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No. _____

WA R.E. EXCISE TAX

FEB 04 2010

EXEMPT

LISA FRAZIER

Treas., Mason County

AFTER RECORDING RETURN TO:

Mason County PUD No. 3
P.O. Box 2148
Shelton, WA 98584

**INTERLOCAL AGREEMENT FOR THE PROVISION
OF WATER TO THE JOHN'S PRAIRIE INDUSTRIAL AREA**

This is an Interlocal Agreement (Agreement), dated this 2nd day of February 2010, by and between the Port of Shelton, a Washington municipal corporation, (Port), the City of Shelton, a Washington City (City) and Public Utility District No. 3 of Mason County, a Washington municipal corporation, (PUD 3) and collectively referred to as the "Parties". In consideration of the mutual covenants and conditions hereinafter provided, pursuant to the Interlocal Cooperation Act, Chapter 39.34 RCW, it is agreed as follows:

RECITALS

WHEREAS: The City, Port and PUD 3 are all Washington municipal corporations which are authorized by the legislature to own and operate public water systems;

WHEREAS: The City and Port have a special interest in expanding water service to the John's Prairie Industrial Area in order to stimulate economic expansion and development of commercial and industrial uses which will ultimately contribute to the City's tax base and the financial viability of the City, Port and Mason County as a whole;

WHEREAS: PUD 3 has a special interest in providing a reliable source of potable water for its proposed John's Prairie Operations Center;

WHEREAS: The Port owns and operates a potable water system serving its industrial property located in the John's Prairie Industrial Area and desires to increase the capacity of its water system to supply new and existing industrial customers;

WHEREAS: The Port's water system includes a sixteen inch (16") water main that runs along John's Prairie Road from 1890 John's Prairie Road to Production Road which main has sufficient capacity to serve the industrial and commercial needs for future business to be located in the John's Prairie Industrial Area;

WHEREAS: The Parties are each authorized by law to establish, own and operate a public water system. The Port and the City shall communicate and collaborate on their respective water system plans and shall comply with all applicable and pertinent statutes and ordinances.

WHEREAS: In order to provide the incentive and opportunity for industrial and commercial development to occur in the John's Prairie Industrial Area it is necessary to provide a degree of certainty that water, including capacity for fire flow, is available in order to meet the needs of industrial and commercial development;

WHEREAS: The City has sufficient water rights and developable capacity within its water system to provide that certainty of capacity necessary to encourage industrial and commercial businesses to invest and locate in Mason County;

WHEREAS: PUD 3 and the City have entered into an agreement for the extension of the City's water main through the John's Prairie Industrial Area to PUD 3's property dated August 24, 2009, which will open up the opportunity for the City and Port to provide increased water capacity and fire flow to industrial and commercial property either through expansion of the Port's existing water system or through the City supplying new or expanded commercial and industrial customers; and

WHEREAS, the City, Port and PUD 3 desire to coordinate their efforts and provide for the mutual agreement and understanding regarding the future use and expansion of water in the John's Prairie Industrial Area for industrial, commercial, fire flow purposes and all other appropriate uses;

Now, therefore it is agreed between the City, Port and PUD 3 as follows:

1. The City, Port and PUD 3 agree that the Port's existing sixteen inch (16") water main running from 1890 John's Prairie Road to Production Road shall be disconnected from the Port's water system and incorporated by PUD 3 into the construction of the extension of the City's water main. The conditions of that line ownership transfer will be agreed upon between the Port and the PUD. In consideration of substantial investment being made by the PUD, the City shall not charge any connection charges, GFC or other system development charges for the PUD's facilities.
2. Upon completion of the extension, the Port shall dedicate all portions of said sixteen inch (16") water main which are incorporated by PUD 3 to the City at no cost.
3. The Port will convey all right, title and interest in that portion of the Port's water system that currently serves the Mason County Recreation Area (MCRA) and the leased soccer fields to City who shall become the water purveyor to those facilities in the future. The City may condition the provision of future service to those facilities on compliance with the requirements of Chapter 17.10 of the Shelton Municipal Code as now enacted or hereinafter amended. The City shall

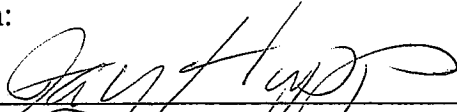
not charge any connection charges, GFC or other system development charges for MCRA and the leased soccer field existing facilities.

4. The City agrees that the installation of fire hydrants along the extended water main to provide fire flow to the John's Prairie Industrial Area shall not trigger the requirements of Chapter 17.10 of the Shelton Municipal Code as now enacted or hereinafter amended. The City and Port agree that if a portion of the Port's property within the John's Prairie Industrial Area desires to be served by the City's extended water system, that that portion of the Port's property, as defined by the Port's lease shall be required to comply with the requirements of Chapter 17.10 of the Shelton Municipal Code as now enacted or hereinafter amended as a condition precedent to being authorized by the City to connect to the City's water system.
5. The City agrees that the parcel of property (approximately 100 acres in size on the southwest corner of the John's Prairie Industrial Site) under consideration for development by ADAGE as a woody biomass electrical generating plant may be served by City water when the infrastructure construction is completed, conditioned on the requirements in Chapter 17.10 of the Shelton Municipal Code as now enacted or hereinafter amended. In the event that the project does not move forward, the commitment for annexation of this parcel is null and void.
6. The City will not unilaterally initiate annexation proceedings for any John's Prairie Port property served by this extension for a period of at least 20 years, beginning on the date of the execution of this agreement.
7. The City agrees that it will amend the Shelton Municipal Code to eliminate any surcharge for delivery of City utilities outside the City limits where customers have agreed to annexation pursuant to Shelton Municipal Code Chapter 17.10.
8. With coordination of the City and Port water systems comes the opportunity and ability for the City to become a wholesale water purveyor to the Port. The City and Port agree to negotiate the terms of any such wholesale service agreement separate and apart from this agreement.
9. There are no additional parties intended to be benefited under this agreement. There are no other agreements or representations, written or oral, concerning the subject matter of this agreement.
10. This Agreement shall be governed for all purposes by the law of the State of Washington. The venue for any action arising under this Agreement shall be in Mason County, Washington, unless otherwise mutually agreed in writing by the parties.
11. No amendments or variations of the terms and conditions of this Agreement shall be valid unless they are in writing and signed by all of the parties thereto.

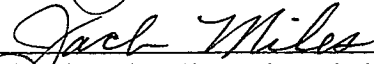
12. The Parties agree to perform any further acts and to execute and deliver any further documents as may be reasonably necessary to fully effectuate the provisions of this Agreement.
13. None of the Parties shall be liable nor deemed to be in default for any delay or failure in performance under the Agreement or other interruption of service or employment resulting, directly or indirectly, from acts of God, civil or military authority, acts of the public enemy, terrorism, bomb threats, computer virus, epidemic, power outage, acts of war, accidents, fires, explosions, earthquakes, floods, failure of transportation, machinery, or supplies, vandalism, strikes or other work interruptions by the employees of any party, or any other cause beyond the reasonable control of the party affected thereby. However, each party shall utilize its best good faith efforts to perform under this Agreement in the event of any such occurrence or circumstance.
14. This Agreement will be enforced to the fullest extent permitted by applicable law. If any term or provision of this Agreement is held to be invalid, illegal, or unenforceable by a court or other governmental authority of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement, which shall remain in full force and affect.

IN WITNESS WHEREOF, the parties hereto have duly executed this agreement effective the date first above written;


Port of Shelton:



(District 3) Jay Hupp, Chairman 2/2/10
Date

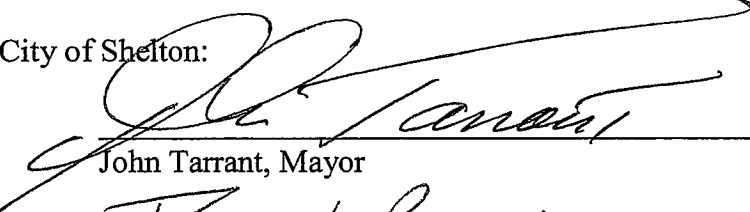


(District 2) Jack Miles, Vice Chairman 02/02/2010
Date

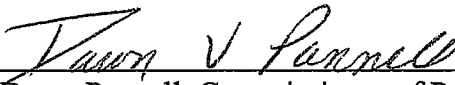


(District 1) Tom Wallitner Treasurer 2/2/10
Date


City of Shelton:



John Tarrant, Mayor 2/1/10
Date




Dawn Pannell, Commissioner of Public Works 2/1/10
Date




Mike Byrne, Commissioner of Finance 2-01-10
Date


PUD No. 3:



President Linda Gott 2-2-10
Date



Vice President Bruce E. Jorgenson 2/2/10
Date



Secretary Thomas J. Farmer 2-2-10
Date