3,293,000
Construction Management, Inspection, & Monitoring	\$ 5,679,000
Project Allowance (5%)	\$ 3,763,000
Sales Tax (8.4%)	\$ 6,632,000
Sub-total	<b>\$92,970,000</b>
  
- Howard Hanson Dam Additional Storage, Phase I (current local share @ January 2003):

Planning, Engineering & Design (1999-2002)	\$ 2,178,000
Outlet Works Construction (2002-2005)	\$12,568,000
Fish & Wildlife Facilities Construction (2001-2004)	\$ 1,855,000
Lands and Damages	\$ 1,115,000
Construction Management	\$ 1,241,000
Monitoring	\$ 1,507,000
Contingency (20%)	\$ 4,094,000
Sub-total	<b>\$24,558,000</b>

Note: Currently Phase II storage will be approximately \$6 million total with local share (27%) about \$1.6 million.

- Water Treatment Facilities: (Escalated at 4%/year from Jul. 1998 to Aug. 2002)

Chlorination (100% of 80 mgd cost to Project):

Design and management (2001-2002)	\$ 1,030,000
Construction (2002-2003)	\$ 2,776,000
Contingency (30%)	\$ 833,000
Sales Tax (8.2%)	\$ 296,000
Sub-total	\$ 4,935,000^

Corrosion Control (100% cost to Project):

Design and management (2001-2002)	\$ 483,000
Construction (2002-2003)	\$ 1,078,000
Contingency (30%)	\$ 323,000
Sales Tax (8.2%)	\$ 115,000
Sub-total	\$ 1,999,000

Fluoridation (100% cost to Project):

Design and management (2001-2002)	\$ 118,000
Construction (2002-2003)	\$ 291,000
Contingency (30%)	\$ 87,000
Sales Tax (8.2%)	\$ 31,000
Sub-total	\$ 527,000

Ozonation (100% of 90 mgd cost to Project):

Design and management (2002-2003)	\$ 3,366,000
Construction (2004-2005)	\$ 18,900,000
Contingency (30%)	\$ 5,670,000
Sales Tax (8.4%)	\$ 2,064,000
Sub-total	\$ 30,000,000**

Water Treatment Sub-total                      **\$ 37,461,000**

- MIT Fish Restoration Facility: (Escalated at approx. 3% per year from June 1995 to *January 2003*)

Design & Permitting (2001-2002)	\$ 1,291,000
Construction (2002-2003)	\$ 8,065,000
Construct Surface and Groundwater Systems	\$ 1,106,000
Construction Management	\$ 418,000
Contingency (15%)	\$ 1,376,000
Sales Tax (8.2%)	\$ 1,005,000
Sub-total	<b>\$13,261,000</b>

**TOTAL (all elements)                    \$184,620,000**

\* Tacoma's existing diversion obligation is \$4,725,000 of this sub-total.

^ Tacoma's existing diversion obligation is initially \$426,000 of this sub-total. Further reimbursement by Tacoma later per Exhibit T.

\*\* Tacoma's existing diversion obligation is \$13,436,000 of this sub-total.

**Note:**

The Bureau of Reclamation Construction Cost Trends indexes were used to escalate past pipeline & headworks construction estimates. The average value for the last 5 years (1996-2000) of historical construction indexes were applied and used to extend to mid point of construction. The specific construction indexes used were:

Headworks Modifications: Average of three indexes which include--

*Earth dams-outlet works*

*Concrete dams*

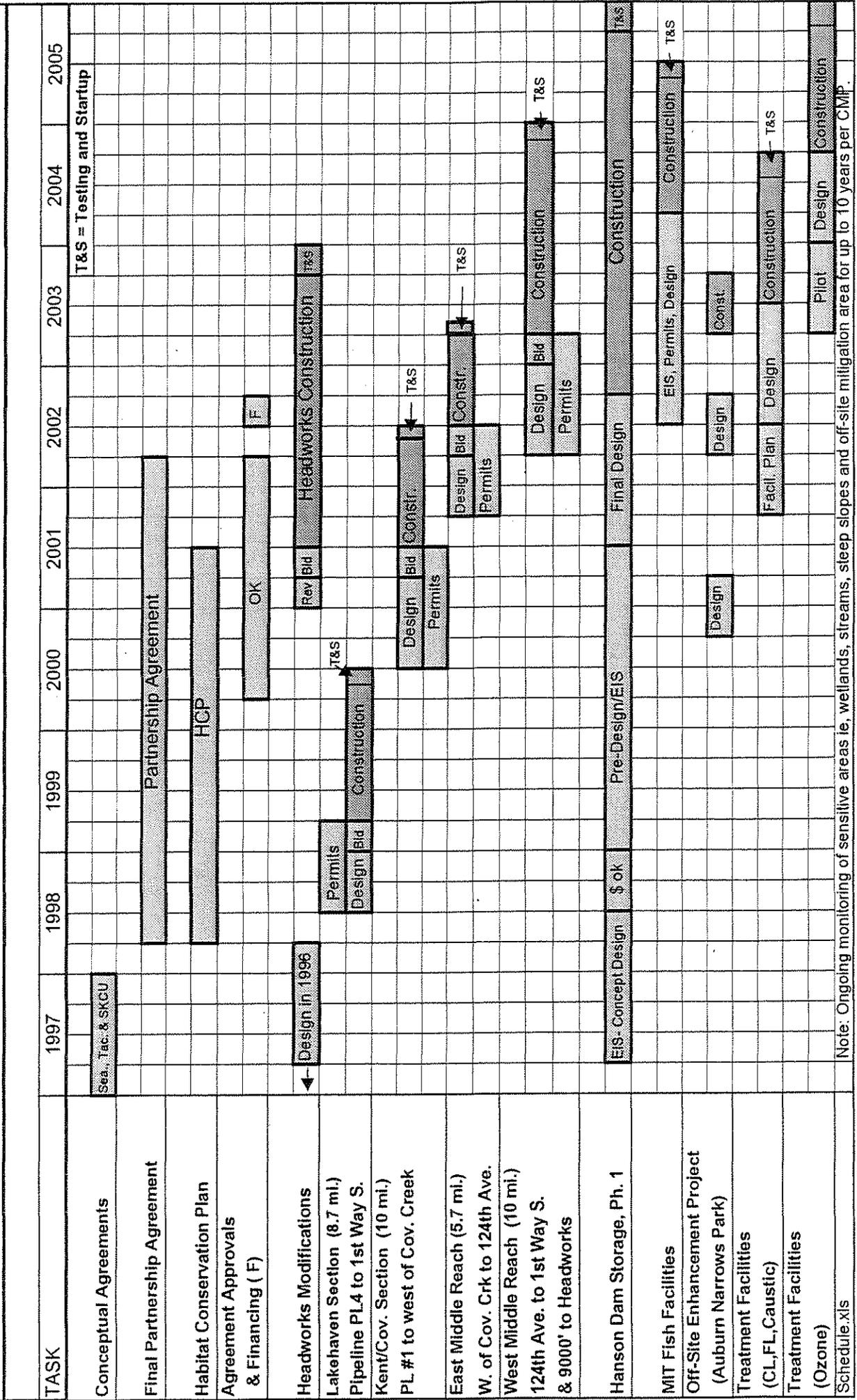
*Pumping Plants-structures & improvements*

Pipelines:                    *Steel Pipelines*

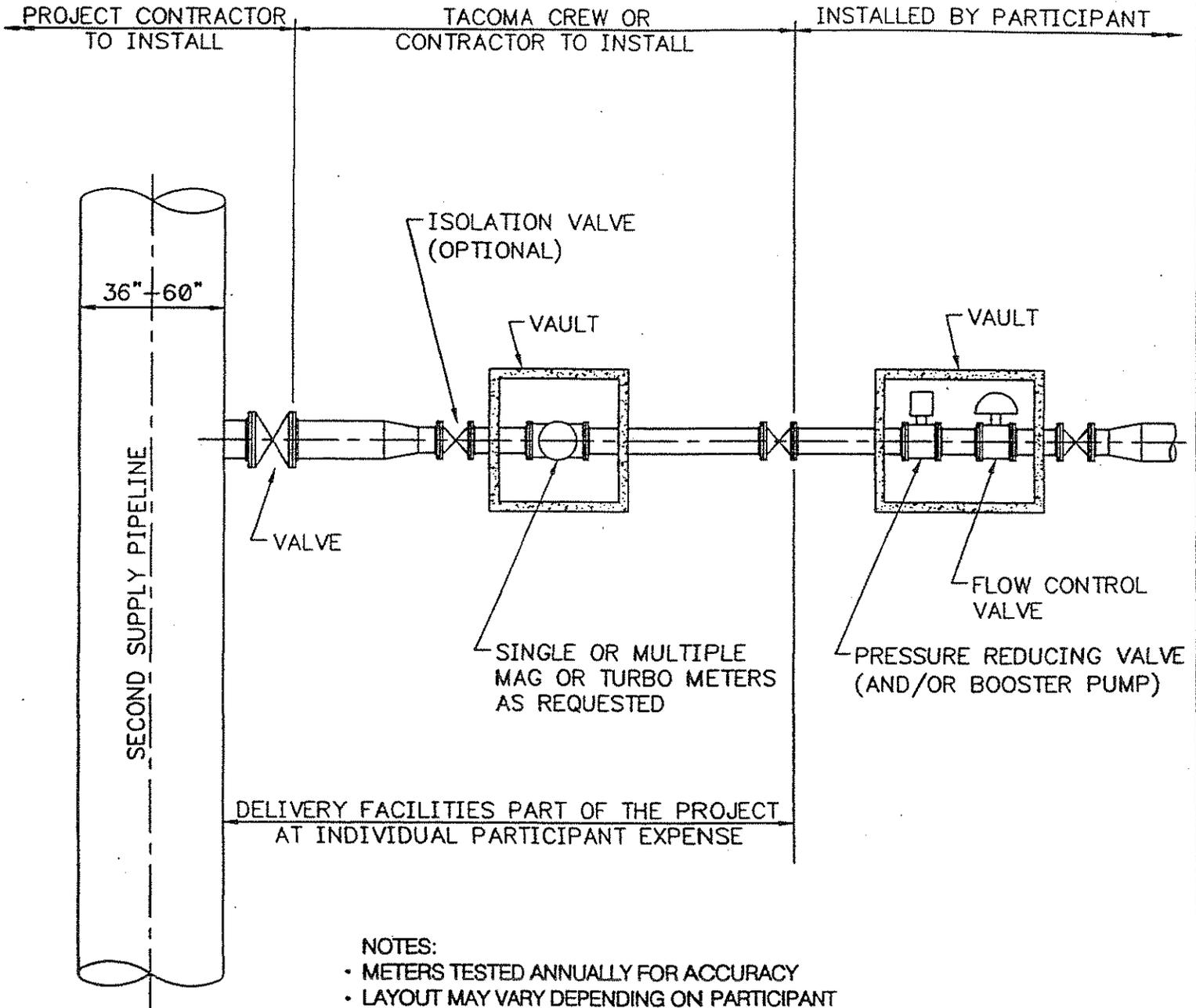
6/27/02

SECOND SUPPLY PROJECT

# Initial Project Construction Schedule



# CONCEPTUAL TYPICAL POINT OF DELIVERY (FOR SOUTH KING COUNTY UTILITIES)

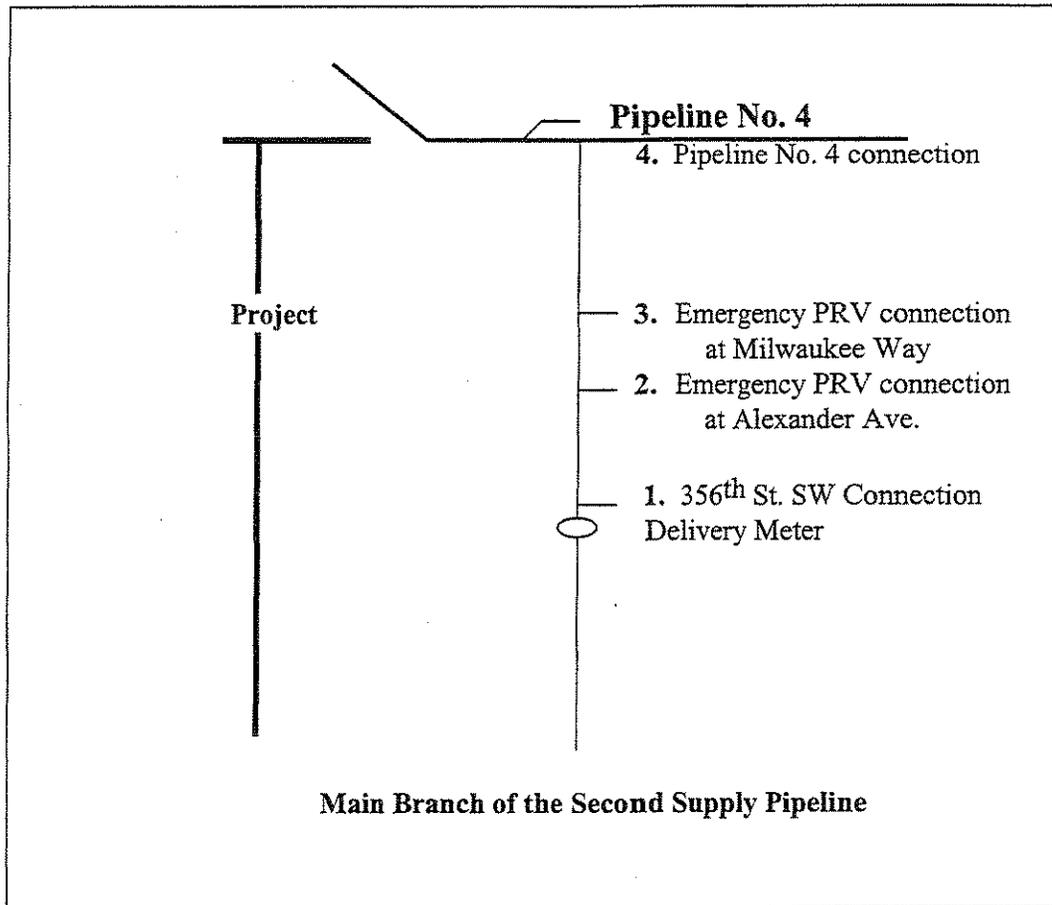


- NOTES:
- METERS TESTED ANNUALLY FOR ACCURACY
  - LAYOUT MAY VARY DEPENDING ON PARTICIPANT NEEDS

## Points of Delivery for Tacoma

The Points of Delivery for Tacoma shall be at the following locations:

1. SW 356<sup>th</sup> Street and 15<sup>th</sup> Ave. SW (NE Tacoma)
2. SR509 & Alexander Avenue (emergency connection)
3. SR509 & Milwaukee Way (emergency connection)
4. Pipeline No. 4 @ East 40<sup>th</sup> and East K Streets



**Schematic of the Points of Delivery for Tacoma**

Tacoma's meter, delivery connections including valves (except Pipeline #4 connection), associated vaults and associated equipment will be installed at their expense by the project contractor, City crews or an independent contractor.

**Project Annual Budget**

This estimated year 2000 budget assumes the Headworks Modifications and the Second Supply Pipeline are in service and the average daily water produced by the project is 40 MGD. The estimated Hanson Dam Additional Storage and the Fish Facility O & M are as stated in the preliminary reports and a budget will be provided to the Operations Committee by the Corps and the Tribe in accordance with the agreements.

Assume actual Ave. q(SSP) = 40 MGD  
 Ave. q(PL1) = 64 MGD  
 Q = max. water right: PL1 = 73.0, SSP = 64.6

<u>Account</u>		<u>2000</u>	<u>Allocation</u>	<u>SSP</u>	<u>1/3 of SSP</u>
<u>Number</u>	<u>Description</u>	<u>Budget</u>	<u>Factor</u>	<u>Budget</u>	<u>Budget</u>

**OPERATIONS**

Note: f (fixed) = Q(SSP)/[Q(PL1)+Q(SSP)] = 64.6/137.6 = 0.4695  
 f (variable) = q(SSP)/[q(PL1) + q(SSP)] = 40/104 = 0.3846

Source of Supply

600.1	Supr. & Engr. Watershed	\$67,000	0.4695	\$31,455	\$10,485
600.2	Supr. & Engr. Headworks	\$85,000	0.4695	\$39,906	\$13,302
601.1	Operation Watershed	\$402,000	0.4695	\$188,730	\$62,909
601.2	Operation Headworks	\$103,000	0.4695	\$48,356	\$16,119
601.5	Forestry Operations	\$58,000	0.4695	\$27,230	\$9,076

Water Treatment

640.1	Supr. & Engr. Green River	\$69,000	0.4695	\$32,394	\$10,798
640.4	Supr. & Engr. Laboratory	\$4,000	0.4695	\$1,878	\$626
641.11	Chlorine, Green River	\$161,000	0.3846	\$61,923	\$20,641
641.21	Fluoride, Green River	\$182,000	0.3846	\$70,000	\$23,333
641.51	Caustic, Green River	\$247,000	0.3846	\$95,000	\$31,666
642.1	Operation, Green River-	\$295,000	0.4695	\$138,496	\$46,165
642.4	Laboratory Testing	\$120,000	0.25	\$30,000	\$10,000
642.7	Fluoride Plt, Green River	\$10,000	0.4695	\$4,695	\$1,565
642.9	Corrosion Control Plt, SSP	\$30,000	1.00	\$30,000	\$10,000

Transmission & Storage

660.3	Supr. & Engr. SSP	\$130,000	1.00	\$130,000	\$43,333
662.5	SSP Operation	\$50,000	1.00	\$50,000	\$16,667
662.4	Corrosion Control-External	\$35,000	0.25	\$8,750	\$2,917
665	Misc. Operation	\$30,000	0.25	\$7,500	\$2,500

<u>Account Number</u>	<u>Description</u>	<u>2000 Budget</u>	<u>Allocation Factor</u>	<u>SSP Budget</u>	<u>1/3 of SSP Budget</u>
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**MAINTENANCE**

Source of Supply

610.1	Supr. & Engr. Watershed	\$5,000	0.4695	\$2,347	\$782
610.2	Supr. & Engr. Headworks	\$25,000	0.4695	\$11,737	\$3,912
611.1	Maintenance Watershed	\$60,000	0.4695	\$28,169	\$9,389
611.2	Maintenance Headworks	\$100,000	0.4695	\$46,948	\$15,649
612	Misc. Plant	\$5,000	0.4695	\$2,347	\$782

Water Treatment

650.1	Supr. & Engr. Green R.	\$25,000	0.4695	\$11,737	\$3,912
652.11	Headworks Equipment-	\$80,000	0.4695	\$37,558	\$12,519
652.14	Fluoride Plant	\$8,000	0.4695	\$3,756	\$1,252
652.15	Corrosion Control Plt. SSP	\$50,000	0.4695	\$23,474	\$7,825
652.4	Laboratory Equipment	\$1,000	0.4695	\$469	\$156

Transmission & Storage

670.1	Supr. & Engr. Green R.	\$7,000	0.4695	\$3,286	\$1,095
671.11	Hdwks. Transmission	\$20,000	0.4695	\$9,390	\$3,130
671.15	Maintenance SSP	\$180,000	1.00	\$180,000	\$59,999
673	Misc. Plant	\$30,000	0.20	\$6,000	\$2,000

<b>TOTALS</b>	<b>\$2,676,000</b>		<b>\$1,363,529</b>	<b>\$454,505</b>
			<b>Due Date</b>	<b>xxx</b>

<b>Project Contingency Fund (PCF)</b>	<b>Balance @ Year End</b>	<b>Est. \$ for Yr. 2000</b>	<b>Allocate @ 1/3 of Est.</b>	<b>Due Date</b>
For Year 2000	xxx	xxx	xxx	xxx
Comments:				

Project Bond Payments	Amount	Due Date	
Total For Year 2000	xxx	xxx	
Tacoma	xxx	xx	
Covington	xxx	xx	
Kent	xxx	xx	
Lakehaven	xxx	xx	
Comments:			

Proposed Capital Expenditures	Location	Timing	Est. Cost	Finance
(Element 1)	xx	xx	xxx	Bonds
(Element 2)	xx	xx	xxx	PCF
Comments:				

Proposed Issuance of New Project Bonds	Amount	Issue Date
(Purpose)	xxx	xx
Comments:		

## Project Cost Estimate

These capital costs are escalated to mid-point of construction or payment obligation (*date shown*) except as noted below.

- Howard Hanson Dam Additional Storage (Corps Est. to January 2003):

Construction cost	5,823,333
Pre-Engr. & Design (PED) (covered by payments made below)	
Reconnaissance & Feasibility Studies (covered by payments made below)	
Payments through March 2002:	
Payments by Tacoma	2,107,134
Payments by Lakehaven	361,466
Payments by Kent	828,133
Payments by Covington	828,133
Other payments	<u>2,502,000</u>
<b>TOTAL Hanson Dam Storage</b>	<b>\$12,450,199</b>

- Headworks Modifications and Second Supply Pipeline Main Branch:  
 (1999 consultant cost estimate using the US Bureau of Reclamation (USBR) index for escalation (Refer to Exhibit C) to approx. August 2002 except Lakehaven section is shown as recently estimated).

Headworks (diversion) Construction	$\$10,524,000 \times 89.6/162.6 = 5,799,000$
Pipeline (1 <sup>st</sup> Way So. to Kent/Cov. Section + Hdwks. Section)	<u>63,662,566</u>
Subtotal	\$69,461,566

Payments by Tacoma (1966 thru Aug. 2002)	25,267,909
Payments by Lakehaven (design-1995 thru. Aug. 2002)	168,411
Payments by Lakehaven (Construct PL 4 to 1 <sup>st</sup> Way So.)	18,903,041
Payments by Kent (design-1995 thru Aug. 2002)	201,744
Est. payment by Kent (Construct Kent/Covington PL)	13,000,000
Payments by Covington (design-1995 thru Aug. 2002)	284,200
Est. payment by Covington (Construct Kent/Covington PL)	13,000,000
Other payments	<u>569,475</u>
Subtotal	\$71,394,780

<b>TOTAL Headworks &amp; Pipeline</b>	<b>\$141,592,013</b>
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- Fisheries, Wildlife & Environmental Enhancement Costs (primarily fisheries):  
 (Refer to Exhibit M --dollars in various years-capital costs only)      \$42,168,100  
     Payments by Tacoma      638,900

**TOTAL Ecosystem Costs      \$42,807,000**

- Water Treatment Facilities:  
 (1998 consultant \$ estimate escalated @ 4%/year to Aug. 2002)

Chlorination Facilities		
	\$4,280,000 x 1.153 minus \$426,000	\$4,509,000
Corrosion Control Facilities		
	\$1,733,000 x 1.153	\$1,999,000
Fluoridation Facilities		
	\$457,000 x 1.153	\$ 527,000
Ozone Facilities (approximate)		
	\$30M x [90mgd/(73 mgd+90mgd)]	<u>\$16,564,000</u>
	<b>TOTAL Water Treatment</b>	<b>\$23,599,000</b>

<b>TOTAL PROJECT (Mid-Point Construction)</b>	<b>\$219,712,545</b>
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Future project financing costs unknown and not shown.

## Project Financing Plan

This plan assumes use of the Regional Water Supply System alternative financing mechanism. It includes an example, in Schedules H-1 through H-4, of the method of fairly allocating Project debt costs based on agreed Project shares, less the amounts prepaid by each Participant. The elements of this plan are:

- (1) The City of Tacoma, Tacoma Public Utilities, will issue revenue bonds for its "Regional Water Supply System", a new system which it will form as the financing entity for the Project. The customers of this system will be the Participants: Tacoma Public Utilities "Water System", City of Kent, Lakehaven Utility District and Covington Water District.
- (2) The bonds will be issued in one or more series to finance Project costs not paid from:
  - (a) direct cash payments of a Participant(s); or, (b) prepayment of Project construction or acquisition costs by a Participant.
- (3) The bonds will be secured by and paid from the gross revenues of the Regional Water Supply System, and determined in accordance with Section 11, *Project Financing*. The Project Budget payments made by the Participants shall constitute an operating expense for water purchased by their respective water utilities.
- (4) The share of debt service of the Participants will be determined in accordance with the example outlined in Schedule H-1.
- (5) Bonds will mature in not more than thirty (30) years from their date of issuance, generally as shown in Schedule H-2, with approximately equal annual debt service, except the annual amount shall increase in 2024 as shown.
- (6) A Participant wishing to pay all or part of its share in cash will give notice at least 45 days prior to the proposed issuance date of a series of bonds for the Project. These cash contributions will then be paid to Tacoma within 30 days of quarterly billings for the Participants project share of ongoing project expenditures through June 30, 2005.
- (7) It is anticipated that additional "Parity" bonds may be issued from time-to-time, as the Participants decide, to finance improvements and additional facilities that may be needed or required in the future.

The Participants may decide that the initial bond issue will not include funds for all of the project work. These project items would then be financed with the issuance of "Parity" bonds at a latter date, depending on construction timing, bond market conditions or other factors. The amount of a Participants cash contribution may be adjusted, if necessary, at the time of a second bond issue. Schedule H-2, Columns [7] through [10] shows the estimated maturity of the first bond issue planned for late 2002. Columns [11] through [14] shows the estimated maturities and interest for future issue(s).

- (8) The Schedule assumes capitalizing a Bond Reserve Fund equal to the lesser of: 1.25% of average annual debt service; 10% of the principal amount of bonds issued; or maximum annual debt service. The Bond Reserve Fund will belong to the Participants in the same proportion as their respective debt service shares, and will be returned to them when bonds are finally retired, or in part as their percentage shares might be reduced upon issuance of future debt.

**FOOTNOTES to SCHEDULE H-1.**

This Schedule includes estimates only of the costs of various Project elements. Numbered lines are derived as follows:

Line

- [1] Estimates of Project cost by TPU Water Division as of 09/05/02.  
[2] Financing costs estimated by Financial Advisor.  
[3] The City of Tacoma will capitalize the first two years interest on the share of the 2002 bond issue, and will be responsible for paying 100% of the debt service on the amount of additional bonds issued to pay the capitalized interest on the 2002 bonds. The City of Kent and Covington Water District will not capitalize any interest on their share of the bonds.  
[4] Agreed percentages of Project costs shared by Participants.  
[5] Multiply Total Project Cost (Not including financing) by share percentage.  
[6] Amount prepaid by Participants as of 08/31/02.  
[7] Amount of interest prepaid through 08/31/02 on bonds issued by respective Participants to finance elements of project construction.  
[8] Estimated future cash payments by Participants from 09/01/02 and 06/30/05.  
[9] Total of lines [6], [7] and [8].  
[10] Total of lines [5] and [9].  
[11] Estimated share of bond issuance expenses.  
[12] Tacoma's share of first two years interest on 2002 bonds.  
[13] Divide shares on line [10] by total on line [10] to determine respective Participant shares of total line [13].  
[14] Total of lines [10] through [13].  
[15] Total of Participants respective shares of amount of bonds without any capitalized interest (See supplemental Schedules H-1 through H-4—W/O Cap. Int.), plus Tacoma's 100% share of additional amount of bonds issued for capitalized interest.  
[16] Total of respective amounts in lines [5], [11], [12] and [13].

**FOOTNOTES to SCHEDULE H-2.**

Schedule H-2 is the key schedule in this Exhibit H. Schedules H-3 and H-4 contain detail breakdown of prepayment credits and debt service payments, respectively, between the Participants.

Col. #

- [1] Years from start of financing.
- [2] Calendar years assuming that bonds are first issued in late 2002.
- [3] Columns [3], [4], and [5] show the debt payments for total project financing assuming no prepayments financed by the Participants.
- [4] Cumulative interest obtained by multiplying Column [3] by interest rate in column [8].
- [5] Total of columns [3] and [4].
- [6] Total credits for prepayments, plus interest at rates on 2002 bonds, paid by Participants. (Breakdown on Schedule H-3).
- [7] Columns [7], [8], [9] and [10] represent an estimate of debt service on bonds actually issued in 2002.
- [8] Estimated rate of interest on bonds. (Will be revised upon sale of bonds).
- [9] Cumulative interest obtained by multiplying Column [7] by interest rate in column [8].
- [10] Total of columns [7] and [9].
- [11], [12], [13] and [14] represent principal, interest and total debt service on a planned second bond issue in 2004 and/or future years.
- [15] Estimated interest earnings on bond proceeds until expended. Plan assumes this income will be used to reduce the Participants' pro-rata share of debt service payments.
- [16] Interest earnings on capitalized Bond Reserve Fund. Earnings will be used to reduce Participants annual debt payments.
- [17] Total of columns [10], [14], [15] and [16].

**FOOTNOTES to SCHEDULE H-3.**

This Schedule provides a tabulation of the prepayments of Project costs by the Participants and shows the projected credits to be received by the Participants.

The principal amounts are credits against the "potential" bond amount shown on Schedule H-2, and the interest credits against the "potential" interest. The credits are spread over 20 years for each Participant. Interest on the credits is the interest rate on the 2002 bond issue.

**FOOTNOTES to SCHEDULE H-4.**

This schedule is derived by multiplying the final Column [17] on Schedule H-2 by the Participants percentages on Schedule H-1, line [15]. This represents each Participants annual payment for bond debt service which will be paid 1/12 each month, beginning December 1.

## COMPUTATION OF PARTICIPANTS SHARE OF PROJECT

	<u>Total Project Cost Estimate</u>	<u>2002 Bonds</u>	<u>2005 Bonds</u>	<u>Total</u>
	Howard Hansen Dam	\$ 12,450,199	\$ 0	\$ 12,450,199
	Headworks Construction & Pipeline	141,592,013	0	141,592,013
	Water Treatment Facilities	23,599,000	0	23,599,000
	Ecosystem	36,195,000	6,612,000	42,807,000
[1]	<b>Total not including financing</b>	<b>\$ 213,836,212</b>	<b>\$ 6,612,000</b>	<b>\$ 220,448,212</b>
	<b>Financing Cost Estimates</b>			
[2]	Bond Discount	0.0060 \$ 519,300	\$ 40,800	\$ 560,100
	Bond Insurance	0.0065 562,575	44,200	606,775
	Legal, FA,Ratings	0.0030 172,975	95,000	267,975
	Misc & Contingency	0.0010 212,994	8,000	220,994
	Capitalized Bond Reserve	8,600,000	0	8,600,000
[3]	Capitalized Interest – TACOMA	3,881,083	0	3,881,083
	<b>Total Financing &amp; Bond Res.</b>	<b>\$ 13,948,927</b>	<b>\$ 188,000</b>	<b>\$ 14,136,927</b>
	<b>Total Project Costs</b>	<b>\$ 227,785,139</b>	<b>\$ 6,800,000</b>	<b>\$ 234,585,139</b>

## PARTICIPANTS SHARE OF ESTIMATED PROJECT COSTS

Project Share	<u>Tacoma</u>	<u>Kent</u>	<u>Lakehaven</u>	<u>Covington</u>	<u>Total</u>
	<u>15/36</u>	<u>7/36</u>	<u>7/36</u>	<u>7/36</u>	<u>1</u>
[4] (%)	0.416667	0.194444	0.194444	0.194444	1
[5] Share of Capital Cost	\$ 91,853,422	\$ 42,864,930	\$ 42,864,930	\$ 42,864,930	\$ 220,448,212
[6] Amount Prepaid to 9/1/02	(23,413,744)	(13,828,133)	(16,150,754)	(13,828,133)	(67,220,764)
[7] Interest on Bonds to 9/1/02	(4,600,199)	0	(3,113,199)	0	(7,713,398)
[8] Future Prepayments	(22,000,000)	(10,000,000)	(23,600,977)	(10,700,000)	(66,300,977)
[9] Total Prepayments	(50,013,943)	(23,828,133)	(42,864,930)	(24,528,133)	(141,235,139)
[10] Net to be Financed	\$ 41,839,479	\$ 19,036,797	\$ 0	\$ 18,336,797	\$ 79,213,073
[11] Financing Expenses@1.65%	942,501	363,352	0	349,991	1,655,844
[12] Tacoma Capitalized Interest	4,232,966				3,881,083
[13] Share of D/S Reserve	4,542,426	2,066,786	0	1,990,788	8,600,000
[14] Total Bond Financing	\$ 51,557,372	\$ 21,466,935	\$ 0	\$ 20,677,576	\$ 93,350,000
2002 Issue					\$ 86,550,000
2005 Issue					\$ 6,800,000
[15] Share of Bond Debt Service and Reserve Fund after Credit for Prepayment	54.9738%	22.9348%	0.0000%	22.0914%	100.00%
[16] Total Project Costs before Credits for Prepayments	\$ 101,571,315	\$ 45,295,068	\$ 42,864,930	\$ 45,205,710	\$ 234,585,139

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Est. Proj. Caldr Year	Potential bonds issued if there had been no prepayment of Project costs by Participants.		Payments		Total credits to Participants for prepayments (Sched H-3 for breakdown)	Debt Service payments on bonds actually issued. (Potential debt service less credits to Participants.)			
	Principal	Debt Service Est. Int.	Est. Int.	Total		Principal	Estimated Interest		
1 2003	0	\$ 10,740,171	\$ 10,740,171	\$ 10,740,171	\$ (6,037,796)	2.00 %	\$ 4,391,875	\$ 4,391,875	
2 2004	7,061,750	10,740,171	17,801,921	17,801,921	(13,099,546)	2.25	4,391,875	4,391,875	
3 2005	\$ 7,711,750	10,581,282	18,293,032	18,293,032	(12,940,657)	\$ 2.75	650,000	4,391,875	
4 2006	7,811,750	10,369,209	18,180,959	18,180,959	(12,746,459)	3.00	750,000	4,374,000	
5 2007	8,061,750	10,134,856	18,196,606	18,196,606	(12,534,606)	3.25	1,000,000	4,351,500	
6 2008	8,211,750	9,872,849	18,084,599	18,084,599	(12,305,099)	3.50	1,150,000	4,319,000	
7 2009	8,261,750	9,585,438	17,847,188	17,847,188	(12,057,938)	4.00	800,000	4,278,750	
8 2010	8,361,750	9,254,968	17,616,718	17,616,718	(11,775,468)	4.00	800,000	4,246,750	
9 2011	8,461,750	8,920,498	17,382,248	17,382,248	(11,492,998)	4.25	800,000	4,214,750	
10 2012	8,536,750	8,560,874	17,097,624	17,097,624	(11,192,874)	4.25	825,000	4,180,750	
11 2013	8,636,750	8,198,062	16,834,812	16,834,812	(10,892,749)	4.50	875,000	4,145,688	
12 2014	8,736,750	7,809,408	16,546,158	16,546,158	(10,574,971)	4.50	925,000	4,106,313	
13 2015	8,836,750	7,416,254	16,253,004	16,253,004	(10,257,192)	4.75	1,025,000	4,064,688	
14 2016	8,961,750	6,996,509	15,958,259	15,958,259	(9,921,759)	4.75	1,100,000	4,016,000	
15 2017	9,086,750	6,570,826	15,657,576	15,657,576	(9,586,326)	5.00	1,225,000	3,963,750	
16 2018	9,261,750	6,116,488	15,378,238	15,378,238	(9,233,238)	5.00	1,350,000	3,902,500	
17 2019	9,386,750	5,653,401	15,040,151	15,040,151	(8,880,151)	5.00	2,325,000	3,835,000	
18 2020	9,511,750	5,184,063	14,695,813	14,695,813	(8,527,063)	5.00	2,450,000	3,718,750	
19 2021	9,636,750	4,708,476	14,345,226	14,345,226	(8,173,976)	5.25	2,575,000	3,596,250	
20 2022	9,761,750	4,202,546	13,964,296	13,964,296	(7,803,234)	5.25	2,700,000	3,461,063	
21 2023	9,911,750	3,690,054	13,601,804	13,601,804	(7,432,492)	5.25	2,850,000	3,319,313	
22 2024	5,425,000	3,169,688	8,594,688	8,594,688	0	5.25	5,425,000	3,169,688	
23 2025	5,700,000	2,884,875	8,584,875	8,584,875	0	5.25	5,700,000	2,884,875	
24 2026	6,000,000	2,585,625	8,585,625	8,585,625	0	5.25	6,000,000	2,585,625	
25 2027	6,325,000	2,270,625	8,595,625	8,595,625	0	5.25	6,325,000	2,270,625	
26 2028	6,650,000	1,938,563	8,588,563	8,588,563	0	5.25	6,650,000	1,938,563	
27 2029	7,000,000	1,589,438	8,589,438	8,589,438	0	5.25	7,000,000	1,589,438	
28 2030	7,375,000	1,221,938	8,596,938	8,596,938	0	5.25	7,375,000	1,221,938	
29 2031	7,750,000	834,750	8,584,750	8,584,750	0	5.25	7,750,000	834,750	
30 2032	8,150,000	427,875	8,577,875	8,577,875	0	5.25	8,150,000	427,875	
\$ 234,585,000						\$ 182,229,779	\$ 416,814,779	\$ (217,466,591)	\$ 86,550,000
								\$ 102,193,813	\$ 188,743,813

2005 ISSUE

Debt service on second issue.		Less Invest. Earnings on		Total	Est. @ 1.5% @ 4.00% Year		Total Net Debt Service Payments
Principal	Estimated Interest	Const. Fund	\$8,600,000 Bond Res.		Total	Year	
Rate	Amount	Est.	Est.				
	\$ 348,250	\$ (675,000)	(344,000)	348,250	2003	\$ 3,372,875	
	348,250	(400,000)	(344,000)	348,250	2004	3,647,875	
	348,250	(200,000)	(344,000)	348,250	2005	4,497,875	
	348,250		(344,000)	348,250	2006	5,128,250	
	348,250		(344,000)	348,250	2007	5,355,750	
	348,250		(344,000)	348,250	2008	5,473,250	
\$ 400,000	5.00		(344,000)	748,250	2009	5,483,000	
500,000	5.00		(344,000)	828,250	2010	5,531,000	
600,000	5.00		(344,000)	903,250	2011	5,574,000	
650,000	5.00		(344,000)	923,250	2012	5,585,000	
700,000	5.00		(344,000)	940,750	2013	5,617,438	
750,000	5.00		(344,000)	955,750	2014	5,643,063	
750,000	5.00		(344,000)	918,250	2015	5,663,938	
800,000	5.00		(344,000)	930,750	2016	5,702,750	
800,000	5.50		(344,000)	890,750	2017	5,735,500	
850,000	5.50		(344,000)	896,750	2018	5,805,250	
			(344,000)		2019	5,816,000	
			(344,000)		2020	5,824,750	
			(344,000)		2021	5,827,250	
			(344,000)		2022	5,817,063	
			(344,000)		2023	5,825,313	
			(344,000)		2024	8,250,688	
			(344,000)		2025	8,240,875	
			(344,000)		2026	8,241,625	
			(344,000)		2027	8,251,625	
			(344,000)		2028	8,244,563	
			(344,000)		2029	8,245,438	
			(344,000)		2030	8,252,938	
			(344,000)		2031	8,240,750	
			(344,000)		2032	8,233,875	
			(10,320,000)				
\$ 6,800,000	\$ 3,180,750	\$ 9,980,750	(1,275,000)	\$ (10,320,000)		\$ 187,129,563	

CREDITS TO PARTICIPANTS FOR PROJECT PREPAYMENTS

Year	City of Tacoma		Lake hven		City of Kent		Covington		Total Credits
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2003	\$ (2,138,099)	\$ (2,138,099)	0	0	0	0	0	0	0
2004	(2,500,700)	(2,138,099)	(2,143,250)	(1,832,479)	(1,191,400)	(1,018,647)	(1,226,400)	(1,048,572)	(6,037,796)
2005	(2,500,700)	(2,081,833)	(2,143,250)	(1,784,256)	(1,191,400)	(991,841)	(1,226,400)	(1,020,978)	(13,099,546)
2006	(2,500,700)	(2,013,064)	(2,143,250)	(1,725,316)	(1,191,400)	(959,077)	(1,226,400)	(987,252)	(12,940,657)
2007	(2,500,700)	(1,938,043)	(2,143,250)	(1,661,019)	(1,191,400)	(923,335)	(1,226,400)	(950,460)	(12,746,459)
2008	(2,500,700)	(1,856,770)	(2,143,250)	(1,591,363)	(1,191,400)	(884,615)	(1,226,400)	(910,602)	(12,534,606)
2009	(2,500,700)	(1,769,245)	(2,143,250)	(1,516,349)	(1,191,400)	(842,916)	(1,226,400)	(867,678)	(12,305,099)
2010	(2,500,700)	(1,669,217)	(2,143,250)	(1,430,619)	(1,191,400)	(795,260)	(1,226,400)	(818,622)	(12,057,938)
2011	(2,500,700)	(1,569,189)	(2,143,250)	(1,344,889)	(1,191,400)	(747,604)	(1,226,400)	(769,566)	(11,775,468)
2012	(2,500,700)	(1,462,910)	(2,143,250)	(1,253,801)	(1,191,400)	(696,969)	(1,226,400)	(717,444)	(11,492,998)
2013	(2,500,700)	(1,356,630)	(2,143,250)	(1,162,713)	(1,191,400)	(646,335)	(1,226,400)	(665,322)	(11,192,874)
2014	(2,500,700)	(1,244,098)	(2,143,250)	(1,066,267)	(1,191,400)	(592,722)	(1,226,400)	(610,134)	(10,892,749)
2015	(2,500,700)	(1,131,567)	(2,143,250)	(969,821)	(1,191,400)	(539,109)	(1,226,400)	(554,946)	(10,574,971)
2016	(2,500,700)	(1,012,784)	(2,143,250)	(868,016)	(1,191,400)	(482,517)	(1,226,400)	(496,692)	(10,257,192)
2017	(2,500,700)	(894,000)	(2,143,250)	(766,212)	(1,191,400)	(425,926)	(1,226,400)	(438,438)	(9,921,759)
2018	(2,500,700)	(768,965)	(2,143,250)	(659,049)	(1,191,400)	(366,356)	(1,226,400)	(377,118)	(9,586,326)
2019	(2,500,700)	(643,930)	(2,143,250)	(551,887)	(1,191,400)	(306,786)	(1,226,400)	(315,798)	(9,233,238)
2020	(2,500,700)	(518,895)	(2,143,250)	(444,724)	(1,191,400)	(247,216)	(1,226,400)	(254,478)	(8,880,151)
2021	(2,500,700)	(393,860)	(2,143,250)	(337,562)	(1,191,400)	(187,646)	(1,226,400)	(193,158)	(8,527,063)
2022	(2,500,700)	(262,574)	(2,143,250)	(225,041)	(1,191,400)	(125,097)	(1,226,400)	(128,772)	(8,173,976)
2023	(2,500,700)	(131,287)	(2,143,250)	(112,521)	(1,191,400)	(62,549)	(1,226,400)	(64,386)	(7,803,234)
2024	0	0	0	0	0	0	0	0	(7,432,492)
2025	0	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0	0
2027	0	0	0	0	0	0	0	0	0
2028	0	0	0	0	0	0	0	0	0
2029	0	0	0	0	0	0	0	0	0
2030	0	0	0	0	0	0	0	0	0
2031	0	0	0	0	0	0	0	0	0
2032	0	0	0	0	0	0	0	0	0
	\$ (50,014,000)	\$ (26,995,057)	\$ (42,865,000)	\$ (23,136,384)	\$ (23,828,000)	\$ (12,861,163)	\$ (24,528,000)	\$ (13,238,988)	\$ (217,466,591)

SCHEDULE H-4  
PARTIES' SHARE OF DEBT SERVICE

Oct. 3, 2002  
twoh24ci

[17]

Year	Total Net Debt Service Payments	Share of Debt Service Paid by Each Party				TOTAL
		Tacoma 15/36 52.8189%	Lakehaven 7/36 0.0%	Kent 7/36 24.0324%	Covington 7/36 23.1487%	
2003	\$ 3,372,875	\$ 1,867,916 *←Cap.Int.	0 \$	766,573 \$	738,386 \$	3,372,875
2004	3,647,875	2,013,167 *←Cap.Int.	0	832,663	802,045	3,647,875
2005	4,497,875	2,532,901	0	1,000,889	964,085	4,497,875
2006	5,128,250	2,863,911	0	1,153,375	1,110,964	5,128,250
2007	5,355,750	2,981,951	0	1,209,130	1,164,669	5,355,750
2008	5,473,250	3,041,713	0	1,238,540	1,192,997	5,473,250
2009	5,483,000	3,032,590	0	1,248,153	1,202,257	5,483,000
2010	5,531,000	3,079,175	0	1,248,874	1,202,951	5,531,000
2011	5,574,000	3,110,380	0	1,254,882	1,208,738	5,574,000
2012	5,585,000	3,112,180	0	1,259,568	1,213,252	5,585,000
2013	5,617,438	3,125,303	0	1,269,406	1,222,729	5,617,438
2014	5,643,063	3,134,591	0	1,277,728	1,230,744	5,643,063
2015	5,663,938	3,141,371	0	1,284,907	1,237,660	5,663,938
2016	5,702,750	3,169,184	0	1,290,510	1,243,056	5,702,750
2017	5,735,500	3,181,440	0	1,300,949	1,253,111	5,735,500
2018	5,805,250	3,236,563	0	1,308,399	1,260,288	5,805,250
2019	5,816,000	3,223,959	0	1,320,295	1,271,746	5,816,000
2020	5,824,750	3,234,478	0	1,319,394	1,270,878	5,824,750
2021	5,827,250	3,229,311	0	1,323,299	1,274,640	5,827,250
2022	5,817,063	3,228,915	0	1,318,312	1,269,836	5,817,063
2023	5,825,313	3,225,841	0	1,324,080	1,275,392	5,825,313
2024	8,250,688	4,357,922	0	1,982,838	1,909,927	8,250,688
2025	8,240,875	4,352,740	0	1,980,480	1,907,655	8,240,875
2026	8,241,625	4,353,136	0	1,980,660	1,907,829	8,241,625
2027	8,251,625	4,358,418	0	1,983,064	1,910,144	8,251,625
2028	8,244,563	4,354,687	0	1,981,366	1,908,509	8,244,563
2029	8,245,438	4,355,149	0	1,981,577	1,908,712	8,245,438
2030	8,252,938	4,359,111	0	1,983,379	1,910,448	8,252,938
2031	8,240,750	4,352,674	0	1,980,450	1,907,626	8,240,750
2032	8,233,875	4,349,042	0	1,978,798	1,906,035	8,233,875
	\$ 187,129,563	\$ 101,959,718	\$ 0	\$ 43,382,538	\$ 41,787,309	\$ 187,129,567

## COMPUTATION OF PARTICIPANTS SHARE OF PROJECT – W/O Cap. Int.

	<u>Total Project Cost Estimate</u>	<u>2002 Bonds</u>	<u>2005 Bonds</u>	<u>Total</u>
	Howard Hansen Dam	\$ 12,450,199	\$ 0	\$ 12,450,199
	Headworks Construction & Pipeline	141,592,013	0	141,592,013
	Water Treatment Facilities	23,599,000	0	23,599,000
	Ecosystem	36,195,000	6,612,000	42,807,000
[1]	<b>Total not including financing</b>	<b>\$ 213,836,212</b>	<b>\$ 6,612,000</b>	<b>\$ 220,448,212</b>
	<b>Financing Cost Estimates</b>			
[2]	Bond Discount	0.0060 \$ 495,150	\$ 40,800	\$ 535,950
	Bond Insurance	0.0065 536,413	44,200	580,613
	Legal, FA,Ratings	0.0030 172,975	95,000	267,975
	Misc & Contingency	0.0010 119,389	8,000	127,389
	Capitalized Bond Reserve	8,600,000	0	8,600,000
[3]	Capitalized Interest – TACOMA	0	0	0
	<b>Total Financing &amp; Bond Res.</b>	<b>\$ 9,923,927</b>	<b>\$ 188,000</b>	<b>\$ 10,111,927</b>
	<b>Total Project Costs</b>	<b>\$ 223,760,139</b>	<b>\$ 6,800,000</b>	<b>\$ 230,560,139</b>

## PARTICIPANTS SHARE OF ESTIMATED PROJECT COSTS

	<u>Tacoma</u>	<u>Kent</u>	<u>Lakehaven</u>	<u>Covington</u>	<u>Total</u>
Project Share	15/36	7/36	7/36	7/36	1
[4] (%)	0.416667	0.194444	0.194444	0.194444	1
[5] Share of Capital Cost	\$ 91,853,422	\$ 42,864,930	\$ 42,864,930	\$ 42,864,930	\$ 220,448,212
[6] Amount Prepaid to 9/1/02	(23,413,744)	(13,828,133)	(16,150,754)	(13,828,133)	(67,220,764)
[7] Interest on Bonds to 9/1/02	(4,600,199)	0	(3,113,199)	0	(7,713,398)
[8] Future Prepayments	(22,000,000)	(10,000,000)	(23,600,977)	(10,700,000)	(66,300,977)
[9] Total Prepayments	(50,013,943)	(23,828,133)	(42,864,930)	(24,528,133)	(141,235,139)
[10] Net to be Financed	\$ 41,839,479	\$ 19,036,797	\$ 0	\$ 18,336,797	\$ 79,213,073
[11] Financing Expenses@1.65%	798,583	363,352	0	349,991	1,511,927
[12] Tacoma Capitalized Interest	0				0
[13] Share of D/S Reserve	4,542,426	2,066,786	0	1,990,788	8,600,000
[14] Total Bond Financing	\$ 47,180,488	\$ 21,466,935	\$ 0	\$ 20,677,577	\$ 89,325,000
2002 Issue					\$ 82,525,000
2005 Issue					\$ 6,800,000
[15] Share of Bond Debt Service and Reserve Fund after Credit for Prepayment	52.8189%	24.0324%	0.0000%	23.1487%	100.00%
[16] Total Project Costs before Credits for Prepayments	\$ 97,194,431	\$ 45,295,068	\$ 42,864,930	\$ 45,205,710	\$ 230,560,139

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2002 ISSUE

Est. Proj. Caldr Year	Potential bonds issued if there had been no prepayment of Project costs by Participants.		Total credits to Participants for prepayments (Sched H-3 for breakdown)		Debt Service payments on bonds actually issued. (Potential debt service less credits to Participants.)			
	Debt Principal	Service Est. Int. Total	Payments	Total	Principal	Rate Amount		
1 2003	0	\$ 10,557,046	\$ 10,557,046	\$ (6,037,796)	2.00 %	\$ 4,208,750	\$ 4,208,750	
2 2004	7,061,750	10,557,046	17,618,796	(13,099,546)	2.25	4,208,750	4,208,750	
3 2005	\$ 7,561,750	10,398,157	17,959,907	(12,940,657)	2.75	4,208,750	4,708,750	
4 2006	7,661,750	10,190,209	17,851,959	(12,746,459)	3.00	4,195,000	4,795,000	
5 2007	7,911,750	9,960,356	17,872,106	(12,534,606)	3.25	4,177,000	5,027,000	
6 2008	8,061,750	9,703,224	17,764,974	(12,305,099)	3.50	4,149,375	5,149,375	
7 2009	8,136,750	9,421,063	17,557,813	(12,057,938)	4.00	4,114,375	4,789,375	
8 2010	8,186,750	9,095,593	17,282,343	(11,775,468)	4.00	4,087,375	4,712,375	
9 2011	8,261,750	8,768,123	17,029,873	(11,492,998)	4.25	4,062,375	4,662,375	
10 2012	8,336,750	8,416,999	16,753,749	(11,192,874)	4.25	4,036,875	4,661,875	
11 2013	8,436,750	8,062,687	16,499,437	(10,892,749)	4.50	4,010,313	4,685,313	
12 2014	8,536,750	7,683,033	16,219,783	(10,574,971)	4.50	3,979,938	4,704,938	
13 2015	8,636,750	7,298,879	15,935,629	(10,257,192)	4.75	3,947,313	4,772,313	
14 2016	8,736,750	6,888,634	15,625,384	(9,921,759)	4.75	3,908,125	4,783,125	
15 2017	8,861,750	6,473,638	15,335,388	(9,586,326)	5.00	3,866,563	4,866,563	
16 2018	8,986,750	6,030,551	15,017,301	(9,233,238)	5.00	3,816,563	4,891,563	
17 2019	9,136,750	5,581,213	14,717,963	(8,880,151)	5.00	3,762,813	5,837,813	
18 2020	9,236,750	5,124,376	14,361,126	(8,527,063)	5.00	3,659,063	5,834,063	
19 2021	9,361,750	4,662,538	14,024,288	(8,173,976)	5.25	3,550,313	5,850,313	
20 2022	9,461,750	4,171,046	13,632,796	(7,803,234)	5.25	3,429,563	5,829,563	
21 2023	9,611,750	3,674,304	13,286,054	(7,432,492)	5.25	3,303,563	5,853,563	
22 2024	5,425,000	3,169,688	8,594,688	0	5.25	3,169,688	8,594,688	
23 2025	5,700,000	2,884,875	8,584,875	0	5.25	2,884,875	8,584,875	
24 2026	6,000,000	2,585,625	8,585,625	0	5.25	2,585,625	8,585,625	
25 2027	6,325,000	2,270,625	8,595,625	0	5.25	2,270,625	8,595,625	
26 2028	6,650,000	1,938,563	8,588,563	0	5.25	1,938,563	8,588,563	
27 2029	7,000,000	1,589,438	8,589,438	0	5.25	1,589,438	8,589,438	
28 2030	7,375,000	1,221,938	8,596,938	0	5.25	1,221,938	8,596,938	
29 2031	7,750,000	834,750	8,584,750	0	5.25	834,750	8,584,750	
30 2032	8,150,000	427,875	8,577,875	0	5.25	427,875	8,577,875	
\$ 230,560,000					\$ 179,642,091	\$ 410,202,091	\$ (217,466,591)	\$ 82,525,000
							\$ 99,606,125	\$ 182,131,125

SCHEDULE H-2 - W/O Cap. Int. (continued)  
 [11] [12] [13] [14] [15] [16] [17]

2005 ISSUE		Debt service on second issue.		Less Invest.. Earnings on		Total Net
Estimated Interest		Constr. Fund		Bond Res.		Debt Service
Principal Rate	Amount	Total	Est. @ 1.5%	@ 4.00%	Year	Payments
		\$	(675,000)	\$	2003	\$ 3,189,750
			(400,000)		2004	3,464,750
			(200,000)		2005	4,164,750
\$	348,250	\$ 348,250			2006	4,799,250
	348,250	348,250			2007	5,031,250
	348,250	348,250			2008	5,153,625
\$ 400,000	5.00	348,250			2009	5,193,625
500,000	5.00	328,250			2010	5,196,625
600,000	5.00	303,250			2011	5,221,625
650,000	5.00	273,250			2012	5,241,125
700,000	5.00	240,750			2013	5,282,063
750,000	5.00	205,750			2014	5,316,688
750,000	5.00	168,250			2015	5,346,563
800,000	5.00	130,750			2016	5,369,875
800,000	5.50	90,750			2017	5,413,313
850,000	5.50	46,750			2018	5,444,313
					2019	5,493,813
					2020	5,490,063
					2021	5,506,313
					2022	5,485,563
					2023	5,509,563
					2024	8,250,688
					2025	8,240,875
					2026	8,241,625
					2027	8,251,625
					2028	8,244,563
					2029	8,245,438
					2030	8,252,938
					2031	8,240,750
					2032	8,233,875
\$ 6,800,000		\$ 3,180,750	\$ 9,980,750	(1,275,000)	\$ (10,320,000)	\$ 180,516,875

CREDITS TO PARTICIPANTS FOR PROJECT PREPAYMENTS

Year	City of Tacoma		Lake hven		City of Kent		Covting on		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Water	District	
2003	\$ (2,138,099)	\$ (2,138,099)	0	(1,832,479)	0	(1,018,647)	0	(1,048,572)	\$ (6,037,796)
2004	(2,500,700)	(2,138,099)	(2,143,250)	(1,832,479)	(1,191,400)	(1,018,647)	(1,226,400)	(1,048,572)	(13,099,546)
2005	(2,500,700)	(2,081,833)	(2,143,250)	(1,784,256)	(1,191,400)	(991,841)	(1,226,400)	(1,020,978)	(12,940,657)
2006	(2,500,700)	(2,013,064)	(2,143,250)	(1,725,316)	(1,191,400)	(959,077)	(1,226,400)	(987,252)	(12,746,459)
2007	(2,500,700)	(1,938,043)	(2,143,250)	(1,661,019)	(1,191,400)	(923,335)	(1,226,400)	(950,460)	(12,534,606)
2008	(2,500,700)	(1,856,770)	(2,143,250)	(1,591,363)	(1,191,400)	(884,615)	(1,226,400)	(910,602)	(12,305,099)
2009	(2,500,700)	(1,769,245)	(2,143,250)	(1,516,349)	(1,191,400)	(842,916)	(1,226,400)	(867,678)	(12,057,938)
2010	(2,500,700)	(1,669,217)	(2,143,250)	(1,430,619)	(1,191,400)	(795,260)	(1,226,400)	(818,622)	(11,775,468)
2011	(2,500,700)	(1,569,189)	(2,143,250)	(1,344,889)	(1,191,400)	(747,604)	(1,226,400)	(769,566)	(11,492,998)
2012	(2,500,700)	(1,462,910)	(2,143,250)	(1,253,801)	(1,191,400)	(696,969)	(1,226,400)	(717,444)	(11,192,874)
2013	(2,500,700)	(1,356,630)	(2,143,250)	(1,162,713)	(1,191,400)	(646,335)	(1,226,400)	(665,322)	(10,892,749)
2014	(2,500,700)	(1,244,098)	(2,143,250)	(1,066,267)	(1,191,400)	(592,722)	(1,226,400)	(610,134)	(10,574,971)
2015	(2,500,700)	(1,131,567)	(2,143,250)	(969,821)	(1,191,400)	(539,109)	(1,226,400)	(554,946)	(10,257,192)
2016	(2,500,700)	(1,012,784)	(2,143,250)	(868,016)	(1,191,400)	(482,517)	(1,226,400)	(496,692)	(9,921,759)
2017	(2,500,700)	(894,000)	(2,143,250)	(766,212)	(1,191,400)	(425,926)	(1,226,400)	(438,438)	(9,586,326)
2018	(2,500,700)	(768,965)	(2,143,250)	(659,049)	(1,191,400)	(366,356)	(1,226,400)	(377,118)	(9,233,238)
2019	(2,500,700)	(643,930)	(2,143,250)	(551,887)	(1,191,400)	(306,786)	(1,226,400)	(315,798)	(8,880,151)
2020	(2,500,700)	(518,895)	(2,143,250)	(444,724)	(1,191,400)	(247,216)	(1,226,400)	(254,478)	(8,527,063)
2021	(2,500,700)	(393,860)	(2,143,250)	(337,562)	(1,191,400)	(187,646)	(1,226,400)	(193,158)	(8,173,976)
2022	(2,500,700)	(262,574)	(2,143,250)	(225,041)	(1,191,400)	(125,097)	(1,226,400)	(128,772)	(7,803,234)
2023	(2,500,700)	(131,287)	(2,143,250)	(112,521)	(1,191,400)	(62,549)	(1,226,400)	(64,386)	(7,432,492)
2024		0	0	0	0	0	0	0	0
2025		0	0	0	0	0	0	0	0
2026		0	0	0	0	0	0	0	0
2027		0	0	0	0	0	0	0	0
2028		0	0	0	0	0	0	0	0
2029		0	0	0	0	0	0	0	0
2030		0	0	0	0	0	0	0	0
2031		0	0	0	0	0	0	0	0
2032		0	0	0	0	0	0	0	0
									\$ (50,014,000) \$ (26,995,057) \$ (42,865,000) \$ (23,136,384) \$ (23,828,000) \$ (12,861,163) \$ (24,528,000) \$ (13,238,988) \$ (217,466,591)

**SCHEDULE H-4 – W/O Cap. Int.  
PARTIES' SHARE OF DEBT SERVICE**

October 3, 2002  
twoh24

[17]

Year	Total Net Debt Service Payments	Share of Debt Service Paid by Each Party			TOTAL	
		Tacoma 15/36 52.8189%	Lakehaven 7/36 0.0%	Kent 7/36 24.0324%		Covington 7/36 23.1487%
2003	\$ 3,189,750	\$ 1,684,791	\$ 0	\$ 766,573	\$ 738,386	\$ 3,189,750
2004	3,464,750	1,830,043	0	832,663	802,045	3,464,750
2005	4,164,750	2,199,775	0	1,000,889	964,085	4,164,750
2006	4,799,250	2,534,911	0	1,153,375	1,110,964	4,799,250
2007	5,031,250	2,657,451	0	1,209,130	1,164,669	5,031,250
2008	5,153,625	2,722,088	0	1,238,540	1,192,997	5,153,625
2009	5,193,625	2,743,216	0	1,248,153	1,202,257	5,193,625
2010	5,196,625	2,744,800	0	1,248,874	1,202,951	5,196,625
2011	5,221,625	2,758,005	0	1,254,882	1,208,738	5,221,625
2012	5,241,125	2,768,305	0	1,259,568	1,213,252	5,241,125
2013	5,282,063	2,789,927	0	1,269,406	1,222,729	5,282,063
2014	5,316,688	2,808,216	0	1,277,728	1,230,744	5,316,688
2015	5,346,563	2,823,996	0	1,284,907	1,237,660	5,346,563
2016	5,369,875	2,836,309	0	1,290,510	1,243,056	5,369,875
2017	5,413,313	2,859,252	0	1,300,949	1,253,111	5,413,313
2018	5,444,313	2,875,626	0	1,308,399	1,260,288	5,444,313
2019	5,493,813	2,901,771	0	1,320,295	1,271,746	5,493,813
2020	5,490,063	2,899,791	0	1,319,394	1,270,878	5,490,063
2021	5,506,313	2,908,374	0	1,323,299	1,274,640	5,506,313
2022	5,485,563	2,897,414	0	1,318,312	1,269,836	5,485,563
2023	5,509,563	2,910,090	0	1,324,080	1,275,392	5,509,563
2024	8,250,688	4,357,922	0	1,982,838	1,909,927	8,250,688
2025	8,240,875	4,352,740	0	1,980,480	1,907,655	8,240,875
2026	8,241,625	4,353,136	0	1,980,660	1,907,829	8,241,625
2027	8,251,625	4,358,418	0	1,983,064	1,910,144	8,251,625
2028	8,244,563	4,354,687	0	1,981,366	1,908,509	8,244,563
2029	8,245,438	4,355,149	0	1,981,577	1,908,712	8,245,438
2030	8,252,938	4,359,111	0	1,983,379	1,910,448	8,252,938
2031	8,240,750	4,352,674	0	1,980,450	1,907,626	8,240,750
2032	8,233,875	4,349,042	0	1,978,798	1,906,035	8,233,875
	\$ 180,516,875	\$ 95,347,028	\$ 0	\$ 43,382,537	\$ 41,787,310	\$ 180,516,875

This plan explains the financing of the Second Supply Project through the issuance of Regional Water Supply System Revenue Bonds by the City of Tacoma. Schedules H-1 through H-4 shows the actual costs, and interest rates of the \$82,700,000 Revenue Bonds sold by Tacoma in December. These schedules also show the method of calculating each Participants share of the debt payments for the 2002 bonds, and the completion bonds planned for issuance in late 2005, now estimated to be \$6,,800,000. The elements of this plan are:

- (1) The City of Tacoma has formed a new "Regional Water Supply System" as a financing and operating vehicle for the Project. The customers of this new utility are: Tacoma Public Utilities "Water System", City of Kent, Lakehaven Utility District, and the Covington Water District.
- (2) This utility sold \$82,700,000 on December 10, 2002 in accordance with the provisions of Ordinance No. 27001 (the "Bond Ordinance") and Substitute Resolution No. 35716 the "Bond Sale Resolution"), all as envisioned by an early draft of this Exhibit. The Bond Ordinance provides for the issuance of future Project completion bonds as well as bonds that may be needed for future system facilities, all on a parity with the 2002 bond facilities, all on a parity of lien with the 2002 bonds.
- (3) The bonds are secured by and paid from the gross revenues of the Regional Water Supply System all in accordance with this agreement and a "Repayment Agreement", entered into by the Participants. The maturities of the 2002 bonds, and the planned 2005 bonds, are shown on Schedule H-2.
- (4) The amount of direct payment of Project costs, already paid or planned to be paid by the Participants by June 30, 2005, are shown on Schedule H-1.
- (5) The 2002 bond issue included funds for a capitalized "Bond Reserve Fund of \$5,865,000, which is equal to the average annual debt service on the bonds. The 2005 completion bond issue will require a similar reserve. THE BOND RESERVE FUND BELONGS TO EACH OF THE PARTICIPANTS in amounts proportionate to their respective shares of debt service payments. At such future time as this debt is retired, the respective reserve fund shares should be returned to the Participants or credited against their final debt service payments.

**FOOTNOTES to SCHEDULE H - 1.**

This Schedule includes estimates only of the costs of various Project elements. Numbered Lines are derived as follows:

**Line**

- [1] Estimates of Project cost by TPU Water Division as of 09/05/02
- [2] Financing costs for 2002 bonds are actual (rounded). Costs for 2005 bonds are estimated
- [3] The City of Tacoma has capitalized their share of the first two years, and part of the third years, debt service on the 2002 bonds, and will be responsible for paying 100% of the added bonds issued to pay capitlaized interest.

- [15] Estimated interest earnings on bond proceeds until expended. Plan assumes this income will be used to reduce the Participants pro-rata share of debt service payments.
- [16] Interest earnings on capitalized Bond Reserve Fund. Earnings will be used to reduce Parties annual debt payments.
- [17] Total of columns [10], [14], [15], and [16].

**FOOTNOTES to SCHEDULE H-3.**

This Schedule provides a tabulation of the prepayments of Project costs by the Parties and shows the projected credits to be received by the Parties.

The principal amounts are credits against the "potential" bond amount shown on Schedule H-2, and the interest credits against the "potential" interest. The credits are spread over 20 years for each Participant. Interest on the credits is the interest rate on the 2002 bond issue.

**FOOTNOTES to SCHEDULE H-4.**

This schedule is derived by using Schedule H-4 w/o Cap. Int.. The last five pages of this exhibit present the theoretical amount of the 2002 financing absent any capitalized interest. The amount of bonds actually issued was increased by \$4,085,000 to provide for \$3,815,855 of capitalized interest for Tacoma, plus the related costs of the larger bond issue.

The debt service amount for Tacoma on Schedule H-4 is derived by deducting the Schedule H-4 w/o Cap. Int debt service amounts for Kent and Covington from the total Debt service derived on Schedule H-2. This was done to fairly present the share of debt service for which Tacoma is responsible.

**FOOTNOTES TO: CITY OF TACOMA PAYMENT SCHEDULE  
CITY OF KENT PAYMENT SCHEDULE  
COVINGTON PAYMENT SCHEDULE**

These schedule show the gross debt service responsibility for each Participant on an annual and monthly basis. The estimated interest earnings on the Construction and Bond Reserve funds have been deducted to show the estimated net debt payments.

Actual interest earnings should be higher than what is shown, thus reducing required debt payments. However the exact amount and timing of credits for interest earnings will be a matter of the mechanics of billing procedures to be established by the Tacoma Utility Finance Manager.

SCHEDULE H-2 DEBT SERVICE

January 27, 2003

thnjaztc

[2] [3] [4] [5]

[6]

[7] ACTUAL 2002 ISSUE

[8] [9] [10]

Potential bonds issued if there had been no prepayment of Project costs by Participants.

Total credits to Participants for Prepayments (Sched H-3)

Debt Service payments on bonds actually issued in 2002.

Year	Principal	Est. Int.	Total	for breakdown)	Principal	Rate	Interest	Amount	Total
2003	0	\$ 10,416,321	\$ 10,416,321	\$ (6,072,821)		2.000%	\$ 3,880,306	\$ 3,880,306	
2004	7,123,544	10,416,321	17,539,865	(13,196,365)		2.250	4,037,313	4,037,313	
2005	\$ 7,773,544	10,256,042	18,029,586	(13,036,086)	\$ 650,000	3.000	4,037,313	4,687,313	
2006	7,873,544	10,022,835	17,896,379	(12,822,379)	750,000	3.000	4,017,813	4,767,813	
2007	8,123,544	9,786,629	17,910,173	(12,608,673)	1,000,000	4.000	3,995,313	4,995,313	
2008	8,273,544	9,461,687	17,735,231	(12,323,731)	1,150,000	4.000	3,955,313	5,105,313	
2009	8,323,544	9,130,745	17,454,289	(12,038,789)	800,000	3.500	3,909,313	4,709,313	
2010	8,423,544	8,839,421	17,262,965	(11,789,465)	800,000	4.000	3,881,313	4,681,313	
2011	8,523,544	8,502,480	17,026,024	(11,504,524)	800,000	4.000	3,849,313	4,649,313	
2012	8,598,544	8,161,538	16,760,082	(11,219,582)	825,000	4.000	3,817,313	4,642,313	
2013	8,698,544	7,817,596	16,516,140	(10,934,640)	875,000	4.125	3,784,313	4,659,313	
2014	8,798,544	7,458,781	16,257,325	(10,640,794)	925,000	4.125	3,748,219	4,673,219	
2015	8,898,544	7,095,841	15,994,385	(10,346,948)	1,025,000	4.250	3,710,063	4,735,063	
2016	9,023,544	6,717,653	15,741,197	(10,044,197)	1,100,000	5.500	3,666,500	4,766,500	
2017	9,123,544	6,221,358	15,344,902	(9,652,402)	1,200,000	5.500	3,606,000	4,806,000	
2018	9,223,544	5,719,563	14,943,107	(9,260,607)	1,250,000	5.000	3,540,000	4,790,000	
2019	9,323,544	5,258,386	14,581,930	(8,904,430)	2,200,000	5.000	3,477,500	5,677,500	
2020	9,448,544	4,792,209	14,240,753	(8,548,253)	2,325,000	5.000	3,367,500	5,692,500	
2021	9,573,544	4,319,782	13,893,326	(8,192,076)	2,450,000	5.000	3,251,250	5,701,250	
2022	9,698,544	3,841,104	13,539,648	(7,835,898)	2,575,000	5.000	3,128,750	5,703,750	
2023	9,848,544	3,356,177	13,204,721	(7,479,721)	2,725,000	5.000	3,000,000	5,725,000	
2024	5,225,000	2,863,750	8,088,750	0	5,225,000	5.000	2,863,750	8,088,750	
2025	5,500,000	2,602,500	8,102,500	0	5,500,000	5.000	2,602,500	8,102,500	
2026	5,750,000	2,327,500	8,077,500	0	5,750,000	5.000	2,327,500	8,077,500	
2027	6,050,000	2,040,000	8,090,000	0	6,050,000	5.000	2,040,000	8,090,000	
2028	6,350,000	1,737,500	8,087,500	0	6,350,000	5.000	1,737,500	8,087,500	
2029	6,700,000	1,420,000	8,120,000	0	6,700,000	5.000	1,420,000	8,120,000	
2030	7,025,000	1,085,000	8,110,000	0	7,025,000	5.000	1,085,000	8,110,000	
2031	7,400,000	733,750	8,133,750	0	7,400,000	5.000	733,750	8,133,750	
2032	7,275,000	363,750	7,638,750	0	7,275,000	5.000	363,750	7,638,750	
	\$ 231,970,880	\$ 172,766,220	\$ 404,737,100	\$ (218,452,381)	\$ 82,700,000		\$ 92,834,462	\$ 175,534,462	

CREDITS TO PARTICIPANTS FOR PROJECT PREPAYMENTS

Year	City of Tacoma		Lake Iven		City of Kent		Covington		Total Credits
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2003 \$		\$ (2,131,844)	0 \$	\$ (1,827,117)	0 \$	\$ (1,040,258)	0 \$	\$ (1,073,602)	\$ (6,072,821)
2004	(2,500,697)	(2,131,844)	(2,143,246)	(1,827,117)	(1,220,244)	(1,040,258)	(1,259,357)	(1,073,602)	(13,196,365)
2005	(2,500,697)	(2,075,579)	(2,143,246)	(1,778,894)	(1,220,244)	(1,012,803)	(1,259,357)	(1,045,266)	(13,036,086)
2006	(2,500,697)	(2,000,558)	(2,143,246)	(1,714,597)	(1,220,244)	(976,195)	(1,259,357)	(1,007,486)	(12,822,379)
2007	(2,500,697)	(1,925,537)	(2,143,246)	(1,650,299)	(1,220,244)	(939,588)	(1,259,357)	(969,705)	(12,608,673)
2008	(2,500,697)	(1,825,509)	(2,143,246)	(1,564,570)	(1,220,244)	(890,778)	(1,259,357)	(919,331)	(12,323,731)
2009	(2,500,697)	(1,725,481)	(2,143,246)	(1,478,840)	(1,220,244)	(841,968)	(1,259,357)	(868,956)	(12,038,789)
2010	(2,500,697)	(1,637,957)	(2,143,246)	(1,403,826)	(1,220,244)	(799,260)	(1,259,357)	(824,879)	(11,789,465)
2011	(2,500,697)	(1,537,929)	(2,143,246)	(1,318,096)	(1,220,244)	(750,450)	(1,259,357)	(774,505)	(11,504,524)
2012	(2,500,697)	(1,437,901)	(2,143,246)	(1,232,366)	(1,220,244)	(701,640)	(1,259,357)	(724,130)	(11,219,582)
2013	(2,500,697)	(1,337,873)	(2,143,246)	(1,146,637)	(1,220,244)	(652,831)	(1,259,357)	(673,756)	(10,934,640)
2014	(2,500,697)	(1,234,719)	(2,143,246)	(1,058,228)	(1,220,244)	(602,495)	(1,259,357)	(621,808)	(10,640,794)
2015	(2,500,697)	(1,131,565)	(2,143,246)	(969,819)	(1,220,244)	(552,160)	(1,259,357)	(569,859)	(10,346,948)
2016	(2,500,697)	(1,025,286)	(2,143,246)	(878,731)	(1,220,244)	(500,300)	(1,259,357)	(516,336)	(10,044,197)
2017	(2,500,697)	(887,747)	(2,143,246)	(760,852)	(1,220,244)	(433,187)	(1,259,357)	(447,072)	(9,652,402)
2018	(2,500,697)	(750,209)	(2,143,246)	(642,974)	(1,220,244)	(366,073)	(1,259,357)	(377,807)	(9,260,607)
2019	(2,500,697)	(625,174)	(2,143,246)	(535,812)	(1,220,244)	(305,061)	(1,259,357)	(314,839)	(8,904,430)
2020	(2,500,697)	(500,139)	(2,143,246)	(428,649)	(1,220,244)	(244,049)	(1,259,357)	(251,871)	(8,548,253)
2021	(2,500,697)	(375,105)	(2,143,246)	(321,487)	(1,220,244)	(183,037)	(1,259,357)	(188,904)	(8,192,076)
2022	(2,500,697)	(250,070)	(2,143,246)	(214,325)	(1,220,244)	(122,024)	(1,259,357)	(125,936)	(7,835,898)
2023	(2,500,697)	(125,035)	(2,143,246)	(107,162)	(1,220,244)	(61,012)	(1,259,357)	(62,968)	(7,479,721)
2024		0	0	0		0		0	0
2025									0
2026									0
2027									0
2028									0
2029									0
2030									0
2031									0
2032									0
	\$ (50,013,940)	\$ (26,673,059)	\$ (42,864,920)	\$ (22,860,398)	\$ (24,404,880)	\$ (13,015,428)	\$ (25,187,140)	\$ (13,432,617)	\$ (218,452,381)

COMPUTATION OF PARTICIPANTS SHARE OF PROJECT – W/O Cap. Int.

	<u>2002 Bonds</u>	<u>2005 Bonds</u>	<u>Total</u>
<b>Total Project Cost Estimate</b>			
Howard Hansen Dam	\$ 12,450,199	\$ 0	\$ 12,450,199
Headworks Construction & Pipeline	141,592,013	0	141,592,013
Water Treatment Facilities	23,599,000	0	23,599,000
Ecosystem	36,795,000	6,012,000	42,807,000
[1] <b>Total not including financing</b>	<b>\$ 214,436,212</b>	<b>\$ 6,012,000</b>	<b>\$ 220,448,212</b>
<b>Financing Cost Estimates</b>			
[2] Bond Discount 0.00509	\$ 399,000	\$ 48,000	\$ 447,000
Original Issue Discount	(197,000)	0	(197,000)
Bond Insurance 0.00244	410,000	45,000	455,000
Legal, FA, Ratings	264,000	71,000	335,000
Misc & Contingency	79,000	28,671	107,671
Extra Reserve Funding	65,000	0	65,000
Capitalized Bond Reserve	5,625,000	600,000	6,225,000
[3] Capitalized Interest – TACOMA	0	0	0
<b>Total Financing &amp; Bond Res.</b>	<b>\$ 6,645,000</b>	<b>\$ 792,671</b>	<b>\$ 7,437,671</b>
<b>Total Project Costs</b>	<b>\$ 221,081,212</b>	<b>\$ 6,804,671</b>	<b>\$ 227,885,883</b>

PARTICIPANTS SHARE OF ESTIMATED PROJECT COSTS

Project Share	<u>Tacoma</u> 15/36	<u>Kent</u> 7/36	<u>Lakehaven</u> 7/36	<u>Covington</u> 7/36	<u>Total</u> 1
[4] (%)	0.416667	0.194444	0.194444	0.194444	1
[5] Share of Capital Cost	\$ 91,853,422	\$ 42,864,930	\$ 42,864,930	\$ 42,864,930	\$ 220,448,212
[6] Amount Prepaid to 9/1/02	(23,413,744)	(14,404,877)	(16,319,554)	(14,487,133)	(68,625,308)
[7] Interest on Bonds to 9/1/02	(4,600,199)	0	(3,113,199)	0	(7,713,398)
[8] Future Prepayments	(22,000,000)	(10,000,000)	(23,432,177)	(10,700,000)	(66,132,177)
[9] Total Prepayments	\$ (50,013,943)	\$ (24,404,877)	\$ (42,864,930)	\$ (25,187,133)	\$ (142,470,883)
[10] Net to be Financed	\$ 41,839,479	\$ 18,460,053	\$ 0	\$ 17,677,797	\$ 77,977,329
[11] Financing Expense	650,670	287,083	0	274,918	1,212,671
[12] Tacoma Capitalized Interest	0	0	0	0	0
[13] Share of D/S Reserve	3,340,083	1,473,683	0	1,411,234	6,225,000
[14] Total Bond Financing	\$ 45,830,232	\$ 20,220,819	\$ 0	\$ 19,363,949	\$ 85,415,000
2002 Issue					\$ 78,615,000
2005 Issue					\$ 6,800,000
[15] Share of Bond Debt Service and Reserve Fund after Credit for Prepayment	53.6560%	23.6736%	0.0000%	22.6704%	100.00%
[16] Total Project Costs before Credits for Prepayments	\$ 95,844,175	\$ 44,625,696	\$ 42,864,930	\$ 44,551,082	\$ 227,885,883

ESTIMATED 2005 ISSUE

Principal	Rate	Estimated Interest Amount	Total	D/S to be Paid	Less Invest. Earnings on		Total Net Debt Svc. Payments
					Constr. Fund	Bond Res.	
		\$ 348,250	\$ 348,250	4,785,813			4,504,813
		348,250	348,250	5,017,813			4,736,813
		348,250	348,250	5,133,813			4,852,813
\$ 400,000	5.00	348,250	748,250	5,168,813	(550,000)	(127,000)	3,025,741
500,000	5.00	328,250	828,250	5,175,188	(350,000)	(254,000)	3,248,563
600,000	5.00	303,250	903,250	5,200,188	(150,000)	(254,000)	3,948,563
650,000	5.00	273,250	923,250	5,221,188			4,504,813
700,000	5.00	240,750	940,750	5,263,688			4,736,813
750,000	5.00	205,750	955,750	5,300,844			4,852,813
750,000	5.00	168,250	918,250	5,333,438			4,887,813
800,000	5.00	130,750	930,750	5,360,875			4,894,188
800,000	5.50	90,750	890,750	5,397,750			4,919,188
850,000	5.50	46,750	896,750	5,348,750			4,940,188
				5,352,000			4,982,688
				5,354,500			4,982,688
				5,352,000			5,019,844
				5,344,500			5,019,844
				5,347,000			5,052,438
				8,088,750			5,079,875
				8,102,500			5,116,750
				8,077,500			5,067,750
				8,090,000			5,071,000
				8,087,500			5,063,500
				8,120,000			5,066,000
				8,110,000			7,807,750
				8,133,750			7,807,750
				7,638,750			7,821,500
							7,796,500
							7,809,000
							7,806,500
							7,839,000
							7,829,000
							7,852,750
							7,357,750
\$ 6,800,000		\$ 3,180,750	\$ 9,980,750	178,814,772	(1,050,000)	(8,222,000)	\$ 169,542,772

[17] SCHEDULE H-4 - W/O Cap. Int.  
PARTIES' SHARE OF DEBT SERVICE

Jan. 27, 2003  
th2ja27

Year	Total Net Debt Svc. Payments	Share of NET Debt Service Paid by Participant					TOTAL
		Tacoma 15/36	Lakehaven 7/36	Kent 7/36	Covington 7/36	Project Share	
2003	\$ 3,025,741	\$ 1,623,492	\$ 0	\$ 716,302	\$ 685,948	\$ 3,025,741	
2004	3,248,563	1,743,049	0	769,052	736,462	3,248,563	
2005	3,948,563	2,118,641	0	934,767	895,155	3,948,563	
2006	4,504,813	2,417,102	0	1,066,451	1,021,259	4,504,813	
2007	4,736,813	2,541,584	0	1,121,374	1,073,854	4,736,813	
2008	4,852,813	2,603,825	0	1,148,835	1,100,152	4,852,813	
2009	4,887,813	2,622,605	0	1,157,121	1,108,087	4,887,813	
2010	4,894,188	2,626,025	0	1,158,630	1,109,532	4,894,188	
2011	4,919,188	2,639,439	0	1,164,549	1,115,199	4,919,188	
2012	4,940,188	2,650,707	0	1,169,520	1,119,960	4,940,188	
2013	4,982,688	2,673,511	0	1,179,582	1,129,595	4,982,688	
2014	5,019,844	2,693,447	0	1,188,378	1,138,019	5,019,844	
2015	5,052,438	2,710,936	0	1,196,094	1,145,408	5,052,438	
2016	5,079,875	2,725,658	0	1,202,589	1,151,628	5,079,875	
2017	5,116,750	2,745,443	0	1,211,319	1,159,988	5,116,750	
2018	5,067,750	2,719,152	0	1,199,719	1,148,879	5,067,750	
2019	5,071,000	2,720,896	0	1,200,488	1,149,616	5,071,000	
2020	5,073,500	2,722,237	0	1,201,080	1,150,183	5,073,500	
2021	5,071,000	2,720,896	0	1,200,488	1,149,616	5,071,000	
2022	5,063,500	2,716,872	0	1,198,713	1,147,916	5,063,500	
2023	5,066,000	2,718,213	0	1,199,305	1,148,482	5,066,000	
2024	7,807,750	4,189,326	0	1,848,376	1,770,048	7,807,750	
2025	7,821,500	4,196,704	0	1,851,631	1,773,165	7,821,500	
2026	7,796,500	4,183,290	0	1,845,712	1,767,498	7,796,500	
2027	7,809,000	4,189,997	0	1,848,671	1,770,332	7,809,000	
2028	7,806,500	4,188,656	0	1,848,080	1,769,765	7,806,500	
2029	7,839,000	4,206,094	0	1,855,774	1,777,133	7,839,000	
2030	7,829,000	4,200,728	0	1,853,406	1,774,866	7,829,000	
2031	7,852,750	4,213,472	0	1,859,029	1,780,250	7,852,750	
2032	7,357,750	3,947,874	0	1,741,844	1,668,031	7,357,750	
	\$ 169,542,772	\$ 90,969,870	\$ 0	\$ 40,136,878	\$ 38,436,025	\$ 169,542,772	

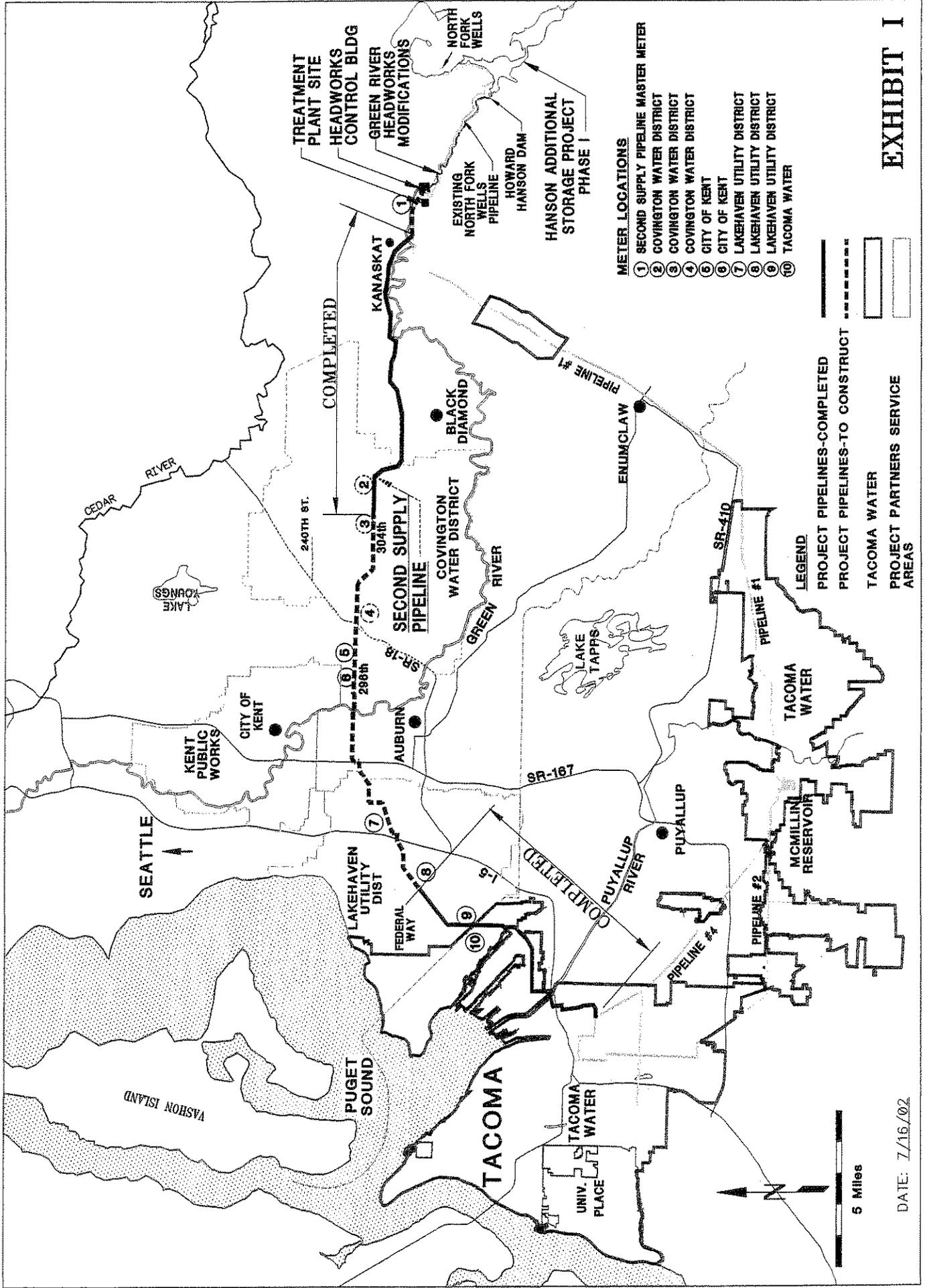
EXHIBIT H - CITY OF KENT PAYMENT SCHEDULE - JANUARY 27, 2003

tpkenj27

Year	2002 Bonds		KENT		SHARE =		23.6736% of D/S		without Cap. Int.	
	Total Annual	D/S Share	Monthly Gross	Less 1/12 per month of following	Estimated	Total Estimated	Annual	Estimated	Annual	Estimated
Ending Dec 1	Gross D/S	(Gross)(1)	Share (2)	Est. annual interest from:	2005 Bonds	Payment	Payment	2005 Bonds	Payment	Payment
2003	\$ 3,880,305.90	\$ 876,572	\$ 76,003	Constr. Fund (130,205)	Bond Reserve (30,065)	\$	\$	\$ 716,302	\$ 64,197	\$
2004	4,037,312.50	912,040	76,003	(82,858)	(60,130)			769,052	64,088	
2005	4,687,312.50	1,030,407	85,867	(35,510)	(60,130)			934,767	77,897	
2006	4,767,812.50	1,050,531	87,544		(66,523)	82,443	1,066,451	88,871	88,871	
2007	4,995,312.50	1,105,454	92,121		(66,523)	82,443	1,121,374	93,448	93,448	
2008	5,105,312.50	1,132,916	94,410		(66,523)	82,443	1,148,836	95,736	95,736	
2009	4,709,312.50	1,046,506	87,209		(66,523)	177,138	1,157,121	96,427	96,427	
2010	4,681,312.50	1,029,076	85,756		(66,523)	196,077	1,158,630	96,553	96,553	
2011	4,649,312.50	1,017,240	84,770		(66,523)	213,832	1,164,549	97,046	97,046	
2012	4,642,312.50	1,017,476	84,790		(66,523)	218,567	1,169,520	97,460	97,460	
2013	4,659,312.50	1,023,396	85,283		(66,523)	222,709	1,179,582	98,299	98,299	
2014	4,673,218.75	1,028,641	85,720		(66,523)	226,260	1,188,378	99,032	99,032	
2015	4,735,062.50	1,045,234	87,103		(66,523)	217,383	1,196,094	99,675	99,675	
2016	4,766,500.00	1,048,770	87,397		(66,523)	220,342	1,202,589	100,216	100,216	
2017	4,806,000.00	1,066,969	88,914		(66,523)	210,873	1,211,319	100,943	100,943	
2018	4,790,000.00	1,053,949	87,829		(66,523)	212,293	1,199,719	99,977	99,977	
2019	5,677,500.00	1,267,011	105,584		(66,523)		1,200,488	100,041	100,041	
2020	5,692,500.00	1,267,603	105,634		(66,523)		1,201,080	100,090	100,090	
2021	5,701,250.00	1,267,011	105,584		(66,523)		1,200,488	100,041	100,041	
2022	5,703,750.00	1,265,236	105,436		(66,523)		1,198,713	99,893	99,893	
2023	5,725,000.00	1,265,828	105,486		(66,523)		1,199,305	99,942	99,942	
2024	8,088,750.00	1,914,899	159,575		(66,523)		1,848,376	154,031	154,031	
2025	8,102,500.00	1,918,154	159,846		(66,523)		1,851,631	154,303	154,303	
2026	8,077,500.00	1,915,235	159,603		(66,523)		1,848,712	154,059	154,059	
2027	8,090,000.00	1,915,194	159,600		(66,523)		1,848,671	154,056	154,056	
2028	8,087,500.00	1,914,603	159,550		(66,523)		1,848,080	154,007	154,007	
2029	8,120,000.00	1,922,297	160,191		(66,523)		1,855,774	154,648	154,648	
2030	8,110,000.00	1,919,929	159,994		(66,523)		1,853,406	154,451	154,451	
2031	8,133,750.00	1,925,552	160,463		(66,523)		1,859,029	154,919	154,919	
2032	7,638,750.00	1,808,367	150,697		(66,523)		1,741,844	145,154	145,154	

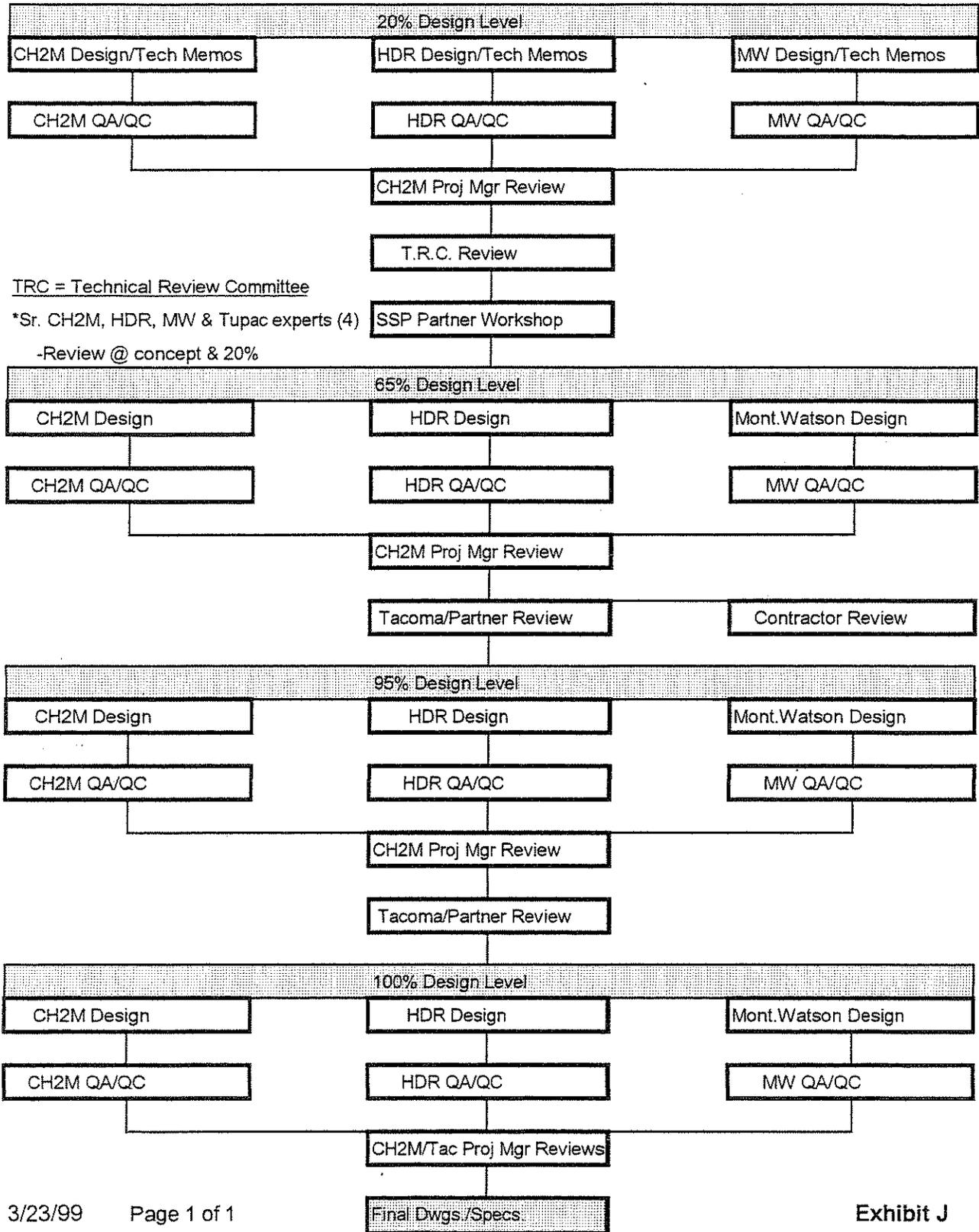
(1) Dec. 2002 payment should be reduced by \$10,235 share of accrued interest.  
 (2) Dec., 2002 gross payment is about \$30,300. All net payments will be adjusted for amount of actual interest earnings.

# PROJECT MAP



**Project Quality Assurance Procedures**

Conceptual design developed by Tacoma, other Project participants, and consultant design leads/experts.



## Project Specifications

- **PIPELINES:**

Description: The Second Supply Pipeline and appurtenances are included.

Location: Refer to Exhibit I, "Project Map." The Second Supply Pipeline (SSP) extends approximately 34 miles from Tacoma's existing Headworks Control Building near the Green River diversion to Tacoma's Pipeline No. 4 near Portland Avenue Reservoir. Approximately 8.7 miles of the pipeline at the lower end and 9.8 miles at the upper end have already been installed under previous contracts.

Materials and Design: The specific specifications for the pipelines and appurtenances are given in the Project Design Criteria and Standards memo. The pipe will be of spirally welded steel with coal tar enamel coating on the exterior and polyurethane lining in the interior. Heat shrink sleeves will be used to coat the exterior of the field joints and polyurethane kits will be used to coat the interior. The pipe and appurtenances will be provided in accordance with AWWA Standards and Tacoma's standard technical specifications except as modified by the Technical Review Committee in the memo mentioned above. The design life of the pipelines is expected to be over 100 years.

The pipeline size will vary from 48" to 72" diameter to provide a nominal capacity of 72 MGD from the Headworks to Pipeline No. 4 when there are no intermediate withdrawals. The pipeline capacity is substantially more when intermediate withdrawals are made as shown in Exhibit N.

Grounding and cathodic protection features will be added to the pipelines as recommended by the consultant team.

- **HEADWORKS MODIFICATIONS:**

Description: Upgrading Tacoma's Green River diversion facilities by raising the diversion dam and settling basin, constructing a new, larger intake, installing fish ladder, trap, sorting and screening structures, constructing a new supply pipeline, building a new intake building, and installing associated structures and environmental enhancements.

Materials and Design: The final specifications and drawings have been completed by consultants and will require only very minor revisions before bidding. Most facilities have been designed for a 100 year life. However, even though the mechanical and electrical systems are specified for long-term, heavy duty service some will probably not last 100 years. Some provisions have been already made to the local telemetry and control system at the Headworks Control Station to accept these new facilities.

- **HOWARD HANSON DAM ADDITIONAL STORAGE PROJECT:**

Description: Under Phase I storage, Tacoma's Second Diversion water right would be placed in storage behind the dam during the months of February to June for municipal use during the summer months.

The Corps of Engineers (COE) dam does not need to be raised; only the pool level behind the dam would be raised. The dam intake and outlet structures will require significant changes to allow downstream fish passage. Additionally, other upstream and downstream fish and wildlife enhancements are required to gain approval for the additional storage.

Location: Hanson Dam is located in Eagle Gorge about 3 miles upstream of Tacoma's Green River diversion.

Materials and Design: The COE will be responsible for the design and construction of the new features at the dam and at the other environmental enhancement sites. The conceptual designs have been developed by the COE and a highly regarded fisheries technical review committee.

- **MUCKLESHOOT FISHERIES RESTORATION FACILITY:**

Description: The facility would allow incubation and rearing of native salmon for planting in the upper Green River watershed. Additionally, development of on-site rearing and planting of coho may occur. The facility construction, operation and maintenance will be financed by the Project and it will be owned and operated by the Muckleshoot Indian Tribe. Three residences for the Tribe are to be constructed on-site.

Location: Tacoma Water purchased a site along the Green River and immediately downstream of the Headworks Control Building for the facility.

Materials and Design: The conceptual design for the facility was developed by FISHPRO Inc. during the Muckleshoot settlement negotiations. The modern final design will incorporate natural fish rearing features and will have a design life of 40 to 50 years.

- **WATER TREATMENT FACILITIES:**

Description: The chlorination, fluoridation and corrosion control facilities are required to meet water quality requirements. The existing chlorine plant at Tacoma's Headworks is not large enough to provide for the SSP because of the recent "contact time" regulations. A new plant capable of serving the SSP and Pipeline No. 1 has been recommended by a consultant study. The existing fluoride facility at the Headworks needs to be expanded or relocated to accommodate the SSP. A new corrosion control plant is planned to meet the lead and copper rule requirements. A new ozone plant is planned for further disinfection and to reduce any taste and odor problems resulting from greater water storage at Howard Hanson Dam.

Location: A new chlorination, fluoridation and corrosion control facility is planned for construction on the future filtration plant site immediately downstream of the Headworks Control Building. Additionally, ozone facilities are planned at the same location by the time Hanson Dam additional storage is available. The long-term goal is to consolidate all chemical treatment for Pipeline No. 1 and the SSP at this site.

Materials and Design: The facilities would be constructed for long, heavy duty service as exists with Tacoma Water's similar facilities. A preliminary conceptual report including cost estimate has been completed by a consultant. The design life for the structures is anticipated to be 100 years while some mechanical and electrical systems may last only half of that.

STATE OF WASHINGTON  
DEPARTMENT OF ECOLOGY

PERMIT

TO APPROPRIATE PUBLIC WATERS OF THE STATE OF WASHINGTON

- Surface Water (Issued in accordance with the provisions of Chapter 117, Laws of Washington for 1917, and amendments thereto, and the rules and regulations of the Department of Ecology.)
- Ground Water (Issued in accordance with the provisions of Chapter 263, Laws of Washington for 1945, and amendments thereto, and the rules and regulations of the Department of Ecology.)

PRIORITY DATE	APPLICATION NUMBER	PERMIT NUMBER	CERTIFICATE NUMBER
February 7, 1933	3787	SI-00726P	

NAME

CITY OF TACOMA, WATER DIVISION, DEPARTMENT OF PUBLIC UTILITIES

ADDRESS (STREET)	(CITY)	(STATE)	(ZIP CODE)
P.O. Box 11007	Tacoma	Washington	98411

The applicant is, pursuant to the Report of Examination which has been accepted by the applicant, hereby granted a permit to appropriate the following described public waters of the State of Washington, subject to existing rights and to the limitations and provisions set out herein.

PUBLIC WATER TO BE APPROPRIATED

SOURCE		
Green River		
TRIBUTARY OF (IF SURFACE WATERS)		
Duwamish River		
MAXIMUM CUBIC FEET PER SECOND	MAXIMUM GALLONS PER MINUTE	MAXIMUM ACRE-FEET PER YEAR
100		72397
QUANTITY, TYPE OF USE, PERIOD OF USE		
Municipal and Industrial Supply - throughout the year when available (interruptible supply)		

LOCATION OF DIVERSION/WITHDRAWAL

APPROXIMATE LOCATION OF DIVERSION-WITHDRAWAL
1100 feet west and 400 feet north of the SW corner of Sec. 18

LOCATED WITHIN (SMALLEST LEGAL SUBDIVISION)	SECTION	TOWNSHIP N.	RANGE, (E. OR W.) W.M.	W.P.L.A.	COUNTY
S.E. 1/4	18	21	8E	9	King

RECORDED PLATTED PROPERTY

LOT	BLOCK	OF (GIVE NAME OF PLAT OR ADDITION)

LEGAL DESCRIPTION OF PROPERTY ON WHICH WATER IS TO BE USED

Area served by City of Tacoma (by direct service or interlocal agreement).

**DESCRIPTION OF PROPOSED WORKS**

Division dam, intake structure, 10 mg tank, transmission line, treatment facilities and on-line storage reservoirs.

**DEVELOPMENT SCHEDULE**

IN PROJECT BY THIS DATE: Started	COMPLETE PROJECT BY THIS DATE: December 8, 1991	WATER PUT TO FULL USE BY THIS DATE: December 8, 2006
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**PROVISIONS**

This authorization is subject to the provisions of Chapter 173-509 WAC as adopted in Olympia, Washington, June 5, 1980, and the general rules of the Department of Ecology as specified under Chapter 173-500 WAC, and others.

Recognitions of instream flows as established at monitoring station 12.1067.00 at river mile 60.4, Sec. 13, T.21N., R.7EWM and as presented in the table below shall be a condition of this diversion as set forth in said WAC 173-509-030.

Instream flow hydrographs, page 5, in the document entitled "Water Resources Management Program in the Green-Duwamish River Basin", dated June 1980, shall be used for definition of instream flows on those days not specifically identified in WAC 173-509-030.

No diversion of water, under this permit or certificate, shall take place when the flow of the river falls below the normal year flows listed below. Except, however, when a critical year is declared by the Director under the provision of WAC 173-509-030, diversion shall cease when flow in the river falls below the following critical year flows.

NORMAL YEAR

Month	Day	Instream Flow (cfs)	Month	Day	Instream Flow (cfs)
April	15	300	August	1	150
May	1	300	August	15	150
May	15	300	September	1	150
June	1	300	September	15	150
June	15	300	October	1	190
July	1	300	October	15	240
July	15	150	November	1	300
			April	1	300

CRITICAL YEAR

Month	Day	Instream Flow (cfs)	Month	Day	Instream Flow (cfs)
April	15	300	August	15	150
May	1	300	September	1	150
May	15	300	September	15	150
June	1	300	October	1	150
June	15	210	October	15	150
July	1	150	November	1	190
July	15	150	November	15	240
August	1	150	December	1	300
			April	1	300

This permit shall be subject to cancellation should the permittee fail to comply with the above development schedule and/or fail to give notice to the Department of Ecology on forms provided by that Department documenting such compliance.

Given under my hand and the seal of this office at Redmond, Washington, this 8 day of December, 1986

Department of Ecology

GENERATING DATA  
OK [Signature]

by [Signature]  
Nancy Ellison, Regional Manager

The City of Tacoma, at its own expense, shall enter into an agreement with the U.S. Geological Survey for installation and maintenance of a suitable and accurate stream gaging station on the Green River in the vicinity of River Mile 61. The purpose of this gaging station will be to accurately measure and record the flows passing the City of Tacoma diversion dam. The gage shall be telemetered with stage and discharge data reported to and accessible from the Columbia River Hydrometeorological Monitoring System (CRHMS). Discharge data recorded at this station will be used to determine City of Tacoma compliance with WAC 173-509-030. Therefore, if the final gaging station selected by the USGS and Tacoma is sufficiently removed from existing station 12.1067 to result (in the opinion of WDOE) in the need for a correlation between the existing and new station, both stations shall be supported by the City of Tacoma for a sufficient period of time to accomplish this correlation. Should a correlation take place which alters the instream flow values at the new station, the City of Tacoma diversion authorized through this application will be subject to the new values (this condition is intended only to correct any errors of measurement that may now be occurring at station 12.1067). The final measuring system proposed by the City of Tacoma shall be approved by the WDOE and installed prior to any diversion under this authorization.

The City of Tacoma shall notify the Department of Ecology, Northwest Regional Office when the flows of the Green River approach the instream flow as established by WAC 173-500, and advise the Department of Ecology of actions taken to modify their diversion to comply with conditions of the regulations.

A suitable measuring method shall be in place on pipeline (5) to measure the rate of diversion.

In compliance with the order correcting judgment nunc pro tunc pursuant to CR60(a) and authorizing filing of stipulation nunc pro tunc entered on June 25, 1986, under Thurston County Cause No. 83-2-01104-1, this authorization is also subject to the following items and conditions:

1. Water in the Green-Duwamish River Basin placed there for fish conservation purposes from storage behind Howard Hanson Dam, as operated now or in the future, shall not be subject to appropriation under this permit.
2. Continuous stream gaging, through instrumentation and a program approved by DOE, shall be conducted by the City of Tacoma. An instantaneous monitoring system shall be installed in order that both the City of Tacoma and DOE shall be apprised at all times of stream flows.
3. A suitable measuring method shall be in place on Pipeline Nos. 1 and 5 to measure the rate of diversion. Both Pipelines Nos. 1 and 5 shall have equipment to "throttle-back" the quantity of water diverted.
4. No declaration of a critical period or of over-riding considerations of public interest shall be made by the Director of DOE with respect to diversions under this permit until, in addition to satisfying the conditions of WAC 173-509-030(2), the City of Tacoma demonstrates that it has carried out all provisions of a pre-established drought contingency plan submitted to and approved by DOE. The Department of Ecology will consult with the Departments of Fisheries and Game before approving any drought contingency plan submitted by the City of Tacoma.
5. Insufficiency of ground water supplies shall not be grounds for a declaration of a critical period or of over-riding considerations of public interest by the Director of DOE with respect to diversions under this permit until, in addition to satisfying the conditions of WAC 173-509-030(2), the City of Tacoma demonstrates that it has made a plan and actively pursued development of alternative and supplemental water sources.
6. The perfection period for development of a right under this permit shall be 20 years, subject to extensions.
7. This permit is subject to Chapter 173-509 WAC and that stipulation and judgment as filed in Thurston County Cause No. 83-2-01104-1.

If there is any redundancy or contradiction between the unnumbered provision (taken from the Report of Examination dated August 19, 1981) and the provisions numbered 1. through 7. (additional stipulated provisions), the provisions numbered 1. through 7. shall prevail.

## Environmental Enhancement Agreements and Estimated Costs

The capital cost of implementing ecosystem enhancement elements of the Second Supply Project will occur over many years. Therefore, the amounts shown are at mid-point of construction or agreement obligation (*date shown*), except Muckleshoot costs are shown as present worth value in August 2002. Most costs are estimated; actual costs may vary. The estimate of ongoing costs to the project is shown after the total of capital costs.

<ul style="list-style-type: none"> <li>• <u>Headworks Modifications (enhancements negotiated during design):</u>            Fisheries structures (<i>Aug. 2002</i>)  <math>\\$4,703,000 (1996) \times 1.243 \text{ USBR} =</math></li> </ul>	<b>\$5,846,000</b>
<ul style="list-style-type: none"> <li>• <u>Muckleshoot Indian Tribe Agreement, August 24, 1995:</u>            Fisheries structures &amp; enhancements (<i>Aug. 2002</i>) =</li> </ul>	<b>\$18,886,000</b>
<ul style="list-style-type: none"> <li>• <u>King County Agreement, March 22, 1993:</u>            Fisheries and environmental fund (<i>no escalation</i>) =</li> </ul>	<b>\$2,725,000</b>
<ul style="list-style-type: none"> <li>• <u>Army Corps of Engineers Permit, Jan. 24, 1997:</u>            Wetland restoration &amp; fish refuge @ Auburn Narrows (<i>Aug. 2002</i>)  <math>\\$403,000 (1996) \times 1.243 \text{ USBR} =</math></li> </ul>	<b>\$501,000</b>
<ul style="list-style-type: none"> <li>• <u>Habitat Conservation Plan (HCP), November, 1999:</u>            Fisheries structures &amp; enhancements (<i>Jan. 2001</i>)            Estimate (90 mgd/162 mgd x \$1,891,800) =</li> </ul>	<b>\$1,051,000</b>
<ul style="list-style-type: none"> <li>• <u>Howard Hanson Dam Additional Storage:</u>            Fisheries and wildlife enhancement (<i>January 2003</i>) =            MIT 2001 Storage Agreement (<i>June 2003</i>) =</li> </ul>	<b>\$12,480,000</b> <b>\$ 1,118,000</b>
<ul style="list-style-type: none"> <li>• <u>Friends of the Green River agreement, Dec.6, 1995:</u>            Green River basin and in-stream flow studies (<i>no escalation</i>)</li> </ul>	<u><b>\$200,000</b></u>
<b>Total Estimated Ecosystem Capital Costs :</b>	<b>\$42,807,000</b>
<b>Ongoing Ecosystem Costs (Present Worth in June 2002):</b>	<u><b>\$35,000,000</b></u>
<b>TOTAL COSTS</b>	<b>\$77,807,000</b>

## **Allocation of Project Capacity**

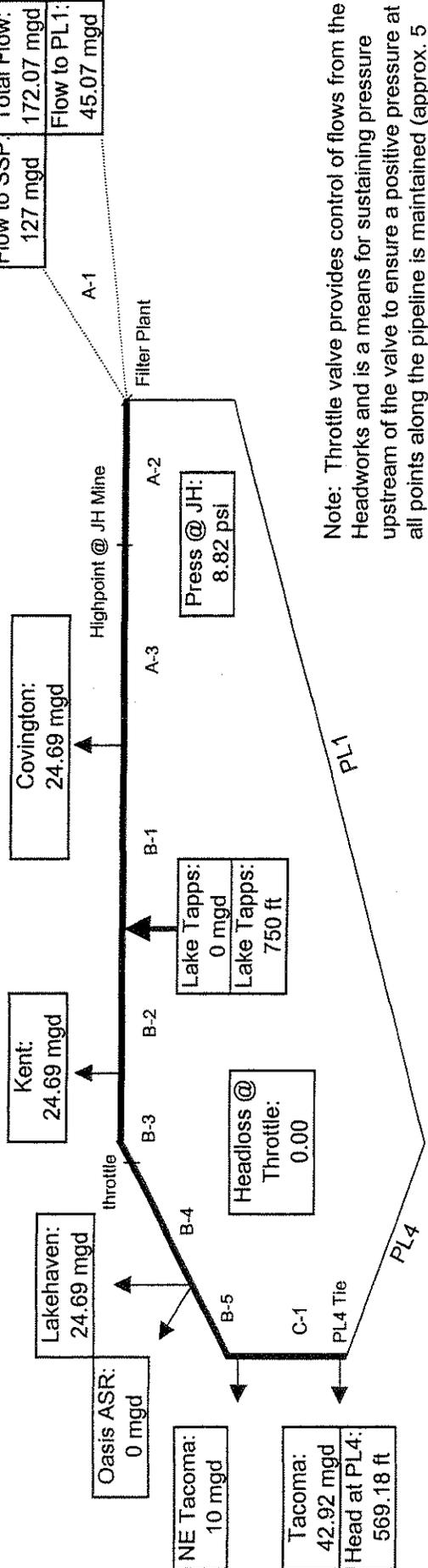
This Exhibit sets forth the capacity of the Project under a variety of circumstances. It demonstrates that the Project is capable of delivering to each Participant its respective Participant Share of Second Diversion Water at the same time. It also demonstrates that the capacity of the Project to deliver Project Water varies depending on upon the amount of Project Water being delivered to each Participant, among other matters.

# SECOND SUPPLY PIPELINE (SSP)

Maximum flow with prorated shares to partners, Ave 2010 demands, C=143, before 2006

Run #: 32 Scenario: 1,10,24a Date: 7/31/2002

Start Elev:	893.75 ft
Flow to SSP:	127 mgd
Total Flow:	172.07 mgd
Flow to PL1:	45.07 mgd



Note: Throttle valve provides control of flows from the Headworks and is a means for sustaining pressure upstream of the valve to ensure a positive pressure at all points along the pipeline is maintained (approx. 5 psi at JH Mine is maintained for safety).

McMillin Elev:	575 ft
Flow from McMillin:	45.07 mgd
Storage Used:	0 mgd

Tacoma Demand:	98.01 mgd
Water From Wells:	0 mgd

Conditions and Notes:  
 \*flow is limited by matching hydraulic grade at PL4

Delivery off Main Branch	Zone Elev	Min. Head Required, ft	Head Available, ft
Covington	660	670.00	741.77
Kent	590	600.00	685.18
Lakehaven	578	588.00	623.15
Oasis	538	548.00	623.15
NE Tacoma	549	559.00	614.05

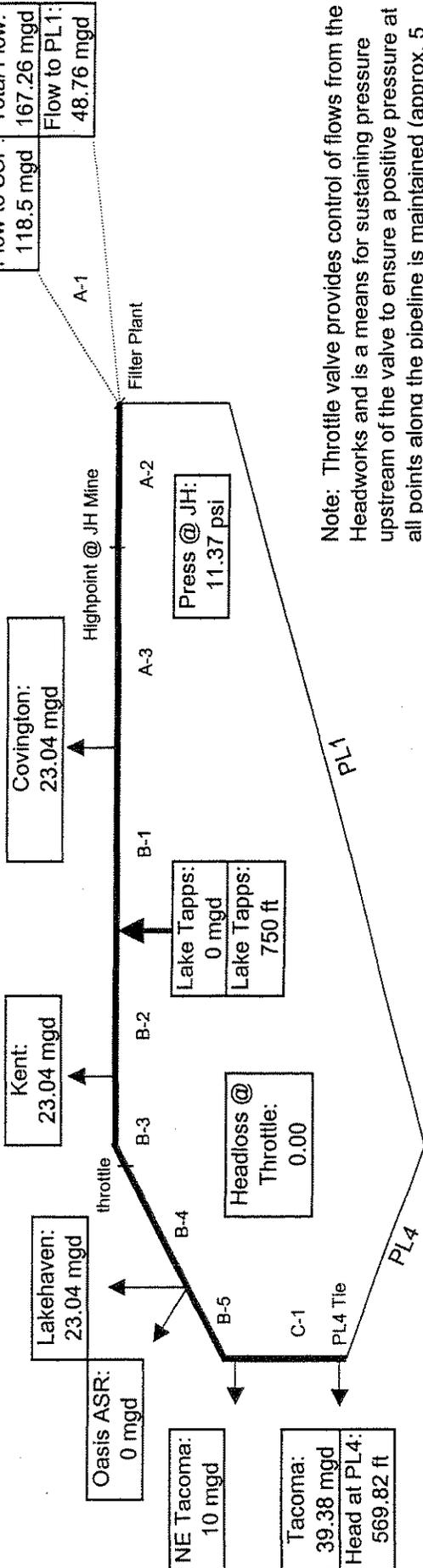
Reach	Description	Diameter, in	Length, ft	Flow, mgd
A-1	Headworks to Filter Plant	72	1005	127.00
A-2	Filter Plant to JH Mine	72	36444	127.00
A-3	JH Mine to Covington	60	30186	127.00
B-1	Covington to North-Branch	60	10600	102.31
B-2	North-Branch to Kent	60	13883	102.31
B-3	Kent to Pipeline Throttle Valve	48	300	300
B-4	Throttle Valve to Lakehaven/Oasis ASR	60	2280	77.62
	Green River	60	36299	77.62
	"C" Street	48	475	475
	SR167	48	590	590
	I-5 Freeway	48	320	320
	1st Avenue	48	1140	1140
B-5	Lakehaven/Oasis ASR to NE Tacoma	48	150	150
	356th Street	60	9326	52.93
	Begin of 48"	48	150	150
C-1	NE Tacoma to PL4 connection	48	1400	1400
		48	34006	42.93

# SECOND SUPPLY PIPELINE (SSP)

Maximum flow with prorated shares to partners, Ave 2010 demands, C=143, (15' loss, after 2005 w/ ozone, UV, and filtration)

Run #: 31 Scenario: 1,10,23a Date: 7/31/2002

Start Elev:	878.75 ft
Flow to SSP:	118.5 mgd
Total Flow:	167.26 mgd
Flow to PL1:	48.76 mgd



Note: Throttle valve provides control of flows from the Headworks and is a means for sustaining pressure upstream of the valve to ensure a positive pressure at all points along the pipeline is maintained (approx. 5 psi at JH Mine is maintained for safety).

Tacoma Demand:	98.01 mgd
Water From Wells:	0 mgd
McMillin Elev:	575 ft
Flow from McMillin:	48.76 mgd
Storage Used:	0 mgd

Conditions and Notes:  
 \*flow is limited by matching hydraulic grade at PL4  
 \*  
 \*  
 \*  
 \*

Reach	Description	Diameter, in	Length, ft	Flow, mgd
A-1	Headworks to Filter Plant	72	1005	118.50
A-2	Filter Plant to JH Mine	72	36444	118.50
A-3	JH Mine to Covington	60	30186	118.50
B-1	Covington to North-Branch	60	10600	95.46
B-2	North-Branch to Kent	60	13883	95.46
B-3	Kent to Pipeline Throttle Valve	48	300	
B-4	Throttle Valve to Lakehaven/Oasis ASR	60	2280	72.42
	Green River	60	36299	72.42
	"C" Street	48	475	
	SR167	48	590	
	I-5 Freeway	48	320	
	1st Avenue	48	1140	
B-5	Lakehaven/Oasis ASR to NE Tacoma	48	150	
	356th Street	60	9326	49.38
	Begin of 48"	48	150	
C-1	NE Tacoma to PL4 connection	48	1400	
		48	34006	39.38

Delivery off	Zone Elev	Min. Head Required, ft	Head Available, ft
Main Branch	660	670.00	759.28
Covington	590	600.00	705.88
Kent	578	588.00	641.00
Lakehaven	538	548.00	641.00
Oasis	549	559.00	629.61

## Allocation of Headworks Costs

The Headworks Modifications includes raising the existing diversion dam, constructing a new river intake, raising the existing settling basin, installing new fish structures including a ladder, trap, sorting, bypass, screen, and transfer facilities, and a new Headworks Intake Building for electrical, mechanical, storage and office needs.

A portion of the Headworks Modifications will be allocated to Tacoma for the existing Green River Diversion as shown below.

Estimate of total Headworks Modifications cost (Aug. 2002) =	\$16,370,000
Estimate of fisheries enhancement cost at Headworks =	<u>\$ 5,846,000</u>
Difference =	\$10,524,000

Project commitment to the Headworks Modifications excluding fisheries  
= \$10,524,000 x (89.6 mgd/162.6 mgd)\* = \$5,799,203

• **Total cost to Project = \$5,846,000 + \$5,799,203 = \$11,645,203**

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Tacoma's cost for benefits to the existing diversion from the improvements  
= \$16,370,000 - \$11,645,203 = \$4,724,797

• **Total cost to Tacoma = 1/3 x \$11,645,203 + \$4,724,797 = \$ 8,606,531**

\*Note: 89.6 mgd = 64.6 (2<sup>nd</sup> diversion water right) + 25 mgd (fish rearing facility)  
162.6 mgd = 89.6 (shown above) + 73.0 mgd (1<sup>st</sup> diversion water right)

## Reimbursable Costs

Many activities associated with the Second Supply Project have occurred since 1966. Each of the Parties to the Project have contributed funding for a share of these past and present activity costs as shown below:

• Tacoma Water:	
Land & Right of Way	\$ 2,929,431
Pipeline No. 1 Flow Control	\$ 1,327,673
Water Rights	\$ 788,259
Headworks Control Station	\$ 1,459,488
Steel Mains (constr., engr. ,etc)	\$12,410,800
Headworks & Fish Facilities	\$ 1,395,189
Intangible Plant & Misc.	\$ 356,869
Hanson Dam Additional Storage	\$ 2,107,134
Habitat Conservation Plan	\$ 638,900
1993 Bond Issuance \$ & Interest	\$ 4,600,199(thru 8/2002)
Sub-Total	<u>\$28,013,942</u>
• Covington Water District:	
King County CMP Payment	\$ 375,000
PL & Hdwks. Design & Permits	\$ 284,200
Hanson Dam Storage Project	\$ 828,133
Est. for Kent/Cov. PL	<u>\$13,000,000</u>
Sub-Total	<u>\$14,487,333</u>
• City of Kent:	
King County CMP Payment	\$ 375,000
PL & Hdwks. Design & Permits	\$ 201,744
Hanson Dam Storage Project	\$ 828,133
Est. for Kent/Cov. PL	<u>\$13,000,000</u>
Sub-Total	<u>\$14,404,877</u>
• Lakehaven Utility District:	
PL & Hdwks. Design & Permits	\$ 168,411
Hanson Dam Storage Project	\$ 361,466
Pipeline-- PL #4 to 1 <sup>st</sup> Way S.	\$15,789,288
1998 Bond Issuance \$ & Interest	<u>\$ 3,113,753(thru 8/2002)</u>
Sub-Total	<u>\$19,432,918</u>
<b>TOTAL</b>	<b>\$76,339,070</b>

Note: Actual contributions to the Project through August 2002 are shown except the Kent and Covington Water costs of the Kent/Covington Pipeline are estimated. Tacoma's recent contributions to the middle section pipeline design and construction, and the current Headworks Project are not shown but are covered in the Project Estimate.

Special Provisions for CWD and Kent:

The Covington Water District (Covington) and the City of Kent (Kent) have a mutual need to receive deliveries of firm water from the Second Supply Project (Project) at the earliest date possible. To achieve this objective, Covington and/or Kent desire to complete the design, permitting and construction of the upper portion of the Project pipeline without further delay. The upper portion is located beginning from a point approximately 9000 feet west of the Headworks Control Building to S.E. 304<sup>th</sup> Street.

Covington and/or Kent will enter into an agreement with Tacoma for the design and permitting of full Project capacity in this upper portion of the Project pipeline. It is expected that this agreement will be approved in June 2000, at which time the design team led by CH2M/Hill will immediately proceed with this work with an estimated completion date of March 2001. Covington and/or Kent will pay for the cost of this design work and contract management will be done by Tacoma. All costs associated with this work will be considered reimbursable costs to be shared by Project partners in accordance with the Second Supply Project Agreement.

During the remainder of the year 2000 and while the design work described above is proceeding; Tacoma expects to receive an Incidental Take Permit from the U.S. Fish & Wildlife Service and the National Marine Fisheries Service pursuant to its Green River Habitat Conservation Plan. Also, Tacoma plans to finalize and approve the Second Supply Project Agreement with Project partners, finalize the financing plan for the Project, and seek final approval from the Tacoma Public Utility Board and Tacoma City Council to proceed with completion of the Project. It is anticipated that the timing of these events will be such that transition from design to construction of the portion of the project most critical to Covington and Kent can proceed smoothly.

An assessment of progress on the Tacoma efforts described immediately above will be made periodically during the design period. If it becomes evident at some point that approval to proceed with the full Project will likely be delayed, Covington and/or Kent may initiate construction of the upper portion of the Project pipeline through a written request to Tacoma. The upper portion will be sized to provide full Project capacity. The costs of this construction will be paid by Covington and/or Kent with all funds expended to be credited to their obligation of the full Project costs.

If a decision is made by Covington and/or Kent prior to the end of 2002 to construct the upper portion of the Project pipeline, Tacoma will commit to provide water to Kent and/or Covington as described below. Upon completion of construction, Tacoma will provide firm supplies to Covington and Kent of up to 10 MGD (5 MGD each) during the summer months (June 15<sup>th</sup> to September 15<sup>th</sup>) until 2007 unless proportionately reduced by drought or emergency conditions. After 2007, the amount will reduce by 2 MGD (1 MGD each) each year as so:

2007	10 MGD
2008	8 MGD
2009	6 MGD
2010	4 MGD
2011	2 MGD
2012	0 MGD

Kent and Covington can receive additional water on an as available basis year around..

Tacoma will receive its published Constant Use Customer wholesale rate for the water delivered to Covington and Kent. In the event the design or construction of the upper portion of the Project pipeline were to initiate any mitigation concerns, Tacoma commits to work with the involved parties to assure that the applicable mitigation agreements will be implemented upon use of Second Diversion water rights.

If at some point after construction of the upper portion is completed, Kent and Covington desire to extend this pipeline to Tacoma's Headworks Building, they may provide Tacoma written notice of that desire. Once the Project pipeline is extended to the Headworks, and mitigation and permitting issues with applicable agencies are resolved, Covington and/or Kent will each be entitled to 1/9 of the Second Diversion water in accordance with the intent of the provisions in the Second Supply Project Agreement. Other parties may share in the cost of this extension in accordance with the intent of the provisions in the Second Supply Project Agreement.

## Special Provisions For Lakehaven

Lakehaven Utility District may need water delivery prior to completion of the pipeline portion of the Project in 2001, and prior to completion of the Project in 2004. The section sets forth, among other matters, how the parties intend to supply it. The Options set forth below permit construction of facilities in the Project right-of-way. If Lakehaven should exercise such Options, any facilities constructed pursuant thereto can be constructed in the Project right-of-way.

Tacoma will provide written notification to Lakehaven as soon as practicable after determining: (1) that the pipeline portion of the Project will be completed after 2001; (2) that the entire Project will be completed after 2004.

### Option 1

Upon receipt of the written notice or notices from Tacoma described in the proceeding paragraph, Lakehaven shall have the right to:

1. By written notification to Tacoma, have Tacoma initiate and complete engineering and design work necessary to construct the mutually agreed upon facilities required to provide early water deliver to Lakehaven.
2. Upon the completion of the design and engineering work described in subparagraph 1, by written notification to Tacoma, have Tacoma initiate and complete construction of the facilities required to provide early water delivery to Lakehaven, and supply water in amounts up to 1,650 acre-feet per year, and at a rate of up to 5 MGD.

The activities described in subparagraphs 1 and 2 above shall be paid for by Lakehaven. Tacoma will utilize reasonable efforts to expedite activities described in subparagraphs 1 and 2 above.

In the event that Tacoma and Lakehaven agree that the development of groundwater supply from Tacoma sources is necessary to meet the early delivery water requirements of Lakehaven, the following conditions will apply:

1. In payment for such groundwater supply from Tacoma sources, Lakehaven agrees to pay Tacoma an amount equal to the O&M costs and capital costs of wells operated and developed to support this groundwater supply to Lakehaven, as set forth in **Appendix 1**.
2. When Phase I of the Storage Project begins operation and Project water is available to Lakehaven, this supplemental groundwater supply will no longer be available to Lakehaven except on an as available basis.

3. Alternatively, a groundwater recharge project, such as Lakehaven's Oasis Project, could serve in place of the Storage Project. Implementation of such a groundwater recharge project coupled with the availability of Project water, would remove Tacoma's groundwater obligation except on an as available basis.
4. In any event, any groundwater committed to Lakehaven may be recalled by Tacoma at any time after the year 2011, by Tacoma providing Lakehaven written notice of such recall not less than three years prior to the effective date of such recall.

## Option 2

If the Project has not been completed by the last day of 2010, on and after such date Lakehaven may elect to take its proportionate share (1/9) of the water available under the Second Diversion Water Right by way of diverting water from the Green River in the vicinity of Auburn. Lakehaven shall make such election by providing written notice of such election to Tacoma. In payment for such water supply, Lakehaven agrees to pay the costs of exercising the right to receive such water, including without limitation the costs of the MIT Agreement, if any.

Lakehaven shall make a written offer of participation in the activities to be undertaken by Lakehaven pursuant to this Option 2 to Tacoma, Kent and Covington. Upon receipt of such written notice, Tacoma, Kent and Covington shall notify Lakehaven whether they wish to so participate. Should Tacoma and/or Lakehaven elect to participate in any of the Contingencies, the party so electing shall pay their proportionate share of the costs of implementing any such Contingency.

In the event that Lakehaven exercises its rights under this Option 2, and the Project is completed, Lakehaven and any other party participating in any such Option 2 activities shall receive as a credit against its share of Project costs an amount equal to the monies paid by each participant to implement those portions of Option 2 which are incorporated into the Project.

If facilities are constructed pursuant to this Option 2, fixed O&M costs for operating such facilities will be apportioned among the participating parties on a basis proportionate to the capacity of such facilities which is available to each participating party, without regard to the amount of water taken or not taken. Variable O&M costs will be apportioned based on the amount of water used by each participating party.

If Lakehaven, and other participating parties, construct facilities pursuant to this Option 2, and such facilities are not incorporated into the completed Project, Lakehaven and the participating parties shall make a payment to Tacoma to compensate for a share of the costs incurred by Tacoma to procure permits, rights of way, easements and the Second Diversion Water Right. Tacoma, Lakehaven and other participating parties shall enter into good faith negotiations to determine the amount of such payment.

### **Tacoma Option**

Another party or parties may elect to construct facilities pursuant to Option 1 or Option 2 with capacity less than the full Project capacity. In that event, and in addition to the right to participate in such activities, Tacoma may elect to require the facilities to be constructed be sized to full Project capacity, and Tacoma shall be responsible for paying the additional costs associated with increasing the capacity from that planned by the participating parties to full Project capacity.

### **Other Matters**

In the event that Lakehaven pursues piloting of artificial recharge in the Mirror Lake or Redondo-Milton Channel aquifers, Tacoma agrees to extend the Interim Water Supply Agreement, dated June 8, 1995, for an additional four years (from June 8, 1999 until June 8, 2003), on the condition that Lakehaven pays any additional costs of water transmission or installation or operating costs of any pumping facilities which may be required.

## APPENDIX 1

### Examples of Groundwater Cost Calculation (1996 Dollars)

#### Capital Cost to Produce 3300 Acre Feet From Groundwater in South Tacoma Aquifer

- Assumptions:
- 1) For estimating purposes each well produces 1500 gpm
  - 2) Pumping period is 120 days
  - 3) Drilled well casing and screen has a 40 year economic life
  - 4) Pumps, motors, electrical equipment and telemetry equipment has 25 year economic life
  - 5) Well building has 50 year economic life
  - 6) Inflation is 3% per year
  - 7) discount rate is 6% per year

#### Typical well construction costs (plant costs)

8B drilled in 1989 cost \$93,020

3% inflation 1990-1996 (7 years)

$$(1.03)^7 (93,020) = \$114,403$$

Annual cost 40 year life @ 6%

$$0.06646 (114,403) = \quad \quad \quad \$ 7,603$$

Pump, motor, electrical & telemetry equip. in 1990 cost \$102,626

3% inflation 1991-1996 (6 years)

$$(1.03)^6 (102,626) = \$122,541$$

Annual cost 25 year life @ 6%

$$0.07823 (122,541) = \quad \quad \quad \$ 9,586$$

Well building (U.P.) in 1987 cost \$91,114

3% inflation 1988-1996 (9 years)

$$(1.03)^9 (91,114) = \$118,883$$

Annual cost 50 year life @ 6%

$$0.06344 (118,883) = \quad \quad \quad \underline{\$ 7,542}$$

\* Total estimated annual capital cost per well \$24,731  
(does not include land or land rights, engineering costs,  
environmental and permitting costs or transmission  
piping from well to distribution system)

Production = 1500 gpm (60 min/hr) 24 hr/day (120 days)

$$325,851 \text{ gal/acre feet}$$

$$= 795.5 \text{ acre feet/well}$$

Number of wells needed =

$$\frac{3300 \text{ acre feet}}{795.5 \text{ acre feet/well}}$$

$$= 4.15 \text{ say 4 wells}$$

$$= 4.15 \text{ say 4 wells}$$

\* Total estimated annual capital cost to produce 3300 acre feet/year = 4 (\$24,731) = \$98,924

## O&M Cost Calculation

O & M Cost to Produce 3300 Acre Feet From Groundwater in South Tacoma Aquifer  
Include only costs directly related to groundwater supply.

### Taxes

0.0182 (7,573,029)/2 = \$409,701/yr

### Source of Supply

600.	Source of Supply General		
	0.1082 (237,339)/2 = \$12,840/yr		
601.31	Source of Supply Wells		
601.33	(59,589 + 137,813)/2 = \$98,701		
601.4	Water Supply Control		
	0.1082 (451,626)/2 = \$24,433/yr		
601.7	Fleet Services		
	0.1082 (489,914)/2 = \$26,504/yr		
603.	Miscellaneous		
	0.1082 (139,292)/2 = \$7,049/yr		
610.	Maintenance Supervision & Engineering		
	0.1082 (22,459)/2 = \$1,215/yr		
611.4	Maintenance Wells & Springs		
	185,213/2 = \$92,607/yr		
612.0	Misc. Maintenance Water Supply Plan		
	0.1082 (2,311)/2 = \$125/yr		
	Subtotal		\$263,474

### Water Treatment

640.	Supervision & Engineering Operation		
	0.1082 (182,924)/2 = \$9,896/yr		
641.	Chemicals		
	0.1082 (600,019)/2 = \$32,461/yr		
642.	Operating Expense Treatment		
	0.1082 (524,403)/2 = \$28,370/yr		
642.5	Fleet (Treatment)		
	0.1082 (36,368)/2 = \$1,968/yr		
642.7	Fluoride Application Plant		
	0.1082 (19,488)/2 = \$1,054/yr		
643.	Miscellaneous		
	0.1082 (60,890)/2 = \$3,294/yr		
650	Supervision & Engineering Maintenance		
	0.1082 (46,088)/2 = \$2,493/yr		
652	Water Treatment Equipment Maintenance		
	0.1082 (251,961)/2 = \$13,631/yr		
652.14	Fluoride Plant Maintenance		
	0.1082 (5,388)/2 = \$291/yr		
653.	Miscellaneous Maintenance		
	0.1082 (16,477)/2 = \$891/yr		
	Subtotal		\$94,679/yr

**Water Transmission & Storage**

660.	Supervision & Engineering Operation	0.1082 (320,664)/2 = \$17,348/yr	
661.	Operations	0.1082 (235,034)/2 = \$12,716/yr	
665.	Miscellaneous Operations	0.1082 (40,628)/2 = \$2,198/yr	
670.	Maintenance Supervision & Engineering	0.1082 (10,039)/2 = \$543/yr	
671.	Maintenance Transmission	0.1082 (345,276)/2 = \$18,679/hr	
672.	Maintenance Storage	0.1082 (20,519)/2 = \$1,110/yr	
673.	Miscellaneous Maintenance	0.1082 (37,967)/2 = \$2,054/yr	
681.3	Care of Grounds	0.1082 (95,781)/2 = \$5,182/yr	
685.12	Building Services	011082 (1,391,338)/2 = \$75,271/yr	
	Subtotal		<u>\$135,101/yr</u>

Source of Supply	\$263,474
Water Treatment	94,679
Trans. & Storage	<u>135,101</u>
	\$493,272

Taxes  $\frac{493,472}{1,034,131} \times (409,701) = \underline{\$195,424}$

Total Estimated O&M Demand  
 Costs for 17 Wells \$688,696/yr

**O & M total for 4 wells =  $\frac{4}{17} (688,696) =$  **\$162,046/yr****

**Total Estimated Annual O&M + Capital Costs for  
 4 wells to produce 3300 acre feet - \$162,046 + \$98,924 = \$260,970/yr\***

\* Note that this is an annual cost since capital costs and the majority of O&M costs are annual whether or not wells are actually pumped in a given year.

**Sample Calculation of Tacoma Chlorination Treatment Payment and Credit**

	New Facility Costs	Allocation	Cost to SSP	Comments
Flouridation	\$527,000	100%	\$527,000	Expand existing facility
Corrosion Control	\$1,999,000	100%	\$1,999,000	New facility near Lake Sawyer
Chlorination	\$4,935,000	See below	\$4,509,000	New PL1 & SSP facility near Hdwks. (Future filtration plant site)
<b>TOTALS</b>	<b>\$7,461,000</b>		<b>\$7,035,000</b>	

The consultant's estimated new facility costs shown above are escalated to mid-point of construction

The existing CL2 facilities are adequate for serving Pipeline No. 1. Therefore, the cost for a new chlorination facility serving SSP & PL1 would be allocated to Tacoma as follows:

With PL1 & SSP	\$4,935,000	163 mgd
With SSP only	\$4,509,000	90 mgd
Difference	\$426,000	73 mgd (Pipeline No. 1 allocation)

$$\text{Tacoma} = \$426,000 + (\$4,509,000 \times 1/3) = \mathbf{\$1,929,000}$$

**However**, if filtration treatment is required later for the Green River supply, Tacoma will credit the SSP an additional amount. This action would be justified then because Tacoma would have moved the existing CL2 facilities to the new filtration plant site to serve Pipeline No. 1 independent of the SSP. The amount of credit would be:

$$\begin{aligned}
 & \$4,935,000 \times \frac{(73.0 + 90/3)}{163} = \$3,118,500 \\
 & \text{minus } \$1,929,000 \text{ (paid earlier)} = \mathbf{\$1,189,500} \text{ Credit later}
 \end{aligned}$$

Note: costs shown above would be based on actual costs; those shown are estimates.

## Sample Calculation for Accounting of Water Deliveries

Example of Project Master Meter (at Green River Headworks) vs  
the sum of individual participant meters:

Assume Project Master Meter = 1,500,000,000 gallons for the month  
(Ave 50 MGD for a 30 day month)

Assume individual participant meters:

Tacoma Meter	=	495,500,000	gallons
Lakehaven Meters	=	234,100,000	
Kent Meters	=	310,300,000	
Covington Meters	=	<u>444,100,000</u>	
TOTAL	=	1,484,000,000	gallons

Difference = 1,500,000,000 minus 1,484,000,000 = 16,000,000 gallons  
= 1.0782%

Because the Project Master Meter controls, add 1.0782% to the meter readings of  
each participant for final accounting of water delivered.

Tacoma Meter	=	500,842,000	gallons
Lakehaven Meters	=	236,624,000	
Kent Meters	=	313,646,000	
Covington Meters	=	<u>448,888,000</u>	
TOTAL	=	1,500,000,000	gallons

### Sample Calculation of Variable O&M

Expected variable costs for Tacoma Water's operations associated with the Second Supply Pipeline, Headworks and Watershed are listed in **Exhibit B**. Allocation of those costs to project participants will depend on the amount of water they use. Refer to **Exhibit F**, "Project Annual Budget" for further example of how the allocation factors for variable and fixed costs would be applied.

Assume that the daily average amount of water produced for Pipeline No. 1 is 64 MGD for the year and the Second Supply Pipeline (SSP) carried an average of 40 MGD for a total of 104 MGD. Variable costs would be allocated as follows:

- Variable cost allocation to SSP = Annual Cost for the Item x 40/104

If an individual partner in the project averaged 6 MGD for the year:

- Variable cost allocation to the partner = Annual Cost for the Item x 6/104

# DRAFT

PROJECT COOPERATION AGREEMENT  
BETWEEN  
THE DEPARTMENT OF THE ARMY  
AND  
THE CITY OF TACOMA  
FOR MODIFICATION OF THE  
HOWARD HANSON DAM  
FOR ECOSYSTEM RESTORATION  
AND  
ADDITIONAL WATER SUPPLY

THIS AGREEMENT is entered into this \_\_\_\_\_ day of \_\_\_\_\_, 20 \_\_, by and between the DEPARTMENT OF THE ARMY (hereinafter the "Government"), acting by and through the Principle Deputy Assistant Secretary of the Army (Civil Works) and represented by the U.S. Army Engineer for the Seattle District (hereinafter the "District Engineer") and the CITY OF TACOMA, DEPARTMENT OF PUBLIC UTILITIES (hereinafter the "Non-Federal Sponsor"), represented by the Director, Department of Public Utilities.

WITNESSETH, THAT:

WHEREAS, the Secretary of the Army completed construction of the HOWARD HANSON DAM (hereinafter the "Existing Project", as defined in Article I.A. of this Agreement) in 1961;

WHEREAS, modification of the Existing Project for Ecosystem Restoration and Additional Water Supply is authorized by Section 101 (b) (15) of Public Law 106-53 to be carried out by the Secretary substantially in accordance with the plans, and subject to the conditions, recommended in a final report of the Chief of Engineers;

WHEREAS, the Government and the Non-Federal Sponsor desire to enter into a Project Cooperation Agreement for implementation of the project for ecosystem restoration and Additional Water Supply at Howard Hanson Dam, Washington, (hereinafter the "Project Modifications", as defined in Article I.B. of this Agreement);

WHEREAS, Section 103 of the Water Resources Development Act of 1986, Public Law 99-662, as amended, specifies the cost-sharing requirements applicable to this Project Modification;

WHEREAS, Section 215 of the Flood Control Act of 1968, Public Law 90-483, as amended, provides that the Secretary of the Army may enter into an agreement to credit the costs of

certain work accomplished by States or political subdivisions thereof, which later is incorporated by the Government into an authorized project, when it is determined that such credit is in the public interest;

WHEREAS, Section 215 of the Flood Control Act of 1968, Public Law 90-483, as amended, limits Federal credit or reimbursement for a single project to not more than \$5,000,000 or 2 percent of the project costs, whichever is greater.

WHEREAS, Section 221 of the Flood Control Act of 1970, Public Law 91-611, as amended, and Section 103 of the Water Resources Development Act of 1986, Public Law 99-662, as amended, provide that the Secretary of the Army shall not commence construction of any water resources project, or separable element thereof, until each Non-Federal Sponsor has entered into a written agreement to furnish its required cooperation for the project or separable element; and

WHEREAS, Section 902 of Public Law 99-662 establishes the maximum amount of costs for the project modifications for additional water supply and ecosystem restoration, at Howard Hanson Dam, Washington and sets forth procedures for adjusting such maximum amount;

WHEREAS, a Biological Opinion from the National Marine Fisheries Service dated October 24, 2000 specifies reasonable and prudent measures that are related to the existing project;

WHEREAS, the Government and Non-Federal Sponsor have the full authority and capability to perform as hereinafter set forth and intend to cooperate in cost-sharing and financing of the implementation of the Project Modification in accordance with the terms of this Agreement.

NOW, THEREFORE, the Government and the Non-Federal Sponsor agree as follows:

#### ARTICLE I - DEFINITIONS AND GENERAL PROVISIONS

For purposes of this Agreement:

A. The term "Existing Project" shall mean Howard Hanson Dam and Reservoir that was authorized on May 17, 1950, by Public Law 516, 81<sup>st</sup> Congress substantially in accordance with House Document 271 with the authorized purpose of providing flood control.

B. The term "Project Modification" shall mean project modifications for Ecosystem Restoration, Additional Water Supply, and Endangered Species Act modifications that are related to the existing project all as generally described in a final report of the Chief of Engineers, dated 13 August 1999, and "Additional Water Storage Project, Final Feasibility Study Report & Final EIS", dated August 1998.

C. The term "Endangered Species Act project modifications" shall mean those modifications directly related to the existing project to reduce impacts of the existing project on the Puget Sound Chinook Salmon and consisting of that portion of a downstream juvenile fish passage facility that will operate between the reservoir elevations of 1080 and 1147.

D. The term "Project Modification for Ecosystem Restoration" shall mean habitat restoration features, including reconnection of side channels, gravel nourishment, and placement of large woody debris.

E. The term "Project Modification for Additional Water Supply" shall mean the storage of an additional estimated 32,000 acre-feet of water behind Howard Hanson Dam for municipal and industrial (M&I) use, north abutment drainage remedies, that portion of a downstream juvenile fish passage facility that will operate between the reservoir elevations of 1147 to 1177 as necessitated by the additional water storage pool, and environmental mitigation features associated with the additional storage such as planting of sedge meadows and creation of sub-impoundments.

F. The term "total project modification costs" shall mean all costs incurred by the Non-Federal Sponsor and the Government in accordance with the terms of this Agreement directly related to implementation of the Project Modification. Subject to the provisions of this Agreement, the term shall include, but is not necessarily limited to, all engineering and design costs, including those incurred in the Pre-construction Engineering and Design (PED) phase; the costs of investigations to identify the existence and extent of hazardous substances in accordance with Article XVI.A. of this Agreement; the costs incurred by the Government for clean-up and response in accordance with Article XVI.C. of this Agreement; costs of historic preservation activities in accordance with Article XIX.A. of this Agreement; actual implementation costs; the amount of credit afforded for the Section 215 work; supervision and administration costs; costs of participation in the Project Modification Coordination Team in accordance with Article VI of this Agreement; costs of contract dispute settlements or awards; the value of lands, easements, rights-of-way, relocations, and suitable borrow and dredged or excavated material disposal areas for which the Government affords credit in accordance with Article V of this Agreement; and costs of audit in accordance with Article XI of this Agreement. The term does not include any costs for operation, maintenance, repair, replacement, or rehabilitation; any costs due to betterments; or any costs of dispute resolution under Article VIII of this Agreement.

G. The term "total project modification costs for Endangered Species Act modifications" shall mean that portion of the total project costs that the Government assigns to Endangered Species Act project modification for construction of a downstream juvenile fish passage facility that will operate between the reservoir elevations of 1080 and 1147, but does not include the costs of building the structure to operate above the elevation of 1147.

H. The term "total project modification costs for Ecosystem Restoration" shall mean that portion of the total project costs that the Government assigns to the project modification for

Ecosystem Restoration including reconnection of side channels, gravel nourishment, and placement of large woody debris.

I. The term "total project modification costs for Additional Water Supply" shall mean that portion of the total project costs that the Government assigns to the Project Modification for Additional Water Supply, and includes right abutment seepage remedies, environmental mitigation features, and the cost of the construction of the additional structure of the fish passage facility required to operate above the elevation of 1147 to the elevation of 1177 necessitated by the additional storage of water. It also includes one half the difference of the least cost alternative of providing equivalent water supply less the cost of the total project modification costs for Additional Water Supply.

J. The term "financial obligation for implementation" shall mean a financial obligation of the Government, or a financial obligation of the Non-Federal Sponsor for Section 215 work, other than an obligation pertaining to the provision of lands, easements, rights-of-way, relocations, and borrow and dredged or excavated material disposal areas, that results or would result in a cost that is or would be included in total project modification costs.

K. The term "implementation" shall mean all actions required to carry out the Project Modification including all actions required for modification in operations of the Existing Project, but does not include operation, maintenance, repair, replacement and rehabilitation.

L. The term "non-Federal proportionate share" shall mean the ratio of the Non-Federal Sponsor's total cash contribution required in accordance with Article II.F.3. of this Agreement to total financial obligations for implementation as projected by the Government.

M. The term "period of implementation" shall mean the time from the effective date of this Agreement to the date that the District Engineer notifies the Non-Federal Sponsor in writing of the Government's determination that implementation of the Project Modification is complete.

N. The term "highway" shall mean any public highway, roadway, street, or way, including any bridge thereof.

O. The term "relocation" shall mean providing a functionally equivalent facility to the owner of an existing utility, cemetery, highway or other public facility, or railroad when such action is authorized in accordance with applicable legal principles of just compensation or as otherwise provided in the authorizing legislation for the Project Modification or any report referenced therein. Providing a functionally equivalent facility may take the form of alteration, lowering, raising, or replacement and attendant removal of the affected facility or part thereof.

P. The term "fiscal year" shall mean one fiscal year of the Government. The Government fiscal year begins on October 1 and ends on September 30.

Q. The term "functional portion of the Project Modification" shall mean a portion of the Project Modification that is suitable for tender to the Non-Federal Sponsor to operate and maintain in advance of completion of the entire Project Modification. For a portion of the Project Modification to be suitable for tender, the District Engineer must notify the Non-Federal Sponsor in writing of the Government's determination that the portion of the Project Modification is complete and can function independently and for a useful purpose, although the balance of the Project Modification is not complete.

R. The term "betterment" shall mean a change in the design and construction of an element of the Project Modification resulting from the application of standards that the Government determines exceed those that the Government would otherwise apply for accomplishing the design and construction of that element.

S. The term "Section 215 Work" means Project work for which the Government will give credit pursuant to Section 215 of Public Law 90-483 and includes but is not limited to work associated with the project modification for Ecosystem Restoration, such as reconnection of side channels, gravel nourishment, and placement of large woody debris. The Section 215 work includes implementation of the authorized improvements as well as planning, engineering, design, supervision and administration, and other activities associated with implementation, but does not include the implementation of betterments or the provision of lands, easements, rights-of-way, relocations, or suitable borrow and dredged or excavated material disposal areas associated with the work-in-kind.

## ARTICLE II - OBLIGATIONS OF THE GOVERNMENT AND THE NON-FEDERAL SPONSOR

A. The Government, subject to the availability of funds and using those funds and funds provided by the Non-Federal Sponsor, shall expeditiously implement the Project Modification, except for Section 215 Work, applying those procedures usually applied to Federal projects, pursuant to Federal laws, regulations, and policies.

1. The Government shall afford the Non-Federal Sponsor the opportunity to review and comment on the solicitations for all contracts, including relevant plans and specifications, prior to the Government's issuance of such solicitations. The Government shall not issue the solicitation for the first contract for implementation until the Non-Federal Sponsor has confirmed in writing its willingness to proceed with the Project Modification. To the extent possible, the Government shall afford the Non-Federal Sponsor the opportunity to review and comment on all contract modifications, including change orders, prior to the issuance to the contractor of a Notice to Proceed. In any instance where providing the Non-Federal Sponsor with notification of a contract modification or change order is not possible prior to issuance of the Notice to Proceed, the Government shall provide such notification in writing at the earliest date possible. To the extent possible, the Government also shall afford the Non-Federal Sponsor the opportunity to review and comment on all contract claims prior to resolution thereof. The Government shall consider in good faith the comments of the Non-Federal Sponsor, but the

contents of solicitations, award of contracts, execution of contract modifications, issuance of change orders, resolution of contract claims, and performance of all work on the Project Modification, with the exception of the Section 215 Work (whether the work is performed under contract or by Government personnel), shall be exclusively within the control of the Government.

2. Throughout the period of implementation, the District Engineer shall furnish the Non-Federal Sponsor with a copy of the Government's Written Notice of Acceptance of Completed Work for each contract for the Project Modification.

3. For Section 215 Work, the Government shall be afforded an opportunity to review and comment on the solicitations for all contracts, including relevant plans and specifications, prior to the Non-Federal Sponsor's issuance of such solicitations. No construction shall commence under this Agreement until the designs, detailed plans and specifications, and arrangements for prosecution of the Section 215 Work have been approved in writing by the District Engineer, or his representative. All bids received and proposed provisions of any contract shall be subject to review by the Government prior to contract award. In addition, all proposed changes in approved designs, plans, and specifications also must be reviewed and approved by the District Engineer or his representative in writing in advance of the related construction where practicable. To the extent possible, the Non-Federal Sponsor also shall afford the Government the opportunity to review and comment on all contract claims prior to resolution thereof. The Non-Federal Sponsor shall consider in good faith the comments of the Government made as a result of its review, but the contents of solicitations, award of contracts, execution of contract modifications, issuance of change orders, resolution of contract claims, and performance of all Section 215 Work shall be exclusively within the control of the Non-Federal Sponsor. However, the failure of the Non-Federal Sponsor to comply with direction received from the District Engineer, with respect to the Section 215 Work, may result in the costs associated with such work being determined ineligible for credit towards the Non-Federal Sponsor's share of total project costs. The District Engineer or his designee is authorized to inspect the work at any and all times.

B. The Non-Federal Sponsor may request the Government to accomplish betterments. Such requests shall be in writing and shall describe the betterments requested to be accomplished. If the Government in its sole discretion elects to accomplish the requested betterments or any portion thereof, it shall so notify the Non-Federal Sponsor in a writing that sets forth any applicable terms and conditions, which must be consistent with this Agreement. In the event of conflict between such a writing and this Agreement, this Agreement shall control. The Non-Federal Sponsor shall be solely responsible for all costs due to the requested betterments and shall pay all such costs in accordance with Article VII.C. of this Agreement.

C. When the District Engineer determines that the entire Project Modification for Ecosystem Restoration is complete or that a portion of the Project Modification for Ecosystem Restoration has become a functional portion of the Project Modification, the District Engineer shall so notify the Non-Federal Sponsor in writing and furnish the Non-Federal Sponsor with an Operation, Maintenance, Repair, Replacement, and Rehabilitation Manual (hereinafter the

"OMRR&R Manual") and with copies of all of the Government's Written Notices of Acceptance of Completed Work for all contracts for the Project Modification for Ecosystem Restoration or the functional portion of the Project Modification for Ecosystem Restoration that have not been provided previously. Upon such notification, the Non-Federal Sponsor shall operate, maintain, repair, replace, and rehabilitate the entire Project Modification for Ecosystem Restoration or the functional portion of the Project Modification for Ecosystem Restoration in accordance with Article IX of this Agreement. The Government shall operate, maintain, repair, replace, and rehabilitate the project modification for Additional Water Supply and the Endangered Species Act project modification. The Non-Federal Sponsor shall pay annually, in advance, the costs of operation maintenance, repair, replacement, and rehabilitation of the project modification for Additional Water Supply and the costs of operation, maintenance, repair, replacement, and rehabilitation of that part of the fish passage facility above elevation 1147 to elevation 1177 in accordance with Article IX of this Agreement.

D. The Government shall assign all costs to be included in total project costs and all contributions provided by the Non-Federal Sponsor to total project modification costs, total project modification costs for Endangered Species Act modifications, total project modification costs for Ecosystem Restoration, and total project modification costs for Additional Water Supply.

E. The Government shall contribute 100% of the total project modification costs for Endangered Species Act modifications.

F. The Non-Federal Sponsor shall contribute 35 percent of total project modification costs for Ecosystem Restoration in accordance with the provisions of this paragraph.

1. In accordance with Article IV of this Agreement, the Non-Federal Sponsor shall provide all lands, easements, rights-of-way, and suitable borrow and dredged or excavated material disposal areas that the Government determines the Non-Federal Sponsor must provide for the implementation, operation, and maintenance of the Project Modification, and shall perform or ensure performance of all relocations that the Government determines to be necessary for the implementation, operation, and maintenance of the Project Modification.

2. As authorized by Section 215 of Public Law 90-483, as amended, the Government may afford credit for the Section 215 Work. The affording of such credit shall be subject to a technical review by the Government to verify that the credited work was accomplished in a satisfactory manner and in accordance with the limitations contained in this Agreement. To afford any such credit, the Government, as further specified in Article VII.B. of this Agreement, shall apply the actual amount of credit toward the cash contribution required by paragraph F.3. of this Article. The actual amount of credit shall not exceed the Non-Federal Sponsor's actual costs attributable to the Section 215 Work. Such credit may be afforded in increments as useful increments of the Section 215 Work are completed by the Non-Federal Sponsor. The actual amount of credit shall be subject to an audit in accordance with Article XI.C. of this Agreement to determine reasonableness, allocability, and allowability of costs. If

the actual amount of credit exceeds the cash contribution required by paragraph F.3. of this Article, the Government, subject to the availability of funds, shall, on behalf of the Non-Federal Sponsor, provide Project lands, easements, rights-of-way, and suitable borrow and dredged or excavated material disposal areas, or perform Project relocations, equal in value to such excess credit amount. As an alternative, and in its sole discretion, the government may, subject to the availability of funds, reimburse the Non-Federal Sponsor in an amount equal to such excess credit amount.

3. If the Government projects that the value of the Non-Federal Sponsor's contributions under paragraph F.1. and F.2. of this Article and Articles VI., XI., and X.VI.A. of this Agreement assigned to the total project modification cost for Ecosystem Restoration will be less than 35 percent of total project modification costs for Ecosystem Restoration, the Non-Federal Sponsor shall provide an additional cash contribution, in the amount necessary to make the Non-Federal Sponsor's total contribution equal to 35 percent of total Ecosystem Restoration project modification costs.

4. If the Government determines that the value of the Non-Federal Sponsor's contributions provided under paragraphs F.1. and F.2 of this Article and Articles VI, XI, and XVI.A. of this Agreement assigned to the total project modification costs for Ecosystem Restoration has exceeded 35 percent of total project modification costs for Ecosystem Restoration, the Government, subject to the availability of funds, shall reimburse the Non-Federal Sponsor for any such value in excess of 35 percent of total project modification costs for Ecosystem Restoration. After such a determination, the Government, in its sole discretion, may provide any remaining Ecosystem Restoration Project Modification lands, easements, rights-of-way, and suitable borrow and dredged or excavated material disposal areas and perform any remaining Ecosystem Restoration Project Modification relocations on behalf of the Non-Federal Sponsor. Notwithstanding the provision of lands, easements, rights-of-way, and suitable borrow and dredged or excavated material disposal areas or performance of relocations by the Government under this paragraph, the Non-Federal Sponsor shall be responsible, as between the Government and the Non-Federal Sponsor, for the costs of cleanup and response in accordance with Article XVI.C. of this Agreement.

G. The Non-Federal Sponsor shall contribute 100% of the total project modification costs for Additional Water Supply, including that portion of the downstream juvenile fish passage facility required to operate above elevation 1147 to elevation 1177 in accordance with the provisions of this paragraph.

1. In accordance with Article IV of this Agreement, the Non-Federal Sponsor shall provide all lands, easements, rights-of-way, and suitable borrow and dredged or excavated material disposal areas that the Government determines the Non-Federal Sponsor must provide for the implementation, operation, and maintenance of the Project Modification, and shall perform or ensure performance of all relocations that the Government determines to be necessary for the implementation, operation, and maintenance of the Project Modification.

2. If the Government projects that the value of the Non-Federal Sponsor's contributions under paragraph G.1. of this Article and Articles VI, XI, and XVI.A. of this Agreement assigned to the total project modification cost for Additional Water Supply will be less than 100% of the total project modification cost for Additional Water Supply, the Non-Federal Sponsor shall provide an additional cash contribution, in accordance with Article VII.B. of this Agreement, in the amount necessary to make the Non-Federal Sponsor's total contribution equal to 100% of total project modification cost for Additional Water Supply.

H. In addition to any other limitations contained in this Agreement, the affording and the amount of Section 215 credit is subject to the following additional limitations:

1. No credit shall be given until the District Engineer has certified that the work subject to the credit has been completed and performed in accordance with the terms of this Agreement.

2. This Agreement shall not be construed as committing the Government to assume any responsibilities placed upon the Non-Federal Sponsor or any other non-Federal entity by the conditions of Federal Project authorization or any other applicable statute or regulation or as committing the Government to reimburse the Non-Federal Sponsor if the Project Modification is not undertaken or is modified so as to make the work performed by the Non-Federal Sponsor no longer an integral part of the authorized Project.

3. The amount of credit or reimbursement, or combination thereof, to be provided by the Government to the Non-Federal Sponsor shall not exceed the Government's estimate of what the cost of the proposed work would be if it were to be accomplished by the Government as a component of the Project modification, or the Non-Federal Sponsor's actual auditable costs for the proposed work, whichever is less. The Government's estimate is \$3,000,000, which may be increased at the sole discretion of the Assistant Secretary of the Army (Civil Works). Credit shall not be made for any work that does not, in the judgment of the Government, conform to the Project Modification.

4. The amount of credit provided by the Government to the Non-Federal Sponsor for the Proposed Work described herein, in combination with any credit or reimbursement provided pursuant to Section 215 for the Project Modification, shall not exceed the statutory limitation of \$5,000,000 or 1 percent of total project costs, whichever is greater.

5. The amount of credit or reimbursement for which the Non-Federal Sponsor may be eligible pursuant to this Agreement is neither subject to interest charges nor to adjustment to reflect changes in price levels between the time the proposed work is completed and the time that the credit or reimbursement is afforded.

6. No credit or reimbursement shall be afforded for costs incurred by the Non-Federal Sponsor before the effective date of this Agreement.

I. The Non-Federal Sponsor may request the Government to provide lands, easements, rights-of-way, and suitable borrow and dredged or excavated material disposal areas or perform relocations on behalf of the Non-Federal Sponsor. Such requests shall be in writing and shall describe the services requested to be performed. If in its sole discretion the Government elects to perform the requested services or any portion thereof, it shall so notify the Non-Federal Sponsor in a writing that sets forth any applicable terms and conditions, which must be consistent with this Agreement. In the event of conflict between such a writing and this Agreement, this Agreement shall control. The Non-Federal Sponsor shall be solely responsible for all costs of the requested services and shall pay all such costs in accordance with Article VII.C. of this Agreement. Notwithstanding the provision of lands, easements, rights-of-way, and suitable borrow and dredged or excavated material disposal areas or performance of relocations by the Government under this paragraph, the Non-Federal Sponsor shall be responsible, as between the Government and the Non-Federal Sponsor, for the costs of cleanup and response in accordance with Article XVI.C. of this Agreement.

J. The Government shall perform a final accounting in accordance with Article VII.D. of this Agreement to determine the contributions provided by the Non-Federal Sponsor in accordance with paragraphs B., F., and H. of this Article and Articles VI, XI, and XVI.A. of this Agreement and to determine whether the Non-Federal Sponsor has met its obligations under paragraphs B., F., and H. of this Article.

K. The Non-Federal Sponsor shall not use Federal funds to meet its share of total project modification costs under this Agreement unless the Federal granting agency verifies in writing that the expenditure of such funds is expressly authorized by statute.

L. Crediting and/or reimbursement is subject to satisfactory compliance with applicable federal labor laws covering non-Federal construction, including, but not limited to the Davis-Bacon Act (40 USC 276a et seq), the Contract Work Hours and Safety Standards Act (40 USC 327 et seq) and the Copeland Anti-Kickback Act (40 USC 276c). Crediting and/or reimbursement may be withheld, in whole or in part, as a result of the Non-Federal Sponsor's failure to comply with its obligations under these laws.

M. The Non-Federal Sponsor shall prescribe and enforce regulations to prevent obstructions of or encroachment on the Project Modifications that would reduce or hinder the operation or maintenance of the project Modification.

### ARTICLE III – WATER SUPPLY STORAGE

A. The Non-Federal Sponsor shall pay, in addition to the total project modification costs for Additional Water Supply, one half the difference of the least cost alternative of providing equivalent water supply less the present-worth cost of the total project modification costs for Additional Water Supply. On the effective date of this Agreement this amount is estimated to be \$842,000. This cost shall be paid within the period of implementation of the Project in accordance with Article II.G. and Article VII.B. of this agreement.

B. The Non-Federal Sponsor shall have the right to utilize the usable storage space in the Project during conservation season between elevations 1147 feet and 1177 feet above National Geodetic Vertical Datum, which usable conservation storage space is estimated to contain 32,000 acre-feet after adjustment for sediment deposits. This storage space is to be used to impound water during conservation season for present demand or need for municipal and industrial water supply.

C. The Non-Federal Sponsor shall have the right to withdraw water from the lake, or to request releases to be made by the Government through the outlet works in the Dam, subject to the provisions of Article III.B. and to the extent the aforesaid storage space will provide; and shall have the right to construct all such works, plants, pipelines, and appurtenances as may be necessary and convenient for the purpose of diversion or withdrawals, subject to the approval of the District Engineer as to design and location. The grant of an easement for right-of-way, across, in and upon land of the Government at the Project shall be by a separate instrument in a form satisfactory to the Secretary of the Army, without additional cost to the Non-Federal Sponsor, under the authority of and in accordance with the provisions of 10 U.S.C. 2669 and such other authorities as may be necessary. Subject to the conditions of such easement, the Non-Federal Sponsor shall have the right to use so much of the Project land as may reasonably be required in the exercise of the rights and privileges granted under this agreement.

D. The Government reserves the right to control and use all storage in the project in accordance with authorized Project purposes. The Government further reserves the right to take such measures as may be necessary in the operation of the Project to preserve life and/or property, including the right not to make downstream releases during such periods of time as are deemed necessary, in its sole discretion, to inspect, maintain, or repair the Project.

E. The Non-Federal Sponsor recognizes that the Government provides storage space for raw water and makes no representations with respect to the quality or availability of water and assumes no responsibility therefore, or for the treatment of the water.

F. Sedimentation Surveys.

1. Sedimentation surveys will be made by the District Engineer at intervals not to exceed fifteen (15) years unless the District Engineer determines that such surveys are unnecessary. When, in the opinion of the District Engineer, the findings of such survey indicate any Project purpose will be affected by unanticipated sedimentation distribution, there shall be an equitable redistribution of the sediment reserve storage space among the purposes served by the Project including municipal and industrial water supply. The total available remaining storage space in the Project will then be divided among the various Project features in the same ratio as was initially utilized. Adjusted pool elevations will be rounded to the nearest one-half foot. Such findings and the storage space allocated to municipal and industrial water supply shall be defined and described as an exhibit that will be made a part of this agreement and the water control manual will be modified accordingly.

2. The Government assumes no responsibility for deviations from estimated rates of sedimentation, or the distribution thereof. Such deviations may cause unequal distribution of sediment reserve storage greater than estimated, and/or encroachment on the total storage at the Project.

G. The regulation of the use of water withdrawn or released from the aforesaid storage space shall be the sole responsibility of the Non-Federal Sponsor. The Non-Federal Sponsor has the full responsibility to acquire in accordance with State laws and regulations, and, if necessary, to establish or defend, any and all water rights needed for utilization of the storage provided under this agreement. The Government shall not be responsible for diversions by others, nor will it become a party to any controversies involving the use of the storage space by the User except as such controversies may affect the operations of the Project by the Government.

H. The Non-Federal Sponsor agrees to furnish and install, without cost to the Government, suitable meters or measuring devices satisfactory to the District Engineer for the measurement of water which is withdrawn from the Project by any means other than through the Project outlet works. The Non-Federal Sponsor shall furnish to the Government monthly statements of all such withdrawals. Prior to the construction of any facilities for withdrawal of water from the Project, the Non-Federal Sponsor will obtain the District Engineer's approval of the design, location and installation of the facilities including the meters or measuring devices. Such devices shall be available for inspection by Government representatives at all reasonable times. Releases from the water supply storage space through the Project outlet works shall be made in accordance with written schedules furnished by the Non-Federal Sponsor and approved by the District Engineer and shall be subject to Article III.B. The measure of all such releases shall be by means of a rating curve of the outlet works, or by such other suitable means as may be agreed upon prior to use of the water supply storage space.

I. Transfers and Assignments.

1. The User shall not transfer or assign this agreement nor any rights acquired thereunder, nor suballot said water supply storage space or any part thereof, nor grant any interest, privilege or license whatsoever in connection with this agreement, without the approval of the Secretary of the Army, or his duly authorized representative provided that, unless contrary to the public interest, this restriction shall not be construed to apply to any water that may be obtained from the water supply storage space by the User and furnished to any third party or parties, nor any method of allocation thereof.

2. Regarding approval of assignments, references to restriction of assignments shall not apply to any transfer or assignment to the Rural Economic Community Development (RECD), formerly Farmers Home Administration, or its successor agency, or nominee, given in connection with the pledging of this water storage agreement as security for any loans or arising out of the foreclosure or liquidation of said loans. The Non-Federal Sponsor

will notify the Corps in writing 15 days prior to applying for a RECD loan. A copy of the final loan instrument will be furnished to the Corps for their record.

J. Upon completion of contributions by the non-Federal Sponsor, as provided in Article II. F., II.G., and III.A., the Non-Federal Sponsor shall have a permanent right under the provisions of the Act of 16 October 1963 (Public Law 88-140, 43 USC 390e), to the use of the water supply storage space in the Project as provided in this Article, subject to the following:

1. The Non-Federal Sponsor shall continue payment of annual operation and maintenance costs allocated to water supply.

2. The Non-Federal sponsor shall bear the costs allocated to water supply of any necessary reconstruction, rehabilitation, or replacement of Project features which may be required to continue satisfactory operation of the Project. Such costs will be established by the District Engineer and repayment arrangements shall be in writing in accordance with the terms and conditions set forth in Article IX for reconstruction, rehabilitation, and replacement costs, and be made a part of this agreement.

3. The permanent rights of the Non-Federal Sponsor under this agreement shall be continued so long as the Government continues to operate the Project. In the event the Government no longer operates the Project, such rights may be continued subject to the execution of a separate agreement or additional supplemental agreement providing for:

(i) continued operation by the Non-Federal Sponsor of such part of the facility as is necessary for utilization of the water supply storage space allocated to it;

(ii) terms which will protect the public interest; and

(iii) effective absolvment of the Government by the Non-Federal Sponsor from liability in connection with such continued operation.

#### ARTICLE IV - LANDS, RELOCATIONS, DISPOSAL AREAS, AND PUBLIC LAW 91-646 COMPLIANCE

A. The Government, after consultation with the Non-Federal Sponsor, shall determine the lands, easements, and rights-of-way required for the implementation, operation, and maintenance of the Project Modification, including those required for relocations, borrow materials, and dredged or excavated material disposal. The Government shall indicate which of the required lands, easements, and rights-of-way are required for the Endangered Species Act Modification, Project Modification for Ecosystem Restoration and the Project Modification for Additional Water Supply. The Government in a timely manner shall provide the Non-Federal Sponsor with general written descriptions, including maps as appropriate, of the lands, easements, and rights-of-way that the Government determines the Non-Federal Sponsor must provide, in detail sufficient to enable the Non-Federal Sponsor to fulfill its obligations under this

paragraph, and shall provide the Non-Federal Sponsor with a written notice to proceed with acquisition of such lands, easements, and rights-of-way. Prior to the end of the period of implementation, the Non-Federal Sponsor shall acquire all lands, easements, and rights-of-way set forth in such descriptions. Furthermore, prior to issuance of the solicitation for each construction contract, the Non-Federal Sponsor shall provide the Government with authorization for entry to all lands, easements, and rights-of-way the Government determines the Non-Federal Sponsor must provide for that contract. The Non-Federal Sponsor shall ensure that lands, easements, and rights-of-way that the Government determines to be required for the operation and maintenance of the Project Modification and that were provided by the Non-Federal Sponsor are retained in public ownership for uses compatible with the authorized purposes of the Project Modification.

B. The Government, after consultation with the Non-Federal Sponsor, shall determine the improvements required on lands, easements, and rights-of-way to enable the proper disposal of dredged or excavated material associated with the implementation, operation, and maintenance of the Project Modification. The Government shall delineate which of the required improvements are associated with the Endangered Species Act Modification, Project Modification for Ecosystem Restoration and the Project Modification for Additional Water Supply. Such improvements may include, but are not necessarily limited to, retaining dikes, wasteweirs, bulkheads, embankments, monitoring features, stilling basins, and de-watering pumps and pipes. The Government in a timely manner shall provide the Non-Federal Sponsor with general written descriptions of such improvements in detail sufficient to enable the Non-Federal Sponsor to fulfill its obligations under this paragraph, and shall provide the Non-Federal Sponsor with a written notice to proceed with construction of such improvements. Prior to the end of the period of implementation, the Non-Federal Sponsor shall provide all improvements set forth in such descriptions. Furthermore, prior to issuance of the solicitation for each Government construction contract, the Non-Federal Sponsor shall prepare plans and specifications for all improvements the Government determines to be required for the proper disposal of dredged or excavated material under that contract, submit such plans and specifications to the Government for approval, and provide such improvements in accordance with the approved plans and specifications.

C. The Government, after consultation with the Non-Federal Sponsor, shall determine the relocations necessary for the implementation, operation, and maintenance of the Project Modification, including those necessary to enable the removal of borrow materials and the proper disposal of dredged or excavated material. The Government shall delineate which of the relocations are necessary for the Endangered Species Act Modification, Project Modification for Ecosystem Restoration and the Project Modification for Additional Water Supply. The Government in a timely manner shall provide the Non-Federal Sponsor with general written descriptions, including maps as appropriate, of such relocations in detail sufficient to enable the Non-Federal Sponsor to fulfill its obligations under this paragraph, and shall provide the Non-Federal Sponsor with a written notice to proceed with such relocations. Prior to the end of the period of implementation, the Non-Federal Sponsor shall perform or ensure the performance of all relocations as set forth in such descriptions. Furthermore, prior to issuance of the solicitation

for each Government construction contract, the Non-Federal Sponsor shall prepare or ensure the preparation of plans and specifications for, and perform or ensure the performance of, all relocations the Government determines to be necessary for that contract.

D. The Non-Federal Sponsor in a timely manner shall provide the Government with such documents as are sufficient to enable the Government to determine the value of any contribution provided pursuant to paragraphs A., B., or C. of this Article. Upon receipt of such documents the Government, in accordance with Article V of this Agreement and in a timely manner, shall determine the value of such contribution, include such value in total project modification costs, and afford credit for such value toward the Non-Federal Sponsor's share of total project modification costs for Ecosystem Restoration as appropriate.

E. The Non-Federal Sponsor shall comply with the applicable provisions of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, Public Law 91-646, as amended by Title IV of the Surface Transportation and Uniform Relocation Assistance Act of 1987 (Public Law 100-17), and the Uniform Regulations contained in 49 C.F.R. Part 24, in acquiring lands, easements, and rights-of-way required for the implementation, operation, and maintenance of the Project Modification, including those necessary for relocations, borrow materials, and dredged or excavated material disposal, and shall inform all affected persons of applicable benefits, policies, and procedures in connection with said Act.

F. The Government shall make available to the Non-Federal Sponsor by lease those lands administered by the Government that the Government determines to be required for the implementation, operation and maintenance of the Project Modification. If there is an existing lease or license covering the property required for the Project Modification, such lease will be modified to delete this area prior to the issuance of the lease or license to the Non-Federal Sponsor of the Project Modification. No provision of this Agreement shall merge into any lease executed pursuant to this paragraph.

#### ARTICLE V - CREDIT FOR LANDS, RELOCATIONS, AND DISPOSAL AREAS

A. The Non-Federal Sponsor shall receive credit toward its share of total project modification costs for the value of the lands, easements, rights-of-way, and suitable borrow and dredged or excavated material disposal areas that the Non-Federal Sponsor must provide pursuant to Article IV of this Agreement for the project modifications. The Non-Federal Sponsor shall also receive credit for the value of the relocations that the Non-Federal Sponsor must perform or for which it must ensure performance pursuant to Article IV of this Agreement for the project modifications. However, the Non-Federal Sponsor shall not receive credit for the value of any lands, easements, rights-of-way, relocations, or borrow and dredged or excavated material disposal areas that have been provided previously as an item of cooperation for another Federal project, including the Existing Project. The Non-Federal Sponsor also shall not receive credit for the value of lands, easements, rights-of-way, relocations, or borrow and dredged or excavated material disposal areas to the extent that such items are provided using Federal funds unless the

Federal granting agency verifies in writing that such credit is expressly authorized by statute. For lands, easements, rights-of-way, and suitable borrow and dredged or excavated material disposal areas that the Non-Federal Sponsor must provide pursuant to Article IV of this Agreement related to the Additional Water Storage Project Modification, no credit shall be provided.

B. For the sole purpose of affording credit in accordance with this Agreement, the value of lands, easements, and rights-of-way, including those necessary for relocations, borrow materials, and dredged or excavated material disposal, shall be the fair market value of the real property interests, plus certain incidental costs of acquiring those interests, as determined in accordance with the provisions of this paragraph.

1. Date of Valuation. The fair market value of lands, easements, or rights-of-way owned by the Non-Federal Sponsor on the effective date of this Agreement shall be the fair market value of such real property interests as of the date the Non-Federal Sponsor provides the Government with authorization for entry thereto. However, for lands, easements, or rights-of-way owned by the Non-Federal Sponsor on the effective date of this Agreement that are required for the construction of the Section 215 work, fair market value shall be the value of such real property interests as of the date the Non-Federal Sponsor awards the first construction contract for the Section 215 work, or, if the Non-Federal Sponsor performs the implementation with its own labor, the date that the Non-Federal Sponsor begins implementation of the Section 215 work. The fair market value of lands, easements, or rights-of-way acquired by the Non-Federal Sponsor after the effective date of this Agreement shall be the fair market value of such real property interests at the time the interests are acquired.

2. General Valuation Procedure. Except as provided in paragraph B.3. of this Article, the fair market value of lands, easements, or rights-of-way shall be determined in accordance with paragraph B.2.a. of this Article, unless thereafter a different amount is determined to represent fair market value in accordance with paragraph B.2.b. of this Article.

a. The Non-Federal Sponsor shall obtain, for each real property interest, an appraisal that is prepared by a qualified appraiser who is acceptable to the Non-Federal Sponsor and the Government. The appraisal must be prepared in accordance with the applicable rules of just compensation, as specified by the Government. The fair market value shall be the amount set forth in the Non-Federal Sponsor's appraisal, if such appraisal is approved by the Government. In the event the Government does not approve the Non-Federal Sponsor's appraisal, the Non-Federal Sponsor may obtain a second appraisal, and the fair market value shall be the amount set forth in the Non-Federal Sponsor's second appraisal, if such appraisal is approved by the Government. In the event the Government does not approve the Non-Federal Sponsor's second appraisal, or the Non-Federal Sponsor chooses not to obtain a second appraisal, the Government shall obtain an appraisal, and the fair market value shall be the amount set forth in the Government's appraisal, if such appraisal is approved by the Non-Federal Sponsor. In the event the Non-Federal Sponsor does not approve the Government's appraisal, the Government, after consultation with the Non-Federal Sponsor, shall consider the Government's and the Non-

Federal Sponsor's appraisals and determine an amount based thereon, which shall be deemed to be the fair market value.

b. Where the amount paid or proposed to be paid by the Non-Federal Sponsor for the real property interest exceeds the amount determined pursuant to paragraph B.2.a. of this Article, the Government, at the request of the Non-Federal Sponsor, shall consider all factors relevant to determining fair market value and, in its sole discretion, after consultation with the Non-Federal Sponsor, may approve in writing an amount greater than the amount determined pursuant to paragraph B.2.a. of this Article, but not to exceed the amount actually paid or proposed to be paid. If the Government approves such an amount, the fair market value shall be the lesser of the approved amount or the amount paid by the Non-Federal Sponsor, but no less than the amount determined pursuant to paragraph B.2.a. of this Article.

3. Eminent Domain Valuation Procedure. For lands, easements, or rights-of-way acquired by eminent domain proceedings instituted after the effective date of this Agreement, the Non-Federal Sponsor shall, prior to instituting such proceedings, submit to the Government notification in writing of its intent to institute such proceedings and an appraisal of the specific real property interests to be acquired in such proceedings. The Government shall have 60 days after receipt of such a notice and appraisal within which to review the appraisal, if not previously approved by the Government in writing.

a. If the Government previously has approved the appraisal in writing, or if the Government provides written approval of, or takes no action on, the appraisal within such 60-day period, the Non-Federal Sponsor shall use the amount set forth in such appraisal as the estimate of just compensation for the purpose of instituting the eminent domain proceeding.

b. If the Government provides written disapproval of the appraisal, including the reasons for disapproval, within such 60-day period, the Government and the Non-Federal Sponsor shall consult in good faith to promptly resolve the issues or areas of disagreement that are identified in the Government's written disapproval. If, after such good faith consultation, the Government and the Non-Federal Sponsor agree as to an appropriate amount, then the Non-Federal Sponsor shall use that amount as the estimate of just compensation for the purpose of instituting the eminent domain proceeding. If, after such good faith consultation, the Government and the Non-Federal Sponsor cannot agree as to an appropriate amount, then the Non-Federal Sponsor may use the amount set forth in its appraisal as the estimate of just compensation for the purpose of instituting the eminent domain proceeding.

c. For lands, easements, or rights-of-way acquired by eminent domain proceedings instituted in accordance with sub-paragraph B.3. of this Article, fair market value shall be either the amount of the court award for the real property interests taken, to the extent the Government determined such interests are required for the implementation, operation, and maintenance of the Project Modification, or the amount of any stipulated settlement or portion thereof that the Government approves in writing.

4. Incidental Costs. For lands, easements, or rights-of-way acquired by the Non-Federal Sponsor within a five-year period preceding the effective date of this Agreement, or at any time after the effective date of this Agreement, the value of the interest shall include the documented incidental costs of acquiring the interest, as determined by the Government, subject to an audit in accordance with Article XI.C. of this Agreement to determine reasonableness, allocability, and allowability of costs. Such incidental costs shall include, but not necessarily be limited to, closing and title costs, appraisal costs, survey costs, attorney's fees, plat maps, and mapping costs, as well as the actual amounts expended for payment of any Public Law 91-646 relocation assistance benefits provided in accordance with Article IV.E. of this Agreement.

C. After consultation with the Non-Federal Sponsor, the Government shall determine the value of relocations in accordance with the provisions of this paragraph.

1. For a relocation other than a highway, the value shall be only that portion of relocation costs that the Government determines is necessary to provide a functionally equivalent facility, reduced by depreciation, as applicable, and by the salvage value of any removed items.

2. For a relocation of a highway, the value shall be only that portion of relocation costs that would be necessary to accomplish the relocation in accordance with the design standard that the State of Washington would apply under similar conditions of geography and traffic load, reduced by the salvage value of any removed items.

3. Relocation costs shall include, but not necessarily be limited to, actual costs of performing the relocation; planning, engineering and design costs; supervision and administration costs; and documented incidental costs associated with performance of the relocation, but shall not include any costs due to betterments, as determined by the Government, nor any additional cost of using new material when suitable used material is available. Relocation costs shall be subject to an audit in accordance with Article XI.C. of this Agreement to determine reasonableness, allocability, and allowability of costs.

4. Crediting for relocations performed within the Project boundaries is subject to satisfactory compliance with applicable federal labor laws covering non-Federal construction, including, but not limited to the Davis-Bacon Act (40 USC 276a et seq), the Contract Work Hours and Safety Standards Act (40 USC 327 et seq) and the Copeland Anti-Kickback Act (40 USC 276c). Crediting may be withheld, in whole or in part, as a result of the Non-Federal Sponsor's failure to comply with its obligations under these laws.

D. The value of the improvements made to lands, easements, and rights-of-way for the proper disposal of dredged or excavated material shall be the costs of the improvements, as determined by the Government, subject to an audit in accordance with Article XI.C. of this Agreement to determine reasonableness, allocability, and allowability of costs. Such costs shall include, but not necessarily be limited to, actual costs of providing the improvements; planning,

engineering and design costs; supervision and administration costs; and documented incidental costs associated with providing the improvements, but shall not include any costs due to betterments, as determined by the Government.

#### ARTICLE VI - PROJECT MODIFICATION COORDINATION TEAM

A. To provide for consistent and effective communication, the Non-Federal Sponsor and the Government, not later than 30 days after the effective date of this Agreement, shall appoint named senior representatives to a Project Modification Coordination Team. Thereafter, the Project Modification Coordination Team shall meet regularly until the end of the period of implementation. The Government's Project Manager and a counterpart named by the Non-Federal Sponsor shall co-chair the Project Modification Coordination Team.

B. The Government's Project Manager and the Non-Federal Sponsor's counterpart shall keep the Project Modification Coordination Team informed of the progress of implementation and of significant pending issues and actions, and shall seek the views of the Project Modification Coordination Team on matters that the Project Modification Coordination Team generally oversees.

C. Until the end of the period of implementation, the Project Modification Coordination Team shall generally oversee the Project Modification, including issues related to design; plans and specifications; scheduling; real property and relocation requirements; real property acquisition; contract awards and modifications; the Section 215 Work; contract costs; the application of and compliance with the Davis-Bacon Act, Contract Work Hours and Safety Standards Act and the Copeland Anti-Kickback Act for relocations and construction portion of the non-Federal Section 215 Work; the Government's cost projections; final inspection of the entire Project Modification or functional portions of the Project Modification; preparation of the proposed OMRR&R Manual; anticipated requirements and needed capabilities for performance of operation, maintenance, repair, replacement, and rehabilitation of the Project Modification; and other related matters.

D. The Project Modification Coordination Team may make recommendations that it deems warranted to the District Engineer on matters that the Project Modification Coordination Team generally oversees, including suggestions to avoid potential sources of dispute. The Government in good faith shall consider the recommendations of the Project Modification Coordination Team. The Government, having the legal authority and responsibility for implementation of the Project Modification, has the discretion to accept, reject, or modify the Project Modification Coordination Team's recommendations.

E. The costs of participation in the Project Modification Coordination Team associated with the Project Modification for Ecosystem Restoration shall be included in total project modification costs for the Ecosystem Restoration and cost shared in accordance with the provisions of this Agreement. Costs of participation associated with the Project Modification for Additional Water Supply are to be a 100 percent Non-Federal cost. Costs of participation

associated with Endangered Species Act project modification are to be a 100 percent Federal cost.

## ARTICLE VII- METHOD OF PAYMENT

A. The Government shall maintain current records of contributions provided by the parties and current projections of total project modification costs and costs due to betterments. By 15 January of each year and at least quarterly thereafter, the Government shall provide the Non-Federal Sponsor with a report setting forth all contributions provided to date and the current projections of total project modification costs, of total costs due to betterments, of the components of total project modification costs, of total project modification costs for Endangered Species Act Modifications, of total project modification costs for Ecosystem Restoration, of total project modification costs for Additional Water Supply, of each party's share of total project modification costs, of the Non-Federal Sponsor's total cash contributions required in accordance with Articles II.B., II.F., and II.H. of this Agreement, of the Non-Federal proportionate share, and of the funds the Government projects to be required from the Non-Federal Sponsor for the upcoming fiscal year. On the effective date of this Agreement, total project modification costs are projected to be \$86,340,000 plus estimated existing project costs of \$842,000, for a total project cost of \$87,182,000; total Project Modification costs for Endangered Species Act Modification are projected to be \$55,796,000; total project modification costs for Ecosystem Restoration are projected to be \$12,206,000; and total project modification costs for Additional Water Supply are projected to be \$19,180,000. The Non-Federal Sponsor's cash contribution required under Article II.F. of this Agreement is projected to be \$18,082,000. The amount of credit for the Section 215 Work to be afforded against the Non-Federal Sponsor's required contribution towards the total project costs in accordance with Article II.F of this Agreement is projected to be \$3,000,000. The above amounts are estimates subject to adjustment by the Government and are not to be construed as the total financial responsibilities of the Government and the Non-Federal Sponsor.

B. The Non-Federal Sponsor shall provide the cash contribution required under Article II.F and II.G. of this Agreement in accordance with the provisions of this paragraph.

1. Not less than 60 calendar days prior to the scheduled date for issuance of the solicitation for the first construction contract, the Government shall notify the Non-Federal Sponsor in writing of such scheduled date and the funds the Government, after consideration of any credit afforded pursuant to Article II.F, G, and H. of this Agreement, determines to be required from the Non-Federal Sponsor to meet the non-Federal proportionate share of projected financial obligations for implementation through the first fiscal year of implementation, including the non-Federal proportionate share of financial obligations for implementation incurred prior to the period of implementation. Not later than such scheduled date, the Non-Federal Sponsor shall provide the Government with the full amount of the required funds by delivering a check payable to "FAO, USAED, Seattle District" to the District Engineer.

2. For the second and subsequent fiscal years of implementation, the Government shall notify the Non-Federal Sponsor in writing, no later than 60 calendar days prior to the beginning of that fiscal year, of the funds the Government, after consideration of any credit afforded pursuant to Article II.F, G, and H. of this Agreement, determines to be required from the Non-Federal Sponsor to meet the non-Federal proportionate share of projected financial obligations for implementation for that fiscal year. No later than 30 calendar days prior to the beginning of the fiscal year, the Non-Federal Sponsor shall make the full amount of the required funds for that fiscal year available to the Government through the funding mechanism specified in Article VII.B.1. of this Agreement.

3. The Government shall draw from the funds provided by the Non-Federal Sponsor such sums as the Government, after consideration of any credit afforded pursuant to Article II.F, G, and H. of this Agreement, deems necessary to cover: (a) the non-Federal proportionate share of financial obligations for implementation incurred prior to the period of implementation; and (b) the non-Federal proportionate share of financial obligations for implementation as they are incurred during the period of implementation.

4. If at any time during the period of implementation the Government determines that additional funds will be needed from the Non-Federal Sponsor to cover the non-Federal proportionate share of projected financial obligations for implementation for the current fiscal year, the Government shall notify the Non-Federal Sponsor in writing of the additional funds required, and the Non-Federal Sponsor, no later than 60 calendar days from receipt of such notice, shall make the additional required funds available through the payment mechanism specified in Article VII.B.1. of this Agreement.

C. In advance of the Government incurring any financial obligation associated with additional work under Article II.B. or II.I. of this Agreement, the Non-Federal Sponsor shall provide the Government with the full amount of the funds required to pay for such additional work by delivering a check payable to "FAO, USAED, Seattle District" to the District Engineer. The Government shall draw from the funds provided by the Non-Federal Sponsor such sums as the Government deems necessary to cover the Government's financial obligations for such additional work as they are incurred. In the event the Government determines that the Non-Federal Sponsor must provide additional funds to meet its cash contribution, the Government shall notify the Non-Federal Sponsor in writing of the additional funds required. Within 30 calendar days thereafter, the Non-Federal Sponsor shall provide the Government with a check for the full amount of the additional required funds.

D. Upon completion of the Project Modification or termination of this Agreement, and upon resolution of all relevant claims and appeals, the Government shall conduct a final accounting and furnish the Non-Federal Sponsor with the results of the final accounting. The final accounting shall determine total project modification costs, total Project Modification costs for Endangered Species Act Modifications, total project Modification costs for Ecosystem Restoration, total project modification costs for Additional Water Supply, each party's contribution provided thereto, and each party's required share thereof. The final accounting also

shall determine costs due to betterments and the Non-Federal Sponsor's cash contribution provided pursuant to Article II.F. of this Agreement.

1. In the event the final accounting shows that the total contribution provided by the Non-Federal Sponsor is less than its required share of total project modification costs plus costs due to any betterments provided in accordance with Article II.B. of this Agreement, as well as credits associated with the Section 215 Work provided in accordance with Article II.F.2. of this agreement, the Non-Federal Sponsor shall, no later than 90 calendar days after receipt of written notice, make a cash payment to the Government of whatever sum is required to meet the Non-Federal Sponsor's required share of total project modification costs plus costs due to any betterments provided in accordance with Article II.B. of this Agreement.

2. In the event the final accounting shows that the total contribution provided by the Non-Federal Sponsor exceeds its required share of total project modification costs plus costs due to any betterments provided in accordance with Article II.B. of this Agreement, the Government shall, subject to the availability of funds, refund the excess to the Non-Federal Sponsor no later than 90 calendar days after the final accounting is complete. In the event existing funds are not available to refund the excess to the Non-Federal Sponsor, the Government shall seek such appropriations as are necessary to make the refund.

#### ARTICLE VIII- DISPUTE RESOLUTION

As a condition precedent to a party bringing any suit for breach of this Agreement, that party must first notify the other party in writing of the nature of the purported breach and seek in good faith to resolve the dispute through negotiation. If the parties cannot resolve the dispute through negotiation, they may agree to a mutually acceptable method of non-binding alternative dispute resolution with a qualified third party acceptable to both parties. The parties shall each pay 50 percent of any costs for the services provided by such a third party as such costs are incurred. The existence of a dispute shall not excuse the parties from performance pursuant to this Agreement.

#### ARTICLE IX - OPERATION, MAINTENANCE, REPAIR, REPLACEMENT, AND REHABILITATION (OMRR&R)

A. Upon notification in accordance with Article II.C. of this Agreement and for so long as the Project Modification remains authorized, the Non-Federal Sponsor shall operate, maintain, repair, replace, and rehabilitate the entire Project Modification for Ecosystem Restoration or the functional portion of the Project Modification for Ecosystem Restoration , at no cost to the Government, in a manner compatible with the Project Modification's authorized purposes and in accordance with applicable Federal and State laws as provided in Article XII of this Agreement and specific directions prescribed by the Government in the OMRR&R Manual and any subsequent amendments thereto.

B. The Government shall operate, maintain, repair, replace, and rehabilitate the project modifications for Additional Water Supply and the Non-Federal Sponsor shall pay to the Government the costs of OMR&R of the project modification for Additional Water Supply in accordance with this Article.

1. The Non-Federal Sponsor will be required to pay 100 percent of the annual O&M expense specific to the implementation of the project modification for Additional Water Supply. Payments for such O&M expenses are due and payable in advance of the annual reservoir conservation pool refill beginning date and shall be based on O&M expense specific to the implementation of the project modification for Additional Water Supply in the Government fiscal year most recently ended. The amount of each annual payment will be the actual experienced O&M expense specific to the implementation of the project modification for Additional Water Supply for the preceding fiscal year or an estimate thereof when actual expense information is not available.

2. The Non-Federal Sponsor will be required to pay 100 percent of the cost of any repair, rehabilitation, or replacement of facilities specific to the implementation of the project modification for Additional Water Supply. Not less than 60 calendar days prior to the scheduled date for issuance of the solicitation for any construction contract required for the Repair, and/or Replacement, and/or Rehabilitation of the facilities specific to the implementation of the project modification for Additional Water Supply, the Government shall notify the Non-Federal Sponsor in writing of such scheduled date and the funds the Government determines to be required from the Non-Federal Sponsor for the construction. Not later than such scheduled date, the Non-Federal Sponsor shall provide the Government with the full amount of the required funds by delivering a check payable to "FAO, USAED, Seattle District" to the District Engineer.

3. If at any time during the construction required for Repair, and/or Replacement, and/or Rehabilitation of facilities specific to the implementation of the project modification for Additional Water Supply the Government determines that additional funds will be needed from the Non-Federal Sponsor to cover the financial obligations for construction, the Government shall notify the Non-Federal Sponsor in writing of the additional funds required, and the Non-Federal Sponsor, no later than 60 calendar days from receipt of such notice, shall make the additional required funds available through the payment mechanism specified in Article VII.B.1. of this Agreement.

4. If the Non-Federal Sponsor shall fail to make any of the payments under paragraphs B.1., B.2., and B.3. when due, then the overdue payments shall bear interest compounded annually until paid. The interest rate to be used for overdue payments due shall be that determined by the Department of Treasury's Treasury Fiscal Requirements Manual (1 TFRM 6-8000, "Cash Management"). The amount charged on payments overdue for a period of less than one year shall be figured on a monthly basis. For example, if the payment is made within the first month after being overdue after a 15-day grace period from the anniversary date of the date of notification, one month's interest shall be charged. Thereafter a month's interest will be charged for any portion of each succeeding month that the payment is delinquent. This provision

shall not be construed as giving the Non-Federal Sponsor a choice of either making payments when due or paying interest, nor shall it be construed as waiving any other rights of the Government, at law or in equity, which might result from any default by the Non-Federal Sponsor.

C. The Government shall operate, maintain, repair, replace and rehabilitate the Endangered Species Act project modification. However, the Non-Federal Sponsor shall pay to the government the costs of operation, maintenance, repair, replacement, and rehabilitation of that part of the fish passage facility above elevation 1147 to elevation 1177 because that part of the structure is necessitated by Additional Water Supply. The Non-Federal Sponsor shall pay such costs in accordance with paragraphs B.1, B.2, B.3, and B.4 of this Article.

D. The Non-Federal Sponsor hereby gives the Government a right to enter, at reasonable times and in a reasonable manner, upon property that the Non-Federal Sponsor owns or controls for access to the Project Modification for the purpose of inspection and, if necessary, for the purpose of completing, operating, maintaining, repairing, replacing, or rehabilitating the Project Modification. If an inspection shows that the Non-Federal Sponsor for any reason is failing to perform its obligations under this Agreement, the Government shall send a written notice describing the non-performance to the Non-Federal Sponsor. If, after 30 calendar days from receipt of the notice, the Non-Federal Sponsor continues to fail to perform, then the Government shall have the right to enter, at reasonable times and in a reasonable manner, upon property the Non-Federal Sponsor owns or controls for access to the Project Modification for the purpose of completing, operating, maintaining, repairing, replacing, or rehabilitating the Project Modification. No completion, operation, maintenance, repair, replacement, or rehabilitation by the Government shall operate to relieve the Non-Federal Sponsor's obligations as set forth in this Agreement, or to preclude the Government from pursuing any other remedy at law or equity to ensure faithful performance pursuant to this Agreement.

#### ARTICLE X - INDEMNIFICATION

The Non-Federal Sponsor shall hold and save the Government free from all damages arising from the implementation, operation, maintenance, repair, replacement and rehabilitation of the Project Modification, and any Project Modification-related betterments, except for damages due to the fault or negligence of the Government or its contractors.

#### ARTICLE XI- MAINTENANCE OF RECORDS AND AUDIT

A. Not later than 60 calendar days after the effective date of this Agreement, the Government and the Non-Federal Sponsor shall develop procedures for keeping books, records, documents, and other evidence pertaining to costs and expenses incurred pursuant to this Agreement. These procedures shall incorporate, and apply as appropriate, the standards for financial management systems set forth in the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments at 32 C.F.R. Section 33.20. The Government and the Non-Federal Sponsor shall maintain such books, records, documents, and

other evidence in accordance with these procedures and for a minimum of three years after the period of implementation and resolution of all relevant claims arising therefrom. To the extent permitted under applicable Federal laws and regulations, the Government and the Non-Federal Sponsor shall each allow the other to inspect such books, documents, records, and other evidence.

B. Pursuant to 32 C.F.R. Section 33.26, the Non-Federal Sponsor is responsible for complying with the Single Audit Act of 1984, 31 U.S.C. Sections 7501-7507, as implemented by Office of Management and Budget (OMB) Circular No. A-133 and Department of Defense Directive 7600.10. Upon request of the Non-Federal Sponsor and to the extent permitted under applicable Federal laws and regulations, the Government shall provide to the Non-Federal Sponsor and independent auditors any information necessary to enable an audit of the Non-Federal Sponsor's activities under this Agreement. The costs of any non-Federal audits performed in accordance with this paragraph shall be allocated in accordance with the provisions of OMB Circulars A-87 and A-133, and such costs as are allocated to the Project Modification shall be included in total project modification costs and cost shared in accordance with the provisions of this Agreement.

C. In accordance with 31 U.S.C. Section 7503, the Government may conduct audits in addition to any audit that the Non-Federal Sponsor is required to conduct under the Single Audit Act. Any such Government audits shall be conducted in accordance with Government Auditing Standards and the cost principles in OMB Circular No. A-87 and other applicable cost principles and regulations. The costs of Government audits performed in accordance with this paragraph shall be included in total project modification costs and cost shared in accordance with the provisions of this Agreement.

## ARTICLE XII - FEDERAL AND STATE LAWS

In the exercise of their respective rights and obligations under this Agreement, the Non-Federal Sponsor and the Government agree to comply with all applicable Federal and State laws and regulations, including, but not limited to, Section 601 of the Civil Rights Act of 1964, Public Law 88-352 (42 U.S.C. 2000d), and Department of Defense Directive 5500.11 issued pursuant thereto, as well as Army Regulations 600-7, entitled "Nondiscrimination on the Basis of Handicap in Programs and Activities Assisted or Conducted by the Department of the Army". The Non-Federal Sponsor is also required to comply with all applicable federal labor standards requirements including, but not limited to the Davis-Bacon Act (40 USC 276a et seq), the Contract Work Hours and Safety Standards Act (40 USC 327 et seq) and the Copeland Anti-Kickback Act (40 USC 276c).

## ARTICLE XIII - RELATIONSHIP OF PARTIES

A. In the exercise of their respective rights and obligations under this Agreement the Government and the Non-Federal Sponsor each act in an independent capacity, and neither is to be considered the officer, agent, or employee of the other.

B. In the exercise of its rights and obligations under this Agreement, neither party shall provide, without the consent of the other party, any contractor with a release that waives or purports to waive any rights such other party may have to seek relief or redress against such contractor either pursuant to any cause of action that such other party may have or for violation of any law.

#### ARTICLE XIV - OFFICIALS NOT TO BENEFIT

No member of or delegate to the Congress, nor any resident commissioner, shall be admitted to any share or part of this Agreement, or to any benefit that may arise therefrom.

#### ARTICLE XV - TERMINATION OR SUSPENSION

A. If at any time the Non-Federal Sponsor fails to fulfill its obligations under Article II.B., II.F., II.G., VII, or XIX.C. of this Agreement, the Assistant Secretary of the Army (Civil Works) shall terminate this Agreement or suspend future performance under this Agreement unless he determines that continuation of work on the Project Modification is in the interest of the United States or is necessary in order to satisfy agreements with any other non-Federal interests in connection with the Project Modification.

B. If appropriations are not available in amounts sufficient to meet the Government's share of Project Modification expenditures for the then-current or upcoming fiscal year, the Government shall so notify the Non-Federal Sponsor in writing, and 60 calendar days thereafter either party may elect without penalty to terminate this Agreement or to suspend future performance under this Agreement. In the event that either party elects to suspend future performance under this Agreement pursuant to this paragraph, such suspension shall remain in effect until such time as the Government receives sufficient appropriations or until either the Government or the Non-Federal Sponsor elects to terminate this Agreement.

C. In the event that either party elects to terminate this Agreement pursuant to this Article or Article XVI of this Agreement, both parties shall conclude their activities relating to the Project Modification and proceed to a final accounting in accordance with Article VII.D. of this Agreement.

D. Any termination of this Agreement or suspension of future performance under this Agreement in accordance with this Article or Article XVI of this Agreement shall not relieve the parties of any obligation previously incurred. Any delinquent payment shall be charged interest at a rate, to be determined by the Secretary of the Treasury, equal to 150 per centum of the average bond equivalent rate of the 13-week Treasury bills auctioned immediately prior to the date on which such payment became delinquent, or auctioned immediately prior to the beginning of each additional 3-month period if the period of delinquency exceeds 3 months.

## ARTICLE XVI- HAZARDOUS SUBSTANCES

A. After execution of this Agreement and upon direction by the District Engineer, the Non-Federal Sponsor shall perform, or cause to be performed, any investigations for hazardous substances that the Government or the Non-Federal Sponsor determines to be necessary to identify the existence and extent of any hazardous substances regulated under the Comprehensive Environmental Response, Compensation, and Liability Act (hereinafter "CERCLA"), 42 U.S.C. Sections 9601-9675, that may exist in, on, or under lands, easements, and rights-of-way that the Government determines, pursuant to Article IV of this Agreement, to be required for the implementation, operation, and maintenance of the Project Modification, except for any such lands, easements, or rights-of-way that are owned by the United States and administered by the Government, and except for any such lands that the Government determines to be subject to the navigation servitude. The Government shall perform, or cause to be performed, all investigations on lands, easements, or rights-of-way that are owned by the United States and administered by the Government. For lands that the Government determines to be subject to the navigation servitude, only the Government shall perform such investigations unless the District Engineer provides the Non-Federal Sponsor with prior specific written direction, in which case the Non-Federal Sponsor shall perform such investigations in accordance with such written direction. All actual costs incurred by the Non-Federal Sponsor or the Government for such investigations for hazardous substances shall be included in total project modification costs for Endangered Species Act Modifications, total project Modification costs for Ecosystem Restoration, total project modification costs for Additional Water Supply, as applicable and cost shared in accordance with the provisions of this Agreement, subject to an audit in accordance with Article XI.C. of this Agreement to determine reasonableness, allocability, and allowability of costs.

B. In the event it is discovered through any investigation for hazardous substances or other means that hazardous substances regulated under CERCLA exist in, on, or under any lands, easements, or rights-of-way, that the Government determines, pursuant to Article IV of this Agreement, the Non-Federal Sponsor must provide for the implementation, operation, and maintenance of the Project Modification, the Non-Federal Sponsor and the Government shall provide prompt written notice to each other, and the Non-Federal Sponsor shall not proceed with the acquisition of the real property interests until both parties agree that the Non-Federal Sponsor should proceed.

C. The Government and the Non-Federal Sponsor shall determine whether to initiate implementation of the Project Modification, or, if already in implementation, whether to continue with work on the Project Modification, suspend future performance under this Agreement, or terminate this Agreement for the convenience of the Government, in any case where hazardous substances regulated under CERCLA are found to exist in, on, or under any lands, easements, or rights-of-way that the Government determines, pursuant to Article IV of this Agreement, to be required for the implementation, operation, and maintenance of the Project Modification. Should the Government and the Non-Federal Sponsor determine to initiate or continue with implementation after considering any liability that may arise under CERCLA, the Non-Federal Sponsor shall be responsible, as between the Government and the Non-Federal Sponsor, for the

costs of clean-up and response, to include the costs of any studies and investigations necessary to determine an appropriate response to the contamination. Such costs shall not be considered a part of total project modification costs. In the event the Non-Federal Sponsor fails to provide any funds necessary to pay for clean-up and response costs or to otherwise discharge the Non-Federal Sponsor's responsibilities under this paragraph upon direction by the Government, the Government may, in its sole discretion, either terminate this Agreement for the convenience of the Government, suspend future performance under this Agreement, or continue work on the Project Modification. The Government shall be responsible, as between the Government and the Non-Federal Sponsor, for the costs of clean up and response, to include the costs of any studies and investigations necessary to determine an appropriate response to the contamination on lands, easements, or rights of way owned by the United States and administered by the Government. All costs incurred by the Government shall be included in total project modification costs and cost shared in accordance with the terms of this Agreement.

D. The Non-Federal Sponsor and the Government shall consult with each other in accordance with Article VI of this Agreement in an effort to ensure that responsible parties bear any necessary cleanup and response costs as defined in CERCLA. Any decision made pursuant to paragraph C. of this Article shall not relieve any third party from any liability that may arise under CERCLA.

E. As between the Government and the Non-Federal Sponsor, the Non-Federal Sponsor shall be considered the operator of the Project Modification for purposes of CERCLA liability. To the maximum extent practicable, the Non-Federal Sponsor shall operate, maintain, repair, replace, and rehabilitate the Project Modification in a manner that will not cause liability to arise under CERCLA.

#### ARTICLE XVII- NOTICES

A. Any notice, request, demand, or other communication required or permitted to be given under this Agreement shall be deemed to have been duly given if in writing and either delivered personally, or by telegram, or mailed by first-class, registered, or certified mail, as follows:

If to the Non-Federal Sponsor:

Director of Utilities  
PO Box 11007  
Tacoma, Washington 98411

If to the Government:

District Engineer  
Department of the Army, Seattle District  
PO Box 3755  
Seattle, Washington 98124-3755

B. A party may change the address to which such communications are to be directed by giving written notice to the other party in the manner provided in this Article.

C. Any notice, request, demand, or other communication made pursuant to this Article shall be deemed to have been received by the addressee at the earlier of such time as it is actually received or seven calendar days after it is mailed.

#### ARTICLE XVIII- CONFIDENTIALITY

To the extent permitted by the laws governing each party, the parties agree to maintain the confidentiality of exchanged information when requested to do so by the providing party.

#### ARTICLE XIX - HISTORIC PRESERVATION

A. The costs of identification, survey and evaluation of historic properties, assigned to the Project Modifications for Additional Water Supply, shall be included in total project modification costs for Additional Water Supply and cost shared in accordance with the provisions of this Agreement.

B. The costs of identification, survey and evaluation of historic properties, assigned to the Project Modifications for Ecosystem Restoration, shall be included in total project modification costs for Ecosystem Restoration and cost shared in accordance with the provisions of this Agreement.

C. The costs of identification, survey and evaluation of historic properties, assigned to the Endangered Species Act Modification, shall be included in total project modification costs for Endangered Species and cost shared in accordance with the provisions of this Agreement.

D. Pursuant to Section 7(a) of Public Law 93-291 (16 U.S.C. Section 469c(a)), the costs of mitigation and data recovery activities associated with historic preservation shall be borne entirely by the Government and shall not be included in total project modification costs, up to the statutory limit of one percent of the total amount the Government is authorized to expend for the Project Modification.

E. The Government shall not incur costs for mitigation and data recovery that exceed the statutory one percent limit specified in paragraph D. of this Article unless and until the Assistant Secretary of the Army (Civil Works) has waived that limit in accordance with Section 208(3) of Public Law 96-515 (16 U.S.C. Section 469c-2(3)). Any costs of mitigation and data recovery that exceed the one percent limit shall be included in total project modification costs for Additional Water Supply, total project modification costs for Ecosystem Restoration, or total project modification costs for Endangered Species Act Modification, as appropriate, and shall be cost shared in accordance with the provisions of this Agreement.

## ARTICLE XX -SECTION 902 PROJECT COST LIMITS

The Non-Federal Sponsor has reviewed the provisions set forth in Section 902 of Public Law 99-662, as amended, and understands that Section 902 establishes the maximum amount of total project modification costs at Howard Hanson Dam. Notwithstanding any other provision of this Agreement, the Government shall not make a new Project Modification financial obligation, make a Project Modification expenditure, or afford credit toward total project modification costs for the value of any contribution provided by the Non-Federal Sponsor, if such obligation, expenditure, or credit would result in total project modification costs exceeding this maximum amount, unless otherwise authorized by law. On the effective date of this Agreement, this maximum amount is estimated to be \$101,460,000, as calculated in accordance with ER 1105-2-100 using October 1, 1998 price levels and allowances for projected future inflation. The Government shall adjust this maximum amount in accordance with Section 902.

## ARTICLE XXI - OBLIGATIONS OF FUTURE APPROPRIATIONS

A. Nothing herein shall constitute, nor be deemed to constitute, an obligation of future appropriations by the City of Tacoma of the State of Washington, where creating such an obligation would be inconsistent with R.C.W. 35.34.200 or the City of Tacoma Charter for Tacoma, Washington.

B. The Non-Federal Sponsor intends to satisfy its obligations under this Agreement. The Non-Federal Sponsor shall include in its budget request or otherwise propose, for each fiscal period, appropriations sufficient to cover the Non-Federal Sponsor's obligations under this Agreement for each biennium, and will use all reasonable and lawful means to secure the appropriations for that biennium sufficient to make the payments necessary to fulfill its obligations hereunder. The Non-Federal Sponsor reasonably believes that funds in amounts sufficient to discharge these obligations can and will lawfully be appropriated and made available for this purpose. In the event the budget or other means of appropriations does not provide funds in sufficient amounts to discharge these obligations, the Non-Federal Sponsor shall use its best efforts to satisfy any requirements for payments under this Agreement from any other source of funds legally available for this purpose. Further, if the Non-Federal Sponsor is unable to satisfy its obligations hereunder, the Government may exercise any legal rights it has to protect the Government's interests related to this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, which shall become effective upon the date it is signed by the Department of the Army.

THE DEPARTMENT OF THE ARMY

THE CITY OF TACOMA, DEPARTMENT  
OF PUBLIC UTILITIES

BY: \_\_\_\_\_

Dominic Izzo  
Principal Deputy Assistant Secretary of the Army  
(Civil Works)

BY: \_\_\_\_\_

Mark Crisson  
Director of Utilities

DATE: \_\_\_\_\_

DATE: \_\_\_\_\_

CERTIFICATE OF AUTHORITY

I, Mark Bubenik, do hereby certify that I am the principal legal officer of the City of Tacoma, Department of Public Utilities, that the City of Tacoma, Department of Public Utilities is a legally constituted public body with full authority and legal capability to perform the terms of the Agreement between the Department of the Army and the City of Tacoma, Department of Public Utilities in connection with the Howard Hanson Dam Ecosystem Restoration and Additional Water Storage Project, and to pay damages in accordance with the terms of this Agreement, if necessary, in the event of the failure to perform, as required by Section 221 of Public Law 91-611 (42 U.S. C. Section 1962d-5b), and that the persons who have executed this Agreement on behalf of the City of Tacoma, Department of Public Utilities have acted within their statutory authority.

IN WITNESS WHEREOF, I have made and executed this certification this  
\_\_\_\_\_ day of \_\_\_\_\_.

---

Mark Bubenik  
Chief Assistant City Attorney

CERTIFICATION REGARDING LOBBYING

The undersigned certifies, to the best of his or her knowledge and belief that:

(1) No Federal appropriated funds have been paid or will be paid, by or on behalf of the undersigned, to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with the awarding of any Federal contract, the making of any Federal grant, the making of any Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any Federal contract, grant, loan, or cooperative agreement.

(2) If any funds other than Federal appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this Federal contract, grant, loan, or cooperative agreement, the undersigned shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions.

(3) The undersigned shall require that the language of this certification be included in the award documents for all subawards at all tiers (including subcontracts, subgrants, and contracts under grants, loans, and cooperative agreements) and that all subrecipients shall certify and disclose accordingly.

This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by Section 1352, Title 31, U.S. Code. Any person who fails to file the required certification shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure.

\_\_\_\_\_  
Mark Crisson  
Director of Utilities

DATE: \_\_\_\_\_

## Sample Allocation of Howard Hanson Phase II

- What are the benefits of HHD Additional Storage Phase II?
  - An additional 2,400 ac. ft. of storage
  - A significant increase in run of the river water between February 15 and June 30; as much as 20,000 ac. ft.
- What are the project costs associated with HHD Additional Storage Phase II?
  - Costs involve environmental restoration for the higher pool level; \$6,712,000
- Examples of Phase II allocation if not all Phase I partners participate.

If Tacoma chose not to exercise its Phase II option, then other partners would have the first option to Tacoma's share. Tacoma's share would be allocated at the ratio of a particular partners' share to the sum of shares held by all partners participating in Phase II.

If Tacoma waives its 15/36 share ( $\$6,712,000 \times 0.4167$ ), then, if all other partners continue to participate, their cost would be:

$$\begin{aligned} &\underline{\text{Covington, Kent and Lakehaven would have } 1/3 \text{ individual shares}} \\ &= [7/36 + (1/3 \times 15/36)] \times \$6,712,000 \\ &= 0.3333 \times \$6,712,000 \\ &= \$2,237,333 \end{aligned}$$

**Sample Weekly Operations Report**

Location	Unit	Date (instantaneous readings taken at xx a.m.; totals given for date shown)						
		8/13/1999	8/14/1999	8/15/1999	8/16/1999	8/17/1999	8/18/1999	8/19/1999
		Fri	Sat	Sun	Mon	Tue	Wed	Thu
<b>Source Data</b>								
Howard A. Hanson Reservoir near Palmer	FEET	1135.69	1135.57	1135.46	1135.38	1135.30	1135.06	1134.81
Green River at Palmer	CFS	x	x	x	x	x	x	x
Green River at Auburn	CFS	x	x	x	x	x	x	x
First Water Right Diversion	CFS	113	113	113	113	113	113	113
	MGD	73.0	73.0	73.0	73.0	73.0	73.0	73.0
Second Water Right Diversion	CFS	25	25	15	14	14	20	19
	MGD	16.2	16.2	9.7	9.0	9.0	12.9	12.3
Release from Storage	CFS	25	25	25	25	25	25	25
	MGD	16.2	16.2	16.2	16.2	16.2	16.2	16.2
Total Diversion at Headworks	MG	130.4	130.4	123.9	123.2	123.2	127.1	126.5
Flow to Fish Rearing Facility	MG	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Flow in P1 at Headworks Master Meter	MG	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Flow in SSP at Headworks Master Meter	MG	35.4	35.4	28.9	28.2	28.2	32.1	31.5

<b>Water Quality Data</b>								
Turbidity	NTU	x.x						
Temperature	deg C	x.x						
Total Organic Carbon	mg/L	x.x						
Conductivity	umhos	x.x						
Fluoride	mg/L	x.x						
Chlorine Dose	mg/L	x.x						
Chlorine Residual	mg/L	x.x						
pH		x.x						

<b>Participant Data</b>								
<b>Delivery Meter Data</b>								
Tacoma Meter (SW 356th St & 15th Ave SW)	MG	10.7	11.7	5.3	4.6	4.6	7.5	6.9
Kent Meters (total)	MG	8.0	8.0	8.0	8.0	8.0	8.0	8.0
124th Ave SE & SE 296th St	MG	4.0	4.0	4.0	4.0	4.0	4.0	4.0
118th Ave SE & SE 296th St	MG	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Covington W.D. Meters (total)	MG	8.0	8.0	8.0	7.0	7.0	8.0	8.0
228th Ave SE & SE 312th St	MG	4.0	4.0	4.0	4.0	4.0	4.0	4.0
188th Ave SE & SE 304th St	MG	4.0	4.0	4.0	3.0	3.0	4.0	4.0
Lakehaven Utility District Meters (total)	MG	8.0	7.0	7.0	8.0	8.0	8.0	8.0
Military Rd S & S 316th St	MG	4.0	4.0	4.0	4.0	4.0	4.0	4.0
1st Way S & S 332nd St	MG	3.0	2.0	2.0	3.0	3.0	3.0	3.0
SW 356th St & 15th Ave SW	MG	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total of Individual Delivery Meters	MG	34.7	34.7	28.3	27.6	27.6	31.5	30.9
Difference with SSP Headworks Master Meter	MG	0.7	0.7	0.6	0.6	0.6	0.6	0.6
% of Total		2.0173	2.0173	2.1201	2.1739	2.1739	1.9048	1.9417

<b>Hanson Dam Storage Additions (or Withdrawals)</b>								
Tacoma	MG	(2.3)	(3.3)	0.9	1.4	1.4	(0.2)	0.2
Kent	MG	(6.2)	(6.2)	(6.9)	(7.0)	(7.0)	(6.6)	(6.6)
Covington W.D.	MG	(6.2)	(6.2)	(6.9)	(6.0)	(6.0)	(6.6)	(6.6)
Lakehaven Utility District	MG	(6.2)	(5.2)	(5.9)	(7.0)	(7.0)	(6.6)	(6.6)
Total	MG	(20.9)	(20.9)	(18.8)	(18.6)	(18.6)	(20.0)	(19.6)

<b>Hanson Dam Storage Accounts</b>									
								Ending Balance	
Tacoma	AF	9,175	9,168	9,158	9,161	9,165	9,169	9,168	9,169
Kent	AF	1,596	1,577	1,558	1,537	1,516	1,495	1,475	1,455
Covington W.D.	AF	1,596	1,577	1,558	1,537	1,519	1,501	1,481	1,461
Lakehaven Utility District	AF	2,000	1,981	1,965	1,947	1,926	1,905	1,885	1,865
Total	AF	14,367	14,303	14,239	14,182	14,126	14,070	14,009	13,950

**Sample Weekly Operations Report (continued)**

Location	Unit	Date (instantaneous readings taken at xx a.m.; totals given for date shown)						
		8/13/1999 Fri	8/14/1999 Sat	8/15/1999 Sun	8/16/1999 Mon	8/17/1999 Tue	8/18/1999 Wed	8/19/1999 Thu

**Participant Schedules**

Tacoma Meter (SW 356th St & 15th Ave SW)	MG	12.0	12.0	10.0	10.0	8.0	11.0	12.0
Kent Meters (total)	MG	7.0	7.0	8.0	8.0	8.0	8.0	8.0
124th Ave SE & SE 296th St	MG	3.0	3.0	4.0	4.0	4.0	4.0	4.0
118th Ave SE & SE 296th St	MG	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Covington W.D. Meters (total)	MG	8.0	8.0	8.0	8.0	8.0	8.0	8.0
228th Ave SE & SE 312th St	MG	4.0	4.0	4.0	4.0	4.0	4.0	4.0
188th Ave SE & SE 304th St	MG	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Lakehaven Utility District Meters (total)	MG	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Military Rd S & S 316th St	MG	4.0	4.0	4.0	4.0	4.0	4.0	4.0
1st Way S & S 332nd St	MG	3.0	3.0	3.0	3.0	3.0	3.0	3.0
SW 356th St & 15th Ave SW	MG	1.0	1.0	1.0	1.0	1.0	1.0	1.0

**Deviations from Participant Schedules**

Tacoma Meter (SW 356th St & 15th Ave SW)	MG	1.3	0.3	4.7	5.4	3.4	3.5	5.1
Kent Meters (total)	MG	(1.0)	(1.0)	0.0	0.0	0.0	0.0	0.0
124th Ave SE & SE 296th St	MG	(1.0)	(1.0)	0.0	0.0	0.0	0.0	0.0
118th Ave SE & SE 296th St	MG	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Covington W.D. Meters (total)	MG	0.0	0.0	0.0	1.0	1.0	0.0	0.0
228th Ave SE & SE 312th St	MG	0.0	0.0	0.0	0.0	0.0	0.0	0.0
188th Ave SE & SE 304th St	MG	0.0	0.0	0.0	1.0	1.0	0.0	0.0
Lakehaven Utility District Meters (total)	MG	0.0	1.0	1.0	0.0	0.0	0.0	0.0
Military Rd S & S 316th St	MG	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1st Way S & S 332nd St	MG	0.0	1.0	1.0	0.0	0.0	0.0	0.0
SW 356th St & 15th Ave SW	MG	0.0	0.0	0.0	0.0	0.0	0.0	0.0

AGREEMENT FOR MUTUAL AID

BY AND BETWEEN

*COVINGTON WATER DISTRICT,*

*LAKEHAVEN UTILITY DISTRICT*

*THE CITY OF TACOMA  
DEPARTMENT OF PUBLIC UTILITIES, WATER DIVISION*

In consideration of the mutual agreements and covenants contained herein, Covington Water District (CWD), Lakehaven Utility District (Lakehaven) and the City of Tacoma, Department of Public Utilities, Water Department (Tacoma) agree as follows:

1. Certain Defined Terms

1.1 Any other terms used herein with initial capitalization that are not defined in this section 1 shall have the meaning given such terms in the Project Agreement. The following terms when used herein with initial capitalization shall have the meaning set forth below.

1.1.1 "Force Majeure" means any event or occurrence that is beyond the reasonable control of a Party and which by the exercise of due diligence and reasonable foresight such Party could not have been expected to avoid or remove, and includes but is not limited to flood, earthquake, storm, accident, fire, lightning, and other natural catastrophes, epidemics, war, material shortage, sabotage or like events.

1.1.2 "Major Supply Facility" or "Major Supply Facilities" means major water sources, water source delivery facilities or major water transmission pipelines of any Party, such as Tacoma's Pipelines Nos. 1, 2, 4.

1.1.3 "Party" or "Parties" means in the singular CWD, Lakehaven or Tacoma individually, and in the plural CWD, LUD and Tacoma collectively.

1.1.4 "Project Agreement" means that certain agreement, dated \_\_\_\_\_, 2002, for the design, construction and operation of the Second Supply Project.

1.1.5 "Short Term Force Majeure" means a Force Majeure event with a duration of seventy-two (72) hours or less.

1.1.6 "Water Shortage" means the inability of a Party to fulfill the demand for water by its customers (retail and wholesale) from sources of supply normally used for such purposes due to a Force Majeure event, or from the response to a request for assistance under this Agreement.

## 2. Use of Parties Participant Share of Project Capacity During Force Majeure Events

- 2.1 In the event that a Party loses the use, in part or in whole, of a Major Supply Facility due to a Force Majeure event, the Party suffering such Force Majeure event may request of the other Parties that they permit the delivery of some or all of its Project Water to the Party subject to the Force Majeure event, if such action would be reasonably expected to alleviate any water supply shortage caused by such Force Majeure event. The request shall state the expected duration of the Force Majeure event, and the amount of water deliveries needed by the requesting Party to alleviate any Water Shortage caused thereby. Prior to making any such request, the requesting Party shall take all actions reasonable under the circumstances to alleviate any Water Shortage caused by the Force Majeure event.
- 2.2 The Parties receiving a request pursuant to subsection 2.1 shall take the necessary actions under the Project Agreement to reduce deliveries of Project Water to each of them, and to increase the deliveries of Project Water to the requesting Party, but only to the extent that such actions do not result in a Water Shortage on the water systems of the Parties that received the request. If the reduction in deliveries of Project Water would result in a Water Shortage on the water systems of the Parties receiving the request, the supplying Parties will at their discretion, allow further reduction of Project water so that such Water Shortage is no greater than the Water Shortage being experienced by the Party making the request after receiving the additional water.
- 2.3 The Party making a request pursuant to subsection 2.1 shall take all reasonable actions to remove the Force Majeure event, and to make alternative water supply arrangements in order to remove or reduce any reductions in Project Water deliveries imposed on the other Parties pursuant to this Agreement. The requesting Party shall promptly notify the other Parties when the Force Majeure event that caused the request has been removed.
- 2.4 In the event that a request made pursuant to subsection 2.1 was the result of a Short Term Force Majeure event, the requesting Party shall, during the Operating Year in which such Short Term Force Majeure event occurred, deliver to the other Parties, to the extent reasonably practicable, an amount of water equal to any reductions in Project Water deliveries experienced by such other Parties as a result of complying with such request. The Parties shall agree on the timing of such water deliveries. If any water is provided pursuant to the terms of this Agreement and is not returned to the providing Parties in accordance with this

subsection 2.4, then the Party receiving such water shall pay the costs incurred to provide such water by the other Parties. Additionally, if a Party incurs extraordinary costs, such as power demand charges, in order to provide water to a requesting Party, then the providing Party shall be reimbursed for these extraordinary costs by the requesting Party.

2.5 In the event that a request made pursuant to subsection 2.1 was the result of a Force Majeure event, the requesting Party shall pay the costs incurred by the providing Parties to provide such water. Additionally, if a Party incurs extraordinary costs, such as power demand charges, in order to provide water to a requesting Party, then the providing Party shall be reimbursed for these extraordinary costs by the requesting Party.

2.6 This Agreement shall terminate on the earlier of a) the date the Project Agreement expires or is terminated, or b) the date the Parties agree to terminate this Agreement. However, any other Project Participants may chose to enter the agreement at any time and any party to this agreement can discontinue participation in the agreement at any time because participation is voluntary.

IN WITNESS WHEREOF, the Parties have duly executed this Agreement on this \_\_\_\_\_ day of \_\_\_\_\_, 2002.

**City of Tacoma  
Department of Public Utilities  
Water Department**

By: Kenneth J. Murray  
Title: Water Superintendent

Approved as to form:

Mark Blank  
Assistant City Attorney

**Covington Water District**

By: Leo Hornsby  
Title: President

Approved as to form:

Leo Hornsby  
11/8/02

**Lakehaven Utility District**

By: Thomas M. Gammah  
Title: President

Approved as to form:

Thomas M. Gammah  
11/11/02



**AMENDMENT NO. 1 TO  
SECOND SUPPLY PROJECT AGREEMENT  
BETWEEN  
THE CITY OF TACOMA, DEPARTMENT OF PUBLIC UTILITIES, WATER  
DIVISION,**

**THE CITY OF KENT,  
COVINGTON WATER DISTRICT, AND  
LAKEHAVEN UTILITY DISTRICT,**

**THIS AMENDMENT** is made and entered into effective this 18<sup>th</sup> day of January, 2007 between the City of Tacoma, Department of Public Utilities, Water Division (Tacoma); the City of Kent (Kent); Covington Water District (CWD), and Lakehaven Utility District (Lakehaven), collectively the Participants; and

**WHEREAS**, the Participants entered into the Second Supply Project Agreement on December 19, 2002, and

**WHEREAS**, the Partnership agrees some flexibility in the Amendment process is beneficial;

**NOW, THEREFORE**, the Participants agree to amend the Agreement as follows:

Section 36 of the Agreement is revised as follows:

Except as provided in subsection 19.4, no change, amendment or modification of any provision of this Project Agreement shall be valid unless set forth in a written amendment to this Project Agreement signed by all Participants. Those changes, amendments or modifications considered by unanimous vote of the Project Committee to be non-substantive in nature may be preliminarily adopted and temporarily implemented by said vote but do not become official until executed as a written amendment signed by all Participants.

Except as set forth herein, all other provisions of the original Agreement remain in full force and effect.

IN WITNESS WHEREOF the Participants hereto have executed this Amendment No. 1 to the Second Supply Project Agreement as of the day and year first written above.

City of Tacoma  
Department of Public Utilities

By: John C. Keiser  
Title: Water Supt.

Approved as to form & legality:

Ann D. Spang

City of Kent

By: Suzette Cooke  
Title: Mayor

Approved as to form & legality:

Kristin M. Lanson Asst. City Atty

Covington Water District

By: Judith Fulson  
Title: General Manager

Approved as to form & legality:

Ka [Signature]

Lakehaven Utility District

By: Donald [Signature]  
Title: General Manager

Approved as to form & legality:

[Signature]

**AMENDMENT NO. 2 TO  
SECOND SUPPLY PROJECT AGREEMENT  
BETWEEN  
THE CITY OF TACOMA, DEPARTMENT OF PUBLIC UTILITIES, WATER  
DIVISION,**

**THE CITY OF KENT,  
COVINGTON WATER DISTRICT, AND  
LAKEHAVEN UTILITY DISTRICT,**

**THIS AMENDMENT** is made and entered into effective this 19<sup>th</sup> day of January, 2007 between the City of Tacoma, Department of Public Utilities, Water Division (Tacoma); the City of Kent (Kent); Covington Water District (CWD), and Lakehaven Utility District (Lakehaven), collectively the Participants; and

**WHEREAS**, the Participants entered into the Second Supply Project Agreement on December 19, 2002, and

**WHEREAS**, some project delivery meter locations and addresses have changed, and

**WHEREAS**, other delivery locations have been added;

**NOW, THEREFORE**, the Participants agree to amend the Agreement as follows:

Exhibit A of the Agreement is revised per attached version dated March 24, 2006:

Except as set forth herein, all other provisions of the original Agreement remain in full force and effect.

**IN WITNESS WHEREOF** the Participants hereto have executed this Amendment No. 2 to the Second Supply Project Agreement as of the day and year first written above.

**City of Tacoma  
Department of Public Utilities**

By: John C. Kinross  
Title: Water Supt.

Approved as to form & legality:

Ann L. Spurr

**Covington Water District**

By: Judith Pulson  
Title: General Manager

Approved as to form & legality:

Lois [Signature]

**City of Kent**

By: Suzette Cooke  
Title: Mayor

Approved as to form & legality:

Kristin M. Lamm Asst. City Atty

**Lakehaven Utility District**

By: Donald D. [Signature]  
Title: General Manager

Approved as to form & legality:

Ms. H. [Signature]

APPROXIMATE LOCATION OF THE MASTER METER AND DELIVERY METERS

<u>Meters</u>	<u>Location</u>	<u>Pipeline Min. Delivery Pressure (p.s.i.)</u>	<u>Pipeline Min. Hydraulic Grade Elev. (feet-USGS)</u>	<u>Station</u>	<u>Dwg. No.</u>
Master	½ mile downstream of the Headworks Control Bldg.	N.A.	N.A.	1789+70	15-28-15
Covington	1. 219th Ave. SE & SE 304th St. 2. 22048 SE 288 <sup>th</sup> St. 3. 188th Ave. SE & SE 304th St. 4. 148 <sup>th</sup> Ave. SE & SE 296 <sup>th</sup> St. 5. 224th Ave. & SE 304th St.	107 74 130	749 715 677	1224+07 1224+07 1130+20 985+35 1244+50	15-16-12 15-16-12 15-19-52 15-19-29 15-16-14
Kent	1. 217 <sup>th</sup> Ave. SE & SE 288 <sup>th</sup> St. 2. 124th Ave SE & SE 296th St. 3. 120 <sup>th</sup> Ave. SE & SE 296 <sup>th</sup> St.	101 120	669 667	1224+07 905+35 893+80	15-16-12 15-19-21 15-21-75
Lakehaven	1. 44 <sup>th</sup> Ave. S & S 313 <sup>th</sup> St. 2. 1 <sup>st</sup> Way S & S 332 <sup>nd</sup> St. 3. SW 356 <sup>th</sup> St. & 15 <sup>th</sup> Ave. SW	24 63 71	561 556 555	605+68 452+52 352+65	15-21-35 15-13-27 15-13-18
Tacoma	1. SW 356 <sup>th</sup> St. & 15th Ave. SW 2. Auburn ("B" St.) (Emergency to Auburn) 3. Auburn ("K" St.) (Emergency to Auburn) 4. 13200 296 <sup>th</sup> St. SE (Wholesale to WD #111) 5. 13200 296 <sup>th</sup> St. SE (Emergency to Auburn) 6. 164 <sup>th</sup> Ave. SE & Kent-Black Diamond Road (Wholesale to CWA) 7. 26122 Lawson St. (Wholesale to BD)	71	555	352+33 765+05 803+50 932+90 933+00 1040+00 1407+20	15-13-18 15-21-62 15-21-66 15-19-23 15-19-23 15-19-43 15-16-33

\* These delivery meters for Kent and Covington are serviced from a joint SSP connection at 219<sup>th</sup> Ave. SE & SE 304<sup>th</sup> St.

\*\* Possible future Covington point of delivery.

# Actual map grid address is between 120<sup>th</sup> and 121<sup>st</sup> St., but the nearest existing cross-street is 118<sup>th</sup> Ave. SE. This is the Western turnout east of 118<sup>th</sup> Ave. Another eastern turnout may be added in the future.

- Note: 1. Minimum pipeline pressures would be lower for Tacoma and Lakehaven if backfeeding from Pipeline No. 4. The above estimated minimum pressures/HGL information is retained from the original document.  
 2. The cost of the Project Master Meter will be charged to the Project. The cost of individual connections and meters, vaults and associated equipment will be charged to the applicable project participant.  
 3. Minimum pressure/HGL at points of delivery whose locations have changed from the original version may vary slightly.

**AMENDMENT NO. 3 TO  
SECOND SUPPLY PROJECT AGREEMENT  
BETWEEN  
THE CITY OF TACOMA, DEPARTMENT OF PUBLIC UTILITIES, WATER  
DIVISION,**

**THE CITY OF KENT,  
COVINGTON WATER DISTRICT, AND  
LAKEHAVEN UTILITY DISTRICT,**

**THIS AMENDMENT** is made and entered into effective this 18<sup>th</sup> day of January, 2007 between the City of Tacoma, Department of Public Utilities, Water Division (Tacoma); the City of Kent (Kent); Covington Water District (CWD), and Lakehaven Utility District (Lakehaven), collectively the Participants; and

**WHEREAS**, the Participants entered into the Second Supply Project Agreement on December 19, 2002, and

**WHEREAS**, Exhibit H, Financing Plan for Initial Project Construction, was updated, and

**WHEREAS**, Exhibit V, Howard Hanson Dam Project Cooperation Agreement was executed;

**NOW, THEREFORE**, the Participants agree to amend the Agreement as follows:

Attach to the Agreement via amendment the noted exhibits:

Exhibit H, Financing Plan for Initial Project Construction, dated January 27, 2003.

Exhibit V, Howard Hanson Dam Project Cooperation Agreement executed July 17, 2003.

Except as set forth herein, all other provisions of the original Agreement remain in full force and effect.

IN WITNESS WHEREOF the Participants hereto have executed this Amendment No. 3 to the Second Supply Project Agreement as of the day and year first written above.

**City of Tacoma**  
**Department of Public Utilities**

By: John C. Wiser  
Title: Water Supt.

Approved as to form & legality:

Ann Sany

**City of Kent**

By: Suzette Cook  
Title: J. Mayor

Approved as to form & legality:

Brian M. Lamm Asst. City Atty

**Covington Water District**

By: Judith Johnson  
Title: General Manager

Approved as to form & legality:

Jo Johnson

**Lakehaven Utility District**

By: Donald T. Lang  
Title: General Manager

Approved as to form & legality:

Ann Kuster

**AMENDMENT NO. 4 TO  
SECOND SUPPLY PROJECT AGREEMENT  
BETWEEN  
THE CITY OF TACOMA, DEPARTMENT OF PUBLIC UTILITIES, WATER DIVISION,  
  
THE CITY OF KENT,  
COVINGTON WATER DISTRICT, AND  
LAKEHAVEN UTILITY DISTRICT**

**THIS AMENDMENT** is made and entered into effective this 18<sup>th</sup> day of January, 2007, between the City of Tacoma, Department of Public Utilities, Water Division (Tacoma); the City of Kent (Kent); Covington Water District (CWD), and Lakehaven Utility District (Lakehaven), collectively the Participants; and

**WHEREAS**, the Participants entered into the Second Supply Project Agreement on December 19, 2002, and

**WHEREAS**, the SSP Partnership Agreement specifies the respective Participant maintains equipment downstream of the isolation valve off the SSP pipeline, and

**WHEREAS**, this equipment may be located within a right-of-way granted to Tacoma, and

**WHEREAS**, Tacoma has reason to access Delivery Meter vaults for maintenance/replacement purposes and said vaults may be within a right-of-way granted to a Participant other than Tacoma, and

**WHEREAS**, other similar access needs for equipment in another Participant's right-of-way may exist, and

**WHEREAS**, it is in the interest of the Partnership for each Participant to grant right-of-way access to other appropriate Participants for the purpose of performing regular equipment maintenance and/or replacement as a Participant is charged with such responsibility under the terms of the Agreement;

**NOW, THEREFORE**, the Participants agree to amend the Agreement as follows:

Where a Participant (#1) has reason to maintain/replace Project related equipment that may lie within another Participant's (#2) right-of-way, Participant #2 agrees to grant permission to enter said right-of-way to perform said maintenance/replacement under the following terms:

1. All agree the work is to be performed in a workmanlike manner in accordance with prudent utility practice and in accordance with all applicable laws of the local jurisdiction, and the State and Federal governments.

2. Participant #1 agrees to notify Participant #2 of the need to access to perform the work with sufficient lead time to make necessary arrangements.
3. Item #2 above does not preclude immediate access by Participant #1 in the event of an emergency where life or property is in danger. In the case of such an emergency, Participant #1 may immediately access to mitigate the emergency. Participant #1 shall notify Participant #2 immediately, or at the earliest opportunity in light of the unfolding circumstances. All other terms as stated herein still apply.
4. Participant #1 is responsible to acquire any necessary permits and make any notifications of entry as may be required under the terms of the right-of-way unless Participant #2 desires to perform this task.
5. All costs associated with the work shall be borne by Participant #1, unless otherwise agreed or otherwise required under the terms of the Project Agreement.
6. Participant #1 shall take all reasonable precautions which are necessary to prevent bodily injury (including death) to persons and damage to any property or environment arising in connection with performance of the work. Without limiting the generality of the foregoing, Participant #1 shall erect and maintain such barricades, signs, flags, flashers and other safeguards as are required by applicable law or regulations.
7. All of Participant #2 or third party's property damaged, altered or removed in connection with the performance of the work shall be promptly repaired, replaced or otherwise restored by Participant #1 to at least as good quality and condition as existed prior to such damage, alteration or removal.
8. To the fullest extent allowed by law, Participant #1 agrees to indemnify, defend and hold harmless Participant #2, its officers, employees, agents, and assigns from any and all claims for damages or loss to Participant #2 operations or property and from any and all claims or litigation arising from or connected with Participant #1's negligent performance or willful conduct under this Agreement. This includes damages, loss, and personal injury (including death) to property or persons including injuries or death to Participant #1, or Participant #1's agents, contractors, or employees which may be caused or occasioned by the entry and performance of work within Participant #2's right-of-way, or caused or occasioned by an act, deed, or omission of Participant #1, or Participant #1's agents, employees, guests, customers, or invitees. In this regard, Participant #1 hereby waives immunity under Title 51 RCW, Industrial Insurance Laws. Participant #2 agrees to be responsible for its sole negligence or the sole negligence of its employees and officers occurring within the scope of their employment.

9. This Agreement may be executed in any number of counterparts, each of which shall constitute an original, and all of which will together constitute this one Agreement.

Except as set forth herein, all other provisions of the original Agreement remain in full force and effect.

IN WITNESS WHEREOF the Participants hereto have executed this Amendment No. 4 to the Second Supply Project Agreement as of the day and year first written above.

**City of Tacoma**  
**Department of Public Utilities**

By: *John C. Kissner*  
Title: *Water Supt.*

Approved as to form & legality:

*Ann D. Spurr*

**City of Kent**

By: *Suzette Cooke*  
Title: *City Mayor*

Approved as to form & legality:

*Kristin M. Lammert Asst. City Atty*

**Covington Water District**

By: *Judith Nelson*  
Title: *General Manager*

Approved as to form & legality:

*Jo [Signature]*

**Lakehaven Utility District**

By: *Donald [Signature]*  
Title: *General Manager*

Approved as to form & legality:

*At H. [Signature]*

**AMENDMENT NO. 4 TO  
SECOND SUPPLY PROJECT AGREEMENT  
BETWEEN  
THE CITY OF TACOMA, DEPARTMENT OF PUBLIC UTILITIES, WATER DIVISION,  
  
THE CITY OF KENT,  
COVINGTON WATER DISTRICT, AND  
LAKEHAVEN UTILITY DISTRICT**

**THIS AMENDMENT** is made and entered into effective this 18<sup>th</sup> day of January, 2007, between the City of Tacoma, Department of Public Utilities, Water Division (Tacoma); the City of Kent (Kent); Covington Water District (CWD), and Lakehaven Utility District (Lakehaven), collectively the Participants; and

**WHEREAS**, the Participants entered into the Second Supply Project Agreement on December 19, 2002, and

**WHEREAS**, the SSP Partnership Agreement specifies the respective Participant maintains equipment downstream of the isolation valve off the SSP pipeline, and

**WHEREAS**, this equipment may be located within a right-of-way granted to Tacoma, and

**WHEREAS**, Tacoma has reason to access Delivery Meter vaults for maintenance/replacement purposes and said vaults may be within a right-of-way granted to a Participant other than Tacoma, and

**WHEREAS**, other similar access needs for equipment in another Participant's right-of-way may exist, and

**WHEREAS**, it is in the interest of the Partnership for each Participant to grant right-of-way access to other appropriate Participants for the purpose of performing regular equipment maintenance and/or replacement as a Participant is charged with such responsibility under the terms of the Agreement;

**NOW, THEREFORE**, the Participants agree to amend the Agreement as follows:

Where a Participant (#1) has reason to maintain/replace Project related equipment that may lie within another Participant's (#2) right-of-way, Participant #2 agrees to grant permission to enter said right-of-way to perform said maintenance/replacement under the following terms:

1. All agree the work is to be performed in a workmanlike manner in accordance with prudent utility practice and in accordance with all applicable laws of the local jurisdiction, and the State and Federal governments.

2. Participant #1 agrees to notify Participant #2 of the need to access to perform the work with sufficient lead time to make necessary arrangements.
3. Item #2 above does not preclude immediate access by Participant #1 in the event of an emergency where life or property is in danger. In the case of such an emergency, Participant #1 may immediately access to mitigate the emergency. Participant #1 shall notify Participant #2 immediately, or at the earliest opportunity in light of the unfolding circumstances. All other terms as stated herein still apply.
4. Participant #1 is responsible to acquire any necessary permits and make any notifications of entry as may be required under the terms of the right-of-way unless Participant #2 desires to perform this task.
5. All costs associated with the work shall be borne by Participant #1, unless otherwise agreed or otherwise required under the terms of the Project Agreement.
6. Participant #1 shall take all reasonable precautions which are necessary to prevent bodily injury (including death) to persons and damage to any property or environment arising in connection with performance of the work. Without limiting the generality of the foregoing, Participant #1 shall erect and maintain such barricades, signs, flags, flashers and other safeguards as are required by applicable law or regulations.
7. All of Participant #2 or third party's property damaged, altered or removed in connection with the performance of the work shall be promptly repaired, replaced or otherwise restored by Participant #1 to at least as good quality and condition as existed prior to such damage, alteration or removal.
8. To the fullest extent allowed by law, Participant #1 agrees to indemnify, defend and hold harmless Participant #2, its officers, employees, agents, and assigns from any and all claims for damages or loss to Participant #2 operations or property and from any and all claims or litigation arising from or connected with Participant #1's negligent performance or willful conduct under this Agreement. This includes damages, loss, and personal injury (including death) to property or persons including injuries or death to Participant #1, or Participant #1's agents, contractors, or employees which may be caused or occasioned by the entry and performance of work within Participant #2's right-of-way, or caused or occasioned by an act, deed, or omission of Participant #1, or Participant #1's agents, employees, guests, customers, or invitees. In this regard, Participant #1 hereby waives immunity under Title 51 RCW, Industrial Insurance Laws. Participant #2 agrees to be responsible for its sole negligence or the sole negligence of its employees and officers occurring within the scope of their employment.

9. This Agreement may be executed in any number of counterparts, each of which shall constitute an original, and all of which will together constitute this one Agreement.

Except as set forth herein, all other provisions of the original Agreement remain in full force and effect.

IN WITNESS WHEREOF the Participants hereto have executed this Amendment No. 4 to the Second Supply Project Agreement as of the day and year first written above.

**City of Tacoma**  
**Department of Public Utilities**

By: John C. Kissner  
Title: Water Supt.

Approved as to form & legality:

Ann D. Spurr

**Covington Water District**

By: Judith L. Nielson  
Title: General Manager

Approved as to form & legality:

Jo [Signature]

**City of Kent**

By: Suzette Cooke  
Title: City Mayor

Approved as to form & legality:

Kristin M. Lammert Asst. City Atty

**Lakehaven Utility District**

By: Donald L. [Signature]  
Title: General Manager

Approved as to form & legality:

As [Signature]

**AMENDMENT NO. 5 TO  
SECOND SUPPLY PROJECT AGREEMENT  
BETWEEN**

**THE CITY OF TACOMA, DEPARTMENT OF PUBLIC UTILITIES, WATER DIVISION,**

**THE CITY OF KENT,  
COVINGTON WATER DISTRICT, AND  
LAKEHAVEN UTILITY DISTRICT,**

**THIS AMENDMENT** is made and entered into effective this 11<sup>th</sup> day of Sept, 2009, between the City of Tacoma, Department of Public Utilities, Water Division (Tacoma); the City of Kent (Kent); Covington Water District (CWD), and Lakehaven Utility District (Lakehaven), collectively the Participants; and

**WHEREAS**, the Participants entered into the Second Supply Project Agreement on December 19, 2002, and

**WHEREAS**, the Agreement defines Project Costs as: costs, including but not limited to Fixed O&M Costs, Variable O&M Costs, Initial Project Construction Costs and Capital Expenditures, which Tacoma incurs to permit, design, construct, operate, maintain, insure, decommission, improve, renew, add to or replace Project pursuant to the terms of this Agreement, and the costs incurred by Tacoma or any other Participant which qualify as Reimbursable Costs pursuant to section 13, and

**WHEREAS**, the Agreement requires Delivery Meters to undergo annual testing for accuracy and defines annual testing costs as Project Costs, and

**WHEREAS**, the Agreement defines all maintenance and repairs to Delivery Meters as Project Costs, and

**WHEREAS**, as unequal amount of Delivery Meters amongst the Participants exists, and

**WHEREAS**, by simple majority vote at the December 8, 2006 Project Committee meeting, the Project Committee established a meter accuracy rating of 2 percent or better for project meters allowing for flexibility in meter type amongst Participants, and

**WHEREAS**, maintenance, repair and calibration costs of meters varies by meter type, and

**WHEREAS**, continuing to consider costs associated with calibration, maintenance and repair of Delivery Meters as Project Costs will lead to an unequal allocation of costs to the Participants due to varying amounts and varying types of Delivery Meters per Participant;

**NOW, THEREFORE**, the Participants agree to amend the Agreement as follows:

Section 22.3 and 22.4 of the Agreement are revised as follows:

22.3 As Project Operator, Tacoma shall be responsible for the calibration and testing of the Master Meter and all Delivery Meters. No less frequency than once each year each meter, including the Master Meter, shall be tested for accuracy, and the results of such testing shall be made available to all Participants at no charge. The cost of the annual test of the Master Meter shall be a Project Cost. The costs of the annual Delivery Meter tests shall be borne by the Participant whose Project Water deliveries are measured by such Delivery Meter. In addition to the annual meter test, any Participant may test any meter that measures Project Water at any reasonable time and at such Participant's expense. The results of any additional meter test shall be made available to all other Participants at no charge.

22.4 Any and all maintenance, repairs, and replacements to the Master Meter and to Delivery Meters shall be the sole responsibility of Tacoma as Project Operator. The costs of any and all maintenance and repairs of the Master Meter shall be Project Costs. The costs of any and all maintenance and repairs of Delivery Meters shall be borne by the Participant whose Project Water deliveries are measured by such Delivery Meter.

Except as set forth herein, all other provisions of the original Agreement remain in full force and effect.

**IN WITNESS WHEREOF** the Participants hereto have executed this Amendment No. 5 to the Second Supply Project Agreement as of the day and year first written above.

**City of Tacoma**  
**Department of Public Utilities**

By: John C. Kirner

Title: Water Supt.

Approved as to form & legality:

William Foshe

**Covington Water District**

By: Green Mayo

Title: General Manager

Approved as to form & legality:

\_\_\_\_\_

**City of Kent**

By: Jim Labro

Title: Interim Public Works Director

Approved as to form & legality:

\_\_\_\_\_

**Lakehaven Utility District**

By: Chad Galt

Title: Board President

Approved as to form & legality:

Steve H. Pritchett

**AMENDMENT NO. 6 TO  
SECOND SUPPLY PROJECT AGREEMENT  
BETWEEN  
THE CITY OF TACOMA, DEPARTMENT OF PUBLIC UTILITIES, WATER DIVISION,  
  
THE CITY OF KENT,  
COVINGTON WATER DISTRICT, AND  
LAKEHAVEN UTILITY DISTRICT,**

**THIS AMENDMENT** is made and entered into effective this 11<sup>th</sup> day of Sept, 2009, between the City of Tacoma, Department of Public Utilities, Water Division (Tacoma); the City of Kent (Kent); Covington Water District (CWD), and Lakehaven Utility District (Lakehaven), collectively the Participants; and

**WHEREAS**, the Participants entered into the Second Supply Project Agreement (Agreement) on December 19, 2002; and

**WHEREAS**, the Participants entered into Amendment No. 2 to Second Supply Project Agreement on January 18, 2007 which revised Exhibit A of the Agreement; and

**WHEREAS**, some project delivery meter locations and addresses have changed from those listed in Amendment No. 2; and

**WHEREAS**, other delivery locations have been added to those listed in Amendment No. 2; and

**WHEREAS**, new meter types (project meter, joint delivery meter) have been added to those listed in Amendment No. 2; and

**WHEREAS**, the Participants entered into Amendment No. 1 to Second Supply Project Agreement on January 18, 2007 which allows amendments to the Agreement to be temporarily implemented following a unanimous vote of the Project Committee prior to final signature by all Participants; and

**WHEREAS**, on February 9, 2007 the Project Committee agreed to implement Amendment No. 5 on an interim basis as allowed by Amendment No. 1; and

**WHEREAS**, Amendment No. 5 establishes annual calibration and testing of the Master Meter and Delivery Meters and assigns costs of the annual calibration and testing; and

**WHEREAS**, new meter types (project meter, joint delivery meter) have been added to those listed in Amendment No. 5; and

**WHEREAS**, Section 22 of the Agreement describes how metering of water deliveries will occur; and

**WHEREAS**, new meter types (project meter, joint delivery meter) have been added to those in Section 22 of the Agreement; and

**NOW, THEREFORE**, the Participants agree to amend the Agreement as follows:

Section 1. of the Agreement is revised to include new definitions as follows:

1.1.16.1 Joint Delivery Meter means a type of Delivery Meter that measures the amount of Project Water that will be shared between more than one Project Participant. See Exhibit A.

1.1.30.1 Project Meter means a meter that measures the flow of Project Water and is needed for the operation of the Project, but is not a Master Meter or a Delivery Meter. See Exhibit A.

Section 22.3 and 22.4 of the Agreement are revised as follows:

22.3 As Project Operator, Tacoma shall be responsible for the calibration and testing of the Master Meter, Project Meters, Joint Delivery Meters, and Delivery Meters (collectively referred to as "All Meters"). All Meters shall be tested for accuracy at least once a year, and the results of such testing shall be made available to all Participants at no charge. The cost of the annual test of the Master Meter and Project Meters shall be a Project Cost. The costs of the annual tests of the Delivery Meter(s) shall be borne by the Participant whose Project Water deliveries are measured by such Delivery Meter(s). The costs of the annual test of the Joint Delivery Meters shall be apportioned to the Project Participants sharing the meter(s) by separate agreement. In addition to the annual meter test, any Participant may test any meter that measures Project Water at any reasonable time and at such Participant's expense. The results of any additional meter test shall be made available to all other Participants at no charge.

22.4 Any and all maintenance, repairs, and replacements to the Master Meter, Project Meters, Joint Delivery Meters, and Delivery Meters shall be the sole responsibility of Tacoma as Project Operator. The costs of any and all maintenance, repairs, and replacements of the Master Meter and Project Meters shall be Project Costs. The costs of any and all maintenance, repairs, and replacements of Delivery Meters shall be borne by the Participant whose Project Water deliveries are measured by such Delivery Meter. The costs of any and all maintenance, repairs, and replacement of Joint Delivery Meters shall be apportioned to the Project Participants sharing the meter(s) by separate agreement.

Section 22.5 of the Agreement is revised to include a new second paragraph as follows:

For Joint Delivery Meters, an annual comparison will be done between the summation of daily Joint Delivery Meter readings and the summation of readings from daily Participants' Delivery Meter(s) downstream. If the difference between the two annual readings is greater than 2 percent, then an appropriate adjustment to the amount of Project Water delivered to each affected Participant will be made. The adjustment will be apportioned among the Participants based on the volumes as recorded on each of the Participants' meters, unless the involved Participants determine that a different adjustment is appropriate under the circumstances.

Exhibit A of the Agreement is revised per attached version dated July 1, 2009.

Except as set forth herein, all other provisions of the original Agreement remain in full force and effect.

**IN WITNESS WHEREOF** the Participants hereto have executed this Amendment No. 6 to the Second Supply Project Agreement as of the day and year first written above.

City of Tacoma  
Department of Public Utilities

By: John C. Kimes

Title: Water Supt.

Approved as to form & legality:

William Foshe

Covington Water District

By: Joann Mayo

Title: General Manager

Approved as to form & legality:

\_\_\_\_\_

City of Kent

By: Tim Roberts

Title: Interim Public Works

Approved as to form & legality: Director

\_\_\_\_\_

Lakehaven Utility District

By: Clark Eick

Title: Board President

Approved as to form & legality:

John Winkler

# EXHIBIT A

Meter Name	Approximate Location of Cross Street	Meter Address	Purpose	Station #	Drawing #	Min Delivery Pressure psi	Min Hydraulic Grade ft-NGVD29
<b>Master Meter</b>							
P5	Near Headworks Control Bldg	36931 SE GR Hdwrks Rd, Ravensdale	Master P5 meter	1789+70	15-28-15		
<b>Project Meters</b>							
R5	Near Headworks Control Bldg	36931 SE GR Hdwrks Rd, Ravensdale	Reactor 5 meter	1789+70	15-28-15		
FCF	26123 Lawson St.	29608 112th Ave SE, Kent	Flow Control Facility	869+00	15-26-01		
<b>Covington Delivery Meters</b>							
C1	219th Ave. SE & SE 304th St.	21997 SE 304th Street, Kent	Covington turnout #1	1224+06	15-16-11	107	749
C2	224th Ave. SE & SE 288th St.	22000 SE 288th St, Maple Valley	Covington turnout #2	1224+06	15-16-11		
C3	188th Ave. SE & SE 304th St.	Future -- No address available	Covington turnout #3	1130+20	15-19-52	74	715
C4	148th Ave. SE & SE 296th St.	Future -- No address available	Covington turnout #4	985+35	15-19-29	130	677
C5	224th Ave. & SE 304th St.	Future -- No address available	Covington turnout #5	1244+50	15-16-14		
C6	164th Ave. SE & Kent-Black Diamond Rd	Future -- No address available	old CWA location	1040+00	15-19-43		
<b>Joint Delivery Meters</b>							
CK *	219th Ave. SE & SE 304th St.	21997 SE 304th Street, Kent	Kent/Cov Turnout meter	1224+06	15-16-11		
<b>Kent Delivery Meters</b>							
K1	217th Ave. SE & SE 288th St.	28600 216th Ave SE, Maple Valley	Kent turnout #1	1224+07	15-16-12		
K2	124th Ave SE & SE 296th St.	Future -- No address available	Kent turnout #2	905+35	15-19-21	101	669
K3 #	120th Ave. SE & SE 296th St.	12020 SE 288th St, Auburn	Kent turnout #3	893+80	15-21-75	120	667
<b>Lakehaven Delivery Meters</b>							
L1	44th Ave. S & S 313th St.	31225 44th Ave S (Auburn)	Lakehaven turnout #1	605+68	15-21-35	24	561
L2	1st Way S & S 332nd St.	33200 1st Way S, Fed Way	Lakehaven turnout #2	452+52	15-13-27	63	556
L3	SW 356th St. & 15th Ave. SW	1500 SW 356th St, Fed Way	Lakehaven turnout #3	352+65	15-13-18	71	555
<b>Tacoma Delivery Meters</b>							
T1	SW 356th St. & 15th Ave. SW	1502 S 356th St, Fed Way	P5 meter at 356th PS	352+33	15-13-18	71	555
T2	Auburn ("B" St.)	Future -- No address available	Emergency to Auburn	765+05	15-21-62		
T3	Auburn ("K" St.)	Future -- No address available	Emergency to Auburn	803+50	15-21-66		
T4	13200 296th St. SE	Future -- No address available	old WD111 connection	932+90	15-19-23		
T5	13200 296th St. SE	Future -- No address available	Emergency to Auburn	933+00	15-19-23		
T6	---	Future -- No address available	Wholesale to CWA	---	---		
T7	26122 Lawson St.	26122 Lawson St., Black Diamond	Wholesale to BD	1407+20	15-16-33		

# Actual map grid address is between 120th and 121st St., but nearest cross-street is 118th Ave. SE.

\* Joint Kent-Covington Turnout Meter (1/2 calibration costs allocated to Covington, 1/2 allocated to Kent)

1. Minimum pipeline pressures would be lower for Tacoma and Lakehaven if backfeeding from P4.
2. The above estimated minimum pressures/HGL information is retained from the original document
3. Minimum pressure/HGL at points of delivery whose locations have changed from the original version may vary slightly.

**AMENDMENT NO. 7 TO  
SECOND SUPPLY PROJECT AGREEMENT  
BETWEEN  
THE CITY OF TACOMA, DEPARTMENT OF PUBLIC UTILITIES, WATER  
DIVISION,**

**THE CITY OF KENT,  
COVINGTON WATER DISTRICT, AND  
LAKEHAVEN UTILITY DISTRICT,**

**THIS AMENDMENT** is made and entered into effective this 10<sup>th</sup> day of Sept, 2010 between the City of Tacoma, Department of Public Utilities, Water Division (Tacoma); the City of Kent (Kent); Covington Water District (CWD), and Lakehaven Utility District (Lakehaven), collectively the Participants; and

**WHEREAS**, the Participants entered into the Second Supply Project Agreement (Agreement) on December 19, 2002; and

**WHEREAS**, the Second Supply Project includes municipal water storage behind Howard Hanson Dam for the Participants as described in Sections 19 and 20 of the Agreement; and

**WHEREAS**, Section 20.5 of the Agreement requires Tacoma to transmit to each of the Participants a report regarding the status of operations related to the Project by means determined by the Project Committee and further allows the Project Committee to revise the information to be included in the weekly report by Tacoma; and

**WHEREAS**, Tacoma, as the operator of the Second Supply Project, has captured project water storage availability, allocation, restrictions, scheduling, use and management in the Tacoma and Second Supply Project Operations Report (Operations Report); and

**WHEREAS**, the Operations Report is available to the Participants online on a website accessible to Participants; and

**WHEREAS**, the Operations Report tracks water storage values daily through Excel spreadsheets and associated graphs; and

**WHEREAS**, given the size and complexity of the Excel spreadsheets making up the Operations Report, the Participants desire to describe the function of the Operations Report as it relates to storage and document the relationship of the Operations Report to the Agreement;

**NOW, THEREFORE**, the Participants agree to amend the Agreement as follows:

Section 20.5 is revised as follows:

Each week during every Operating Year, Tacoma shall transmit to each of the Participants a report regarding the status of operations related to the Project. A sample weekly report is set forth in Exhibit X and Exhibit AB provides documentation of the functions of the report. The

report will be transmitted to the Participants by means determined by the Project Committee. The Project Committee may from time to time revise the information to be included in the weekly report by Tacoma.

Exhibit AB of the Agreement titled "Second Supply Project Water Storage Technical Memorandum" dated September 10, 2010, as attached, is added as a new exhibit.

Except as set forth herein, all other provisions of the original Agreement remain in full force and effect.

IN WITNESS WHEREOF the Participants hereto have executed this Amendment No. 7 to the Second Supply Project Agreement as of the day and year first written above.

**City of Tacoma**  
**Department of Public Utilities**

By: Linda McCrea

Title: Water Superintendent

Approved as to form & legality:

William Fosh

**Covington Water District**

By: Queen Marfaco

Title: General Manager

Approved as to form & legality:

Eric Trimmott  
Attorney for Covington  
Water District

**City of Kent**

By: Suzette Cooke

Title: MAYOR

Approved as to form & legality:

Jim Bulech

**Lakehaven Utility District**

By: Donald H Miller

Title: President of Board

Approved as to form & legality:

John H. Hillman  
General Counsel

**SECOND SUPPLY PROJECT PARTNERSHIP AGREEMENT  
EXHIBIT AB**

**SECOND SUPPLY PROJECT  
WATER STORAGE TECHNICAL MEMORANDUM**

**September 10, 2010**

## PREFACE

The Second Supply Project (SSP) includes municipal water storage behind Howard Hanson Dam (HHD) in the Green River Watershed for Tacoma Water (Tacoma) and the project participants (or Partners) of Covington Water District (Covington), the City of Kent (Kent), and Lakehaven Utility District (Lakehaven). The granting, availability, allocation, and management of storage is described in the *Second Supply Project Partnership Agreement (Partnership Agreement)* dated December 19, 2002, or as amended, and the *Project Cooperation Agreement Between The Department Of Army And The City of Tacoma For Modification Of The Howard Hanson Dam For Ecosystem Restoration And Municipal & Industrial (M&I) Water Supply (Corps/Tacoma Agreement)* dated July 17, 2003.

More specifically, the issue of project water storage at Howard Hanson Dam (HHD) is covered in the Partnership Agreement in Sections 19 and 20 on pages 29 through 32. The definition of the Howard Hanson Dam Additional Storage Project is found under article 1.1.12 on page 6 of the Partnership Agreement and the definition of Project Modification for Municipal and Industrial Water Supply is found in paragraph E on page 3 of the Corps/Tacoma Agreement (Exhibit V in the Partnership Agreement).

The water storage project envisions two phases, Phase 1 and Phase 2, totaling 22,400 acre-feet. Currently, only Phase 1 has been approved for implementation and includes up to 20,000 acre-feet of water storage to elevation 1167. If Phase 2 is approved in the future, it will include an additional 12,000 acre-feet of storage to elevation 1177, of which 2,400 acre-feet will be allocated for municipal and industrial supply. (See Exhibit W in the Partnership Agreement)

The availability of water storage to the SSP is further constrained by stream flow obligations in the 1995 Tacoma-Muckleshoot Indian Tribe Agreement and Tacoma's Green River Habitat Conservation Plan.

Tacoma has captured project water storage availability, allocation, restrictions, scheduling, use, and management in the *Tacoma and Second Supply Project Operations Report (Operations Report)*. The Operations Report tracks these water storage values daily through Excel spreadsheets and associated graphs. The report can be accessed online by going to:

[http://www.ci.tacoma.wa.us/water/ssp/regional\\_supply.htm](http://www.ci.tacoma.wa.us/water/ssp/regional_supply.htm)

Definitions for several pertinent line items within the Operations Report are provided at the end of this document to assist with understanding how the values are determined. The calculations associated with the report line item values take into account such data as:

- HHD inflow and outflow
- Stream flows at the Palmer and Auburn gages, and minimum flow requirements
- Tacoma's first diversion water right, and actual diversion
- Tacoma's second diversion water right, and actual diversion
- Flow passing through the R5, P5 and P1 flow meters

- Flow at Tacoma's SSP flow meter at SE 356<sup>th</sup> St.
- Partner scheduled SSP water , and actual use

Note: additional detail on how these are measured or determined is provided in the "Definitions" section of this document.

## Second Supply Project Water Stored at Howard Hanson Dam

### GENERAL

The HHD Reservoir Fill Period, including Second Supply Project (SSP) water, normally begins in early February and ends by June 30. The SSP Stored Water Usage Period will last from when the reservoir is declared full by the Corps of Engineers (usually sometime in June) until all SSP stored water is used by SSP Partners, until the Corps declares a need to empty storage for either dam safety reasons or flood control (typically occurs in November), or December 6<sup>th</sup>, whichever comes first.

Tacoma Water, Army Corps of Engineers, Muckleshoot Indian Tribe and several resource agencies have regular meetings or conference calls during the reservoir fill and storage release periods to share expectations and to coordinate the Green River resource. SSP Partners are also invited to participate.

#### Reservoir Fill Period

As stated in the SSP Partnership Agreement, Tacoma and the Partners can use their allocated SSP water during the reservoir fill period, or place all or a portion of the water into storage at HHD. It is assumed all water will be placed into storage unless the Tacoma and the Partners schedule the use of water on their weekly schedules (provided to Tacoma every Thursday) indicating how much water they want diverted at Partner turnouts each day for the following week. The Partners may change the scheduled weekly request after Thursdays provided the Corps is willing to make a gate change at the dam. This request should be very infrequent.

Tacoma's full Second Diversion Water Right (SDWR) is 100 cubic feet per second (64.6 million gallon per day (MGD)). The SDWR can only be diverted when Instream Flow Restrictions allow it, but water that has been diverted to storage can be used at any available rate (limited by pipe capacity, plant capacity, etc). See the definition of SDWR, below. The Partnership is only allowed to divert SDWR water at a rate up to the SDWR, including diversion to storage. If the full amount of the SDWR is available everyday and if all Partners place all of the SDWR water into storage, full storage of the entire 20,000 acre-feet could be reached in 101 days (Therefore, if storage begins on February 15<sup>th</sup>, full storage could be achieved as early as May 26<sup>th</sup>).

Water available for storage is allocated to Tacoma and each Partner (**Project Participants**) based on their share in the project. Tacoma's share of the SDWR is 15/36 of 100cfs (26.93MGD or 41.67cfs), and each of the Partners (Covington, Kent and Lakehaven) is allocated 7/36 of the SDWR (12.57MGD or 19.44cfs). Project Participants are allowed to either use or store any amount of water up to their maximum share without restriction. Each Partner could store water at a different rate, depending on how much water they elect to use during the Reservoir Fill Period. Each Partner can store and/or use water at a rate that doesn't exceed their share of the SDWR (unless the Excess Project Capacity is considered, see below). Each Partner's rate of storage, and total storage achieved, is documented daily in the *Operations Report*.

Two factors may alter the end date of the Reservoir Fill Period:

- If the full amount of the SDWR is not available for a period of time, the rate at which water is stored during that period is reduced from the maximum of 100cfs, and it will take longer to fill the reservoir.
- If one or more of the Partners elect to use a portion of the SDWR (instead of placing all the water into storage) for a period of time, the rate at which water is stored during that period is reduced from the maximum of 100cfs, and it will take longer to fill the reservoir.

The daily allocation of the maximum of 100cfs, reduced by the Instream Flow Restrictions and Partnership use, will continue until reservoir elevation 1167 is reached, 20,000AF has been stored, or until the available inflows to the reservoir have dropped below the minimum values and the Corp has determined that the Reservoir Fill Period has concluded.

If elevation 1167 is reached in the reservoir, or if 20,000AF of partnership water has been stored, the reservoir is considered full and each partner will be considered to have reached their full storage capacity. Tacoma will be considered to have 8333AF, and each other partner will be considered to have 3889AF, regardless of water use during the Reservoir Fill Period.

If elevation 1167 and/or 20,000AF of partnership storage is not achieved (because Partners took too much of the SDWR water during the fill period, or because hydrologic conditions were poor) and the Corp has determined that the Reservoir Fill Period has concluded without the reservoir being full, each partner will begin the Stored Water Usage Period with differing amount of stored water based on their use of water during the Reservoir Fill Period. The *Tacoma and Second Supply Project Operations Report* tracks the storage available to each Partner on a daily basis. Each Partner will therefore; enter the Stored Water Usage Period with the storage they had available on the day the Corp declared that the Reservoir Fill Period has concluded.

If a Project Participant achieves full storage (8333AF for Tacoma, 3889AF for other Partners), and others have not yet achieved full storage, then the Project Participant that has achieved full storage and can no longer make use of their share of the SDWR, and their share is reallocated as Excess Project Capacity to other Project Participant(s). This could happen at any time during the Reservoir Fill Period, but occurs most often after one Participant has achieved full storage, and other(s) have not. The share of the Participant(s) with full storage is reallocated as Excess Project Capacity share to other Participant(s) that have not yet achieved full storage. Excess Project Capacity is reallocated to all Participants based on project share.

Once a Participants' storage account is full, any of that Participants' portion of the daily SDWR water not delivered through the pipeline will be used to continue filling the project. This water will be proportioned among the remaining Participants' allocated storage capacities.

For example:

Storage account for a Participant = previous day's storage + (Participant SDWR share on current day minus water delivered to Partner on current day) + proportion of other Participant's stored SDWR.

Assuming that Kent fills their storage first and the full SDWR is available, Kent's unused portion that could be used to continue filling other Participant's storage would be 12.6 MGD (7/36 of 64.6 MGD). This would be proportioned among the remaining Participant's storage accounts according to their share of the SDWR and storage capacity. Tacoma gets 2.1429 times the amount other partners get ( $15/7 = 2.1429$ ). So, Covington and Lakehaven shares are "X" when Tacoma's share is 2.1429 X. Then  $X + X + 2.1429X = 12.6$ , with  $X = 3.0$ MGD and  $2.1429X = 6.5$ MGD. So, Tacoma's fill rate would be 26.9MGD plus their Share of Kent's Excess Project Capacity of 6.5MGD, for a total new fill rate of 33.4MGD. Covington and Lakehaven would fill at a rate of 12.6MGD plus 3.0MGD, for new fill rates of 15.6MGD each.

Assuming that Covington fills their storage account next, then their unused 12.6MGD plus Kent's unused 12.6 MGD would be proportioned between Lakehaven and Tacoma. Then  $X + 2.1429X = 25.2$  MGD. Then  $X = 8.0$ MGD and  $2.1429X = 17.2$ MGD. So, Tacoma's fill rate would be 26.9MGD plus their Share of Kent's and Covington's Excess Project Capacity of 17.2MGD for a total new fill rate of 44.1MGD. Lakehaven's storage would fill at a rate of 12.6MGD plus 8.0MGD from Kent and Covington for new fill rates of 20.6MGD.

#### Stored Water Usage Period

As stated above, the Stored Water Usage Period will last from when the reservoir is declared full by the Corps of Engineers (usually sometime in early June) until all SSP stored water is used by SSP Partners, until the Corps declares a need to empty storage for flood control (typically occurs in November), or December 6<sup>th</sup>, whichever comes first.

As stated in the SSP Partnership Agreement, Tacoma and the Partners can use their portion of the stored water at any available rate (limited by pipe capacity, plant capacity, etc). The SDWR maximum diversion rate does not apply to storage drawdown as the SDWR water is considered to have been diverted from the natural system at the time the water was placed into storage.

The Partners are required to fill out a schedule for the coming week that describes how much water they may wish to take for each day of the coming week. Participants may take water at any rate they wish. The schedule should be filled out and delivered to Tacoma every Thursday. If conditions change through the week, and if a change to the amount of scheduled water is needed, the Partner must inform Tacoma of the need. Tacoma will request that the Corp make a gate change to accommodate. The Corp may, or may not, be able to make a gate change, depending on their availability.

During this time period, if SDWR water is available via run-of-river (which is usually not the case at this time of year); the available SDWR water is divided among Participants based on

Project Share. Any water requested in excess of what is available run-of-river will be provided out of storage.

Stored water volume used by the Participants on a daily basis is calculated as the greater of: the amount of water requested in their weekly schedule (or adjusted schedule, if the Corp was able to accommodate the change), or the adjusted amount of water taken through their meters (see Adjusted Meter Totals, below).

The volume of water available to each Participant is tracked on a daily basis in the *Operations Report*. The amount of water taken by a Participant on a given day is subtracted from the previous day's total volume to determine the amount of stored water remaining available to a given Participant.

Each Participant will approach the end of the Stored Water Usage Period at a different time based on the amount of water they started with, and the rate at which they used the stored water. As a Participant approaches the end of their allotted amount of stored water, they may request additional water from other Participants. The other Participants must review the available information and decide whether they have sufficient stored water to meet their own needs and allocate water to the requestor, or not.

If no other Participants are willing or able to allocate water to the Participant(s) requesting Excess Project Capacity, then the requestor must cease taking Project Water when their account reaches zero. If other Participant(s) are able to allocate water to a requesting Participant(s), the specific volume of Project Water will be debited from the assisting Participants' account(s) and credited to the requestors' account(s).

In any case, as the Storage Usage Period moves into the fall, the Corp could release all stored water almost without warning, this would effectively drain each Participant's storage volume at a rate consistent with their Project Share.

Calculation:

Storage account for a Participant = previous day's storage – The greater of: (Water delivered to Partner on current day – Partner Share of SDWR Available Run-of-River – or – Scheduled Amount of Water).

## KEY DEFINITIONS

The following definitions are key or crucial to determining how much water storage or run-of-the-river water is available to the SSP Partners. An understanding of the definitions is vital for someone to follow the calculations in the *Tacoma and Second Supply Project Operations Report*.

***Adjusted Meter Totals:*** The revised SSP Partner daily meter totals after proportionally adjusting the actual Partner meter totals to match the total flow at the Project Master Meter located at the Green River Headworks. See Exhibit T of the Partnership Agreement to see how the adjustments are made.

***First Diversion Water Right (FDWR):*** Tacoma's water right claim recognized by the State for Tacoma's first diversion of the Green River that became operational in 1913. The claim is for 113 cubic feet per second (cfs) or 73 million gallons per day (MGD). The quantity of water available for municipal diversion under the claim is limited to the natural inflow at the point of diversion, up to a maximum of 113 cfs. This quantity is calculated as the natural inflow to Hanson Reservoir (as calculated by the Corp, see below) plus 2%, which allows for side stream inflow, such as Bear Creek, into the Green River between Hanson Dam and Tacoma's river diversion. Water under this water right claim is for Tacoma only, however, it can be shared with other SSP Partners through wholesale agreement.

***Flow at Palmer:*** The Green River stream flow measured at USGS Palmer gage 12106700 adjacent to Tacoma's Water Treatment Facilities near the Town of Palmer. Minimum stream flows must be met at this gage for SSP water to be available for diversion as required by the State and the Tacoma-Muckleshoot Indian Tribe Agreement.

***Flow at Auburn:*** The Green River stream flow measured at USGS Auburn gage 12113000 within the City of Auburn. Minimum stream flows must be met at this gage for SSP water to be available for diversion as required by the State and the Tacoma-Muckleshoot Indian Tribe Agreement.

***Flows - Palmer and Auburn Minimums:*** The minimum flows at the respective gages at different times of the year as required by the Tacoma-Muckleshoot Indian Tribe Agreement and the Habitat Conservation Plan (HCP). The minimum of 250 cfs at the Auburn gage or Hanson Dam inflow will normally control the availability of SSP Run of River water in summer and early fall while the Palmer gage may control at other times.

***Howard Hanson Dam Inflow:*** The flow of surface and groundwater water into the reservoir behind Howard Hanson Dam. The flow in cubic feet per second (cfs) is determined and posted hourly by the Corps by observing the change in reservoir level in the last hour (acre-feet), converting the change to cfs (plus or minus) and adding the current dam outflow in cfs. The reservoir level is measured by a pressure transducer in the water tower stilling basin.

Inflow to HHD = Change in reservoir level (can be + or -) + Outflow from HHD

**Howard Hanson Dam Outflow:** The outflow of water from Howard Hanson Dam is measured at Green River USGS gage 12105900 immediately downstream of the dam.

**Partner or Project Share:** As provided in the Partnership Agreement, each SSP Partner's share of available SSP water is as follows: Tacoma -15/36 and for Covington Water District, Kent and Lakehaven Utility District – 7/36 each.

**Pipeline No. 1 Flow:** The flow of water in Tacoma's Pipeline No. 1 as measured at a meter located about ¼ mile downstream of Tacoma's Green River Water Treatment Facilities. Pipeline No. 1 extends from the Treatment Facilities to McMillin Reservoir near Puyallup.

**Run-of-River (ROR) Water:** Water diverted directly from the stream into the transmission pipeline. SSP Partners have the option of taking their share of SSP water directly into the pipeline (ROR water) or placing all or a portion of it into storage behind Hanson Dam during the reservoir fill period. At times, ROR water and stored water may be available at the same time to SSP Partners during the reservoir storage period.

**Second Diversion Water Right (SDWR):** Tacoma's water right permit granted by the State in 1986 for Tacoma's second diversion of the Green River that became operational in 2005 (See Exhibit L in the Partnership Agreement). The permit is for up to 100 cubic feet per second (cfs) or 64.6 million gallons per day (MGD). The quantity of water available for diversion under the permit is limited to less than 100 cfs when stream flow drops below those stated in the permit. Water that is available under the SDWR may be used as run-of-river, or may be added to HHD storage (considered as a diversion for water right purposes). The Tacoma-Muckleshoot Indian Tribe Agreement of August, 1995 further restricts diversion of project water under the permit by requiring minimum stream flows at the Auburn and Palmer stream gages. Water under this water right permit is shared by all SSP Partners according to their project share.

**Scheduled Water:** The project water requested by each SSP Partner in the weekly schedule provided to Tacoma on Thursdays as provided in the Partnership Agreement within Section 20.3.

**Second Supply Pipeline (Pipeline No. 5) Flow:** The flow of water in Tacoma's Second Supply Pipeline as measured at a meter located about ¼ mile downstream of Tacoma's Green River Water Treatment Facilities. The Second Supply Pipeline extends from the Green River Water Treatment Facilities to Tacoma's Pipeline No. 4 in Tacoma.

**Storage - Water for Municipal Use:** Water that is available under the SDWR but that is not used Run-of-River is defined as Stored Water for Municipal Use.

**Storage - Conservation Pool:** Water storage captured at Hanson Dam from late winter and spring runoff and used to augment low Green River flows in summer and early fall. The original design and operation of the Hanson Dam provided for 24,200 acre feet of water storage to augment low flows. The conservation storage pool fills to elevation 1147. There is no Municipal Component to this water.

***Storage - Section 1135:*** The project operation was subsequently modified in the 1990s to provide an additional 5,000 ac-ft of stored water for fisheries benefits. 2500 ac-ft may be used at Resource Agency discretion. The remaining 2500 ac-ft may be used by Tacoma to guarantee Auburn flows remain at or above 250 cfs. If Tacoma determines that flow augmentation for supporting Auburn flows is not necessary in a given year, the 2500 ac-ft reverts back to use by the Resource Agencies.

***356<sup>th</sup> Street Meter Total:*** The adjusted meter total for Tacoma's in-line meter at SW 356<sup>th</sup> Street in Federal Way. This is the last downstream meter on the Second Supply Pipeline and it records all water going to Tacoma through the pipeline.

## KEY CALCULATIONS

As noted above, the **Key Definitions** Section contains word definitions of how each daily line item in the *Tacoma and Second Supply Project Operations Report* is calculated. Clicking on a value in the electronic report spreadsheet shows the mathematical definition of each line item which is not always easy to follow. Therefore, the word definitions are helpful. The following word definitions are the more key or vital definitions.

### ***Available first Diversion Water:***

The smaller of:

- 73 MGD (Maximum First Diversion Water Right Claim)
- Pipeline No. 1 Flow plus Second Supply Pipeline Flow plus the difference between Auburn Gage Flow and the Auburn Minimum Flow of 250 cfs
- Hanson Dam Inflow plus 2% (2% for side stream flow between Hanson Dam & Tacoma's Diversion)

### ***Available Second Diversion:***

The smaller of:

- 64.6 MGD (Maximum Second Diversion Water Right)
- **(Line 20)** Hanson Dam Inflow minus 113 cfs (1<sup>st</sup> Diversion maximum) minus minimum allowable at the Palmer gage
- **(Line 21)** The difference between Auburn Gage Flow and the Auburn Minimum Flow plus Second Supply Pipeline flow minus First Diversion Flow in the Second Supply Pipeline.
- **(Line 22)** The difference between Palmer Gage Flow and the Palmer Minimum Flow plus Second Supply Pipeline flow minus First Diversion Flow in the Second Supply Pipeline.

### ***First Diversion Taken by Tacoma:***

The smaller of:

- 73 MGD (Maximum First Diversion Water Right Claim)
- Pipeline No. 1 Flow plus Second Supply Pipeline Flow at 356<sup>th</sup> Street Meter

NOTE: Calculation will change when Cascade Water Alliance, Black Diamond or others come online

### ***Second Diversion Taken as Run-of-River:***

The smaller of:

- Total Adjusted SSP Partner's Meters plus Pipeline No. 1 Meter plus 356<sup>th</sup> Street Meter minus 73 MGD (Maximum First Diversion Right)
- Second Diversion Allowable

### ***Total Water from Hanson Dam Storage:***

- Sum of Daily Partner Storage Draw-downs

***Water from Hanson Dam Storage - Tacoma:***

The larger of:

- Adjusted 356<sup>th</sup> Street Meter plus Pipeline No. 1 Meter minus Tacoma's share of Second Diversion Allowable minus First Diversion Allowable
- Scheduled Water

***Water from Hanson Dam Storage – SSP Partner:***

The larger of:

- Adjusted Partner Meter Total minus Partner's share of Second Diversion Allowable
- Scheduled Water

***Total Hanson Dam Storage – SSP Participant:***

If between the Storage Begin Date and the Storage Achieved Date then:

- SSP Partners share of Second Diversion Allowable minus Partners adjusted meter total

**AMENDMENT NO. 8 TO  
SECOND SUPPLY PROJECT AGREEMENT  
BETWEEN  
THE CITY OF TACOMA, DEPARTMENT OF PUBLIC UTILITIES, WATER  
DIVISION,**

**THE CITY OF KENT,  
COVINGTON WATER DISTRICT, AND  
LAKEHAVEN UTILITY DISTRICT,**

**THIS AMENDMENT** is made and entered into effective this 8<sup>th</sup> day of October, 2010 between the City of Tacoma, Department of Public Utilities, Water Division (Tacoma); the City of Kent (Kent); Covington Water District (CWD), and Lakehaven Utility District (Lakehaven), collectively the Participants, and

**WHEREAS**, the Participants entered into the Second Supply Project Agreement on December 19, 2002, and

**WHEREAS**, beginning in 2006, the first full year of operation of the Regional Water Supply System, the Regional Water Supply System has at times operated at a negative balance due to the lag in time between bill issuance and receipt of payment, and

**WHEREAS**, Tacoma, as project operator, based on prudent utility practices has determined it is necessary and in the best interests of the Partnership to have available operating cash to cover Fixed O&M Costs and Variable O&M Costs during the period of time when expenses are incurred until the costs are reimbursed, and

**WHEREAS**, establishing an operating reserve account equal to two months Fixed O&M Costs and Variable O&M Costs as projected in the Project Annual Budget takes into consideration the approximately 30-day time period between bill issuance and receipt of payment, and

**WHEREAS**, the Agreement as originally written does not address providing for a true-up of Fixed O&M Costs to billed Fixed O&M Costs following the completion of a calendar year, and

**WHEREAS**, a procedure to maintain the Regional Water Supply System Operating Reserve Account equal to two months Fixed O&M Costs and Variable O&M Costs as projected in the Project Annual Budget is needed.

**NOW, THEREFORE**, the Participants agree to amend the Agreement as follows:

Section 26 of the Agreement is revised to read as follows:

26. TRUE-UP OF VARIABLE AND FIXED O&M COSTS

26.2. If the cost or costs per MG as calculated pursuant to subsection 26.1 vary from the cost per MG set forth in the Project Annual Budget for the immediately prior calendar year for such Project uses, Tacoma shall calculate for each Participant either the additional payment required or the credit due based on the actual usage of Project Water by each Participant during the prior calendar year. If any additional payment is due from a Participant, Tacoma shall issue an invoice for such payment pursuant to section 25. If a credit is due to a Participant, Tacoma shall first apply the credit to the reimbursement of the Regional Water Supply System Operating Reserve Account, in the event such payment is needed pursuant to section 43. No interest shall be paid on any adjustment calculated pursuant to this section 26.

26.4 Not later than sixty (60 days) after the first day of each calendar year, Tacoma shall calculate the difference between the actual Fixed O&M Costs incurred during the previous calendar year and the Fixed O&M Costs billed to each Participant.

26.5 If the Fixed O&M Costs actually incurred as calculated pursuant to subsection 26.4 varies from that billed, Tacoma shall calculate for each Participant either the additional payment required or the credit due. If any additional payment is due from a Participant, Tacoma shall issue an invoice for such payment pursuant to section 25. If a credit is due to a Participant, Tacoma shall first apply the credit to the reimbursement of the Regional Water Supply System Operating Reserve Account in the event such payment is needed pursuant to section 43. No interest shall be paid on any adjustment calculated pursuant to this section 26.

New Section 43 of the Agreement as follows.

#### 43. REGIONAL WATER SUPPLY SYSTEM OPERATING RESERVE ACCOUNT

43.1 To provide for operating cash to cover Regional Water Supply System Fixed O&M Costs and Variable O&M Costs during the period of time from when expenses are incurred by Tacoma until the costs are reimbursed, Tacoma shall maintain an operating reserve account equal to two-months Fixed O&M Costs and Variable O&M Costs as projected in the current Project Annual Budget. Each Participant shall pay into the operating reserve account an amount equal to its two-month Participant Share of Fixed O&M Costs pursuant to subsection 1.1.21 and, for Variable O&M Costs, an amount equal to two-months of its Variable O&M Costs as projected in the current Project Annual Budget.

43.2 Not later than sixty (60 days) after the first day of each calendar year, Tacoma shall calculate the funds necessary to maintain the Regional Water Supply System Operating Reserve Account equal to two-months Fixed O&M Costs and Variable O&M Costs as projected in the current year Project Annual Budget for each Participant, consistent with the payment requirements in subsection 43.1.

43.3 If the funds necessary to maintain the Regional Water Supply System Operating Reserve Account equal to two-months Fixed O&M Costs and Variable O&M Costs as projected in the Project Annual Budget vary from the actual amount in the Regional Water Supply System Operating Reserve Account after the calculation is made in section 43.2, Tacoma shall calculate for each Participant either the additional payment required or the credit due to maintain the Regional Water Supply System Operating Reserve Account equal to two-months Fixed O&M Costs and Variable O&M Costs of the current Project Annual Budget. If a payment is required, Tacoma shall issue an invoice for such payment pursuant to section 25. No interest shall be paid on any adjustment calculated pursuant to this section 43.

43.4 Any interest earned on the Regional Water Supply System Operating Reserve Account shall be used as a credit, based on each Participant's cash balance in the Regional Water Supply System Operating Reserve Account, in the annual calculation performed pursuant to Section 43.2.

43.5 Should the Regional Water System Reserve Account be dissolved for any reason, the funds shall be returned to the Project Participants consistent with each Participant's cash balance in the Regional Water Supply System Operating Reserve Account.

Except as set forth herein, all other provisions of the original Agreement remain in full force and effect.

**IN WITNESS WHEREOF** the Participants hereto have executed this Amendment No. 8 to the Second Supply Project Agreement as of the day and year first written above.

**City of Tacoma**  
**Department of Public Utilities**

By: *Suzela McCrea*  
Title: *Water Superintendent*

Approved as to form & legality:

*William Foshie*

**Covington Water District**

By: *Joann Mayfer*  
Title: *General Manager*

Approved as to form & legality:

*Eric Furmott*

**City of Kent**

By: *Suzette Cooke*  
Title: *Mayor*

Approved as to form & legality:

*Jim Bulahn*

**Lakehaven Utility District**

By: *Donald L. Miller*  
Title: *President of Board*

Approved as to form & legality:

*John White*