

SETTLEMENT AGREEMENT

By and Between

The City of Yakima,

The City of Union Gap,

and

The Terrace Heights Sewer District

TABLE OF CONTENTS

	<u>Page</u>
1. RECITALS	1
2. DEFINITIONS	1
2.1 Biochemical Oxygen Demand (BOD)	2
2.2 Capital Costs and Expenses	2
2.3 Comprehensive Plans	2
2.4 Current Method	2
2.5 Revised Method	2
2.6 Treatment Plant	2
2.7 Wastewater Facilities	2
3. REVISED METHOD FOR BILLINGS	3
3.1 Future Calculation of Treatment O&M and Strong Waste Charges Under the Agreement	3
3.2 Revised Method of Calculating Treatment O&M Charges	3
3.3 Phasing-in of Revised Method	3
3.4 Monthly Treatment O&M Charge	4
3.5 Monthly Pumping O&M Charge (Union Gap only)	4
3.6 Annual Adjustment	5
3.7 Union Gap Unmetered Flows	5
3.8 Acquisition or Operation by Other Entity	6
4. SAMPLING AND TESTING	6
4.1 Testing of Influent	6
4.2 Sampling	6
4.3 Split Sampling	6
4.4 Testing	7
4.5 Notification of Sampling Results	7
5. SYSTEM OWNERSHIP - CAPACITY - PAYMENT	7
5.1 Yakima Owns System.	7
5.2 Capacity Allocation	7
5.3 Future Calculation of Capital Expenditure Charges	7
5.4 Future Capital Costs and Capital Reserve Funds	8
5.5 Capacity Allocation	8
5.6 Permanent Increase in Allocation	8
5.7 Temporary Increase	9
6. PAYMENT OF FUTURE DISPUTED AMOUNTS INTO ESCROW	9
7. CHARGES FOR PAST SERVICE - RELEASE OF CLAIMS	9

7.1	Yakima-Terrace Heights	9
7.2	Yakima-Union Gap	10
8.	RESOLUTION OF ISSUES RELATING TO CAPITAL COSTS	10
8.1	Debt Service Reconciliation	10
8.2	Depreciation	10
8.3	Equitable Share of System Costs	10
9.	UTILITY TAXES	10
9.1	Utility Tax Settlement	10
9.2	Order of Dismissal	10
10.	REPRESENTATIONS AND WARRANTIES	10
10.1	Warranty of Capacity to Execute Agreement	10
10.2	Performance	11
11.	MISCELLANEOUS	11
11.1	Payment for Benefit of Facility Only	11
11.2	Binding Effect	11
11.3	Governing Law	11
11.4	No Third-Party Beneficiary	11
11.5	Litigation	11
11.6	Entire Agreement	11
11.7	Modification of Agreement	11
11.8	Authorization to Enter Dismissal	11
11.9	Multiple Counterparts	12
11.10	Effectiveness	12
11.11	Accounting	12

SETTLEMENT AGREEMENT

This Settlement Agreement ("Settlement Agreement") is entered into on the 9th day of ~~August~~^{Sept. 14}, 1997, by and between the City of Yakima ("Yakima"), the Terrace Heights Sewer District ("Terrace Heights"), and the City of Union Gap ("Union Gap"). For purposes of this Settlement Agreement, Yakima, Terrace Heights, and Union Gap, are the "Parties."

1. RECITALS

1.1 The Parties have executed an Agreement for Wastewater Treatment and Disposal Service dated February 23, 1976 ("Agreement") for purposes including Yakima's provision of wastewater treatment and disposal services ("wastewater treatment") to Terrace Heights and Union Gap.

1.2 A dispute has arisen regarding the methods used to calculate the charges Yakima assesses Terrace Heights and Union Gap under the Agreement.

1.3 This dispute has given rise to certain claims and counterclaims in *City of Yakima v. City of Union Gap and Terrace Heights Sewer District*, Yakima County Superior Court No. 96-2-01083-8 (the "Litigation").

1.4 The Parties agree that the Agreement shall remain in effect pursuant to its terms, and this Settlement Agreement shall remain in effect so long as Terrace Heights or Union Gap retain an interest in the capacity of the Yakima's Wastewater Facilities.

1.5 The Parties wish to confirm how the Agreement will be implemented in the future.

1.6 Yakima, Terrace Heights, and Union Gap desire to enter into this Settlement Agreement in order to provide for certain payments and actions in full settlement of all claims that are or might have been asserted by Yakima against Terrace Heights and Union Gap; and by Terrace Heights and Union Gap against Yakima, in the Litigation or otherwise in connection with rates and charges under the Agreement. The claims subject to this Settlement Agreement include charges related to: strong waste for services rendered through June 30, 1996; Capital Costs and Expenses (including debt service, depreciation, and equitable system cost share); unlisted and unmetered flows; year-end adjustments; state excise tax credits; utility tax; all other past billing and credit issues; and, interest on the foregoing.

2. DEFINITIONS

The following definitions shall apply to this Settlement Agreement, unless specifically provided otherwise herein.

2.1 Biochemical Oxygen Demand (BOD): BOD is defined as the rate of oxygen uptake required by bacteria to degrade and stabilize decomposable organic materials in a standard volume of water during a 5-day period at 20°C.

2.2 Capital Costs and Expenses. "Capital Costs and Expenses" means costs for capital facilities, which costs shall include but are not limited to loan repayment, debt service, debt service coverage, and capital facility assessments.

2.3 Comprehensive Plans. "Comprehensive Plans" mean those comprehensive, utility, or facility plans adopted by the Parties under state law.

2.4 Current Method. "Current Method" means the basis for charging wastewater treatment operation and maintenance costs ("Treatment O&M costs") under the Agreement. The Current Method has not been the method previously employed under the Agreement. The Current Method shall not include charges for Capital Costs and Expenses or depreciation. Under the Current Method, the allocation of Treatment O&M costs shall be in the following proportions:

<u>Flow</u> :	100% of Treatment O&M costs;
<u>BOD</u> :	40% of Treatment O&M costs; and
<u>SS</u> :	40% of Treatment O&M costs

Under the Current Method, charges shall be calculated as follows: Terrace Heights' or Union Gap's total flow in million gallons is multiplied by 100% of Treatment O&M costs divided by the total Treatment Plant influent flow in million gallons; plus Terrace Heights' or Union Gap's total pounds of BOD (but only with respect to concentrations greater than 300 parts per million) multiplied by 40% of Treatment O&M costs divided by total Treatment Plant influent pounds of BOD; plus Terrace Heights' or Union Gap's total pounds of SS (but only with respect to concentrations greater than 300 parts per million) multiplied by 40% of Treatment O&M costs divided by total Treatment Plant influent pounds of SS.

2.5 Revised Method. "Revised Method" means the basis for charging Treatment O&M costs as provided in this Settlement Agreement. The Revised Method shall not include charges for Capital Costs and Expenses.

2.6 Treatment Plant. "Treatment Plant" means the City of Yakima's wastewater treatment plant at 2220 East Viola, currently providing wastewater treatment for Yakima, Terrace Heights, and Union Gap, as such plant may be improved, expanded, or replaced from time to time.

2.7 Wastewater Facilities. "Wastewater Facilities" means the Treatment Plant; the Rudkin Road Lift Station at 1916 Rudkin Road; and to the extent agreed upon by the Parties, any other facilities that may be constructed, in the future, for joint use by the Parties.

3. REVISED METHOD FOR BILLINGS

3.1 Future Calculation of Treatment O&M and Strong Waste Charges Under the Agreement. From and after January 1, 1999, Yakima shall no longer assess and bill a strong waste surcharge to Terrace Heights and Union Gap under Section 3(f) of the Agreement. Instead, Yakima shall bill Terrace Heights and Union Gap for treatment of all wastewater, regardless of strength, under Section 3(c) of the Agreement based upon the actual costs to Yakima to treat and dispose of the wastewater as provided in this Settlement Agreement.

3.2 Revised Method of Calculating Treatment O&M Charges. Beginning January 1, 1997, Yakima shall calculate the Treatment O&M charges Terrace Heights and Union Gap pay for wastewater treatment based upon their pro-rata shares of actual Treatment O&M costs. For these new calculations, eligible Treatment O&M costs are those set forth in Section 3 of the Agreement, except that they shall not include Capital Costs and Expenses. All Treatment O&M costs shall be assigned to one of the following categories: (1) flow measured in volume without considering biochemical oxygen demand (BOD) and suspended solids (SS); (2) BOD measured in mass; and, (3) SS measured in mass. For wastewater delivered from January 1, 1997 through December 31, 1998, the Treatment O&M costs shall be allocated to these three categories in the following proportions:

Flow: 20% of Treatment O&M costs shall be allocated to flow;
BOD: 40% of Treatment O&M costs shall be allocated to BOD; and
SS: 40% of Treatment O&M costs shall be allocated to SS

From and after January 1, 1999, Yakima shall continue to allocate its costs based on these proportions, unless or until all Parties agree to revise these proportions. Any such revision shall be based on: (1) a detailed accounting of distribution of Treatment O&M costs by Yakima, or (2) a review of the function and classification of each component of the Treatment Plant and Treatment O&M costs allocated to flow, BOD, and SS of each component. Such review shall be initiated at the request of any Party by notification to the other Parties no later than September 1 of the year prior to the year the revision would be implemented. Such review shall be based upon Ecology- and EPA-approved methods and documents and generally accepted engineering practices.

3.3 Phasing-in of Revised Method. From January 1, 1996 through December 31, 1998 the Revised Method shall be phased in as follows:

3.3.1 **January 1, 1996 - June 30, 1996:** Yakima shall calculate flow bills for Terrace Heights and Union Gap using the Current Method. These bills shall be recalculated after the end of the year using actual Treatment O&M costs and actual flows. Strong waste charges shall not be billed or recalculated, since they were included in this settlement.

3.3.2 **July 1, 1996 - December 31, 1996:** Yakima shall calculate flow and strong waste bills for Terrace Heights and Union Gap using the Current Method. These bills shall be recalculated after the end of the year using actual Treatment O&M costs and actual volumes of flow and mass of BOD and SS.

3.3.3 **January 1, 1997 - December 31, 1997:** Yakima shall calculate bills for Terrace Heights and Union Gap using the Current Method and the Revised Method as follows. The rates charged to Terrace Heights and Union Gap shall equal the calculation under the Current Method plus 40% of the difference between the amount calculated under the Revised Method and the amount calculated under the Current Method. The formula is as follows: Rates = Current Method + .40 x (Revised Method - Current Method).

3.3.4 **January 1, 1998 - December 31, 1998:** Yakima shall calculate bills for Terrace Heights and Union Gap using the Current Method and the Revised Method as follows. The rates charged to Terrace Heights and Union Gap shall equal the calculation under the Current Method plus 70% of the difference between the amount calculated under the Revised Method and the amount calculated under the Current Method. The formula is as follows: Rates = Current Method + .70 x (Revised Method - Current Method).

3.4 Monthly Treatment O&M Charge. Subject to the phasing-in of the Revised Method under Section 3.3, monthly Treatment O&M charges to Terrace Heights and Union Gap shall be calculated as follows: One-twelfth of the estimated annual Treatment O&M costs for the Treatment Plant (based on the allocations in Section 3.2) for flow, BOD, and SS shall be multiplied by Terrace Heights' and Union Gap's percentage (as applicable) of the total monthly influent flow and loadings of BOD and SS to the Treatment Plant. The total monthly charge for wastewater treatment to Terrace Heights and Union Gap, as applicable, equals the sum of the three amounts calculated in accordance with this Section. Total monthly loadings of BOD and SS shall be determined by using the average strength of Terrace Heights' or Union Gap's wastewater, in a particular month, based on the results of the tests conducted in accordance with Section 4, multiplied by that Party's actual flow for that month. Split sample test results, for a given day, from Terrace Heights or Union Gap, as applicable (from the tests conducted pursuant to Sections 4.3 and 4.4), shall be averaged, using the geometric mean, with Yakima's test results for that day's sample before being included in the calculation for the monthly average of test results.

3.5 Monthly Pumping O&M Charge (Union Gap only). Monthly charges for O&M costs for pumping wastewater at the Rudkin Road Lift Station ("Pumping O&M costs") shall be determined by multiplying the unit cost by the monthly flow contributed by Union Gap. The unit cost shall be determined by dividing the estimated annual costs of O&M (which costs are specified in Section 3 of the Agreement) for the Rudkin Road Lift Station by the estimated annual flow to be pumped by the Rudkin Road Lift Station.

3.6 Annual Adjustment. Monthly Treatment and Pumping O&M charges to Terrace Heights and Union Gap, as applicable, shall be recalculated after the end of each year in accordance with Sections 3.4 and 3.5 except that each recalculation shall use actual costs of operations and maintenance ("O&M") and the total of each Party's actual monthly flows and plant loadings of BOD and SS, as applicable, for the previous year (i.e., the year for which charges are being recalculated). The difference between the amount billed in the previous year and the actual amount owed as determined under this Section ("adjustment") shall be billed or credited to Terrace Heights and/or Union Gap, as applicable. This adjustment shall be determined and billed or credited to Terrace Heights and Union Gap prior to September 30 (with respect to an adjustment for the previous year). Beginning with the adjustment for 1997, interest shall be included at the rate of 6% per annum on; A) any amount owed to Yakima by Terrace Heights or Union Gap not paid within 60 days of the billing; or B) any amount owed to Terrace Heights or Union Gap by Yakima not paid or credited within 60 days of the date of billing or September 30, whichever comes first.

3.7 Union Gap Unmetered Flows.

3.7.1 **Definitions:** Under the Sewer Service Agreement, City of Yakima-City of Union Gap dated January 10, 1979, and amendments, Union Gap discharges wastewater from certain areas in Union Gap into Yakima's wastewater collection system without measuring the quantity of wastewater using a wastewater flow meter. For purposes of this Settlement Agreement, such flow is "Union Gap Unmetered Flow."

3.7.2 **Charges:** The charge for the Union Gap Unmetered Flow shall be payable in addition to charges established under Sections 3.1 through 3.6 of this Settlement Agreement. Such charges for Union Gap Unmetered Flow shall be calculated as follows: the quantity of such flow shall be multiplied by 0.5 times the sum of the Treatment Plant unit cost and the Rudkin Road unit cost. The Treatment Plant unit cost shall be determined by dividing 100% of the annual Treatment O&M costs by the annual volume of wastewater flow into the Treatment Plant. The Rudkin Road unit cost shall be determined by dividing 100% of the annual Pumping O&M costs by the annual volume of wastewater pumped at the Rudkin Road Lift Station. On a monthly basis, Union Gap shall provide Yakima with the flow information for all accounts which contribute to Union Gap Unmetered Flow.

3.7.3 **Wastewater Flow Meter:** At such time that Union Gap installs a wastewater flow meter at the point of discharge of any unmetered flow into the Yakima system, this charge for Union Gap Unmetered Flow for the flow at that location shall be discontinued.

3.8 Acquisition or Operation by Other Entity.

3.8.1 **Public Entity.** In the event the Treatment Plant is acquired or operated by a state, county, or other governmental entity ("agency") such agency may establish rates and charges or costs for services for wastewater treatment notwithstanding the provisions of Section 3 of this Settlement Agreement; provided, however, that Terrace Heights, Union Gap, and Yakima shall all be subject to the same rate structure for wastewater treatment services.

3.8.2 **Private Entity.** In the event the Treatment Plant is acquired or operated by a non-governmental entity, the Parties acknowledge that payments under Section 3 of this Settlement Agreement may include reasonable profit as may be authorized by the contract between Yakima and the non-governmental entity; provided, however, that Terrace Heights, Union Gap, and Yakima shall all be subject to the same rate structure for wastewater treatment services. Rates charged to Terrace Heights and Union Gap shall not include amounts for utility or other taxes imposed by Yakima related to the provision of wastewater treatment service.

4. **SAMPLING AND TESTING**

4.1 Testing of Influent. To determine the amounts of BOD and SS in Terrace Heights' and Union Gap's influent to Yakima's system, the Parties agree to the following protocol.

4.2 Sampling. Yakima shall take samples of wastewater at locations approved by representatives of Yakima, Terrace Heights, and Union Gap. Samples shall be as representative as possible of the overall wastewater stream, and shall be no less than continuous, uninterrupted 24-hour composite samples, or by such other procedures as are mutually agreed among Yakima and Terrace Heights and/or Union Gap. On or before September 30, 1998, the Parties shall install and use flow-paced sampling procedures using refrigerated ISCO, or mutually agreed-upon equivalent, sampling stations. Yakima shall take samples a minimum of five (5) times per month. Yakima may take additional samples at its option; however, Yakima may not charge for more than 10 samples per month without prior permission from the affected Party. At their option, Union Gap and/or Terrace Heights may request that Yakima take additional samples during a particular month. Also, at their option, representatives of Terrace Heights and/or Union Gap may attend the sampling. Yakima shall give reasonable notice of the date and time of sampling.

4.3 Split Sampling. Yakima shall prepare split samples when it takes samples pursuant to Section 4.2, and shall give a split sample to the representative of Terrace Heights and/or Union Gap who attends the sampling. If no representative attends the sampling, Yakima shall keep the split sample at the Treatment Plant until noon the following day.

4.4 Testing. Analysis of the split samples shall be done by laboratories accredited by the Washington State Department of Ecology ("Ecology"). Each Party shall make its Quality Assurance/Quality Control ("QA/QC") results available to any other Party upon that other Party's request, and any Party may observe any other Party's testing procedures. Terrace Heights and Union Gap shall continue to reimburse Yakima for Yakima's actual costs of this sampling and analysis.

4.5 Notification of Sampling Results. Each Party shall promptly notify the other Parties of its test results.

5. SYSTEM OWNERSHIP - CAPACITY - PAYMENT

5.1 Yakima Owns System. Yakima owns the Wastewater Facilities.

5.2 Capacity Allocation. Union Gap and Terrace Heights have an interest in and right to capacity ("Treatment Capacity Allocation") of the Treatment Plant. In addition, Union Gap has an interest in and right to capacity ("Pumping Capacity Allocation") of the Rudkin Road Lift Station and its related force main. Treatment Capacity Allocation and Pumping Capacity Allocation are referred to collectively as "Capacity Allocation." The Capacity Allocations under Sections 5.5 and 5.6 shall remain in effect as set forth in Section 5.5.3.

5.3 Future Calculation of Capital Expenditure Charges. From and after January 1, 1996, Yakima shall bill Terrace Heights and Union Gap for their shares of debt service (including repayment of Public Works Trust Fund (PWTF) loans and excluding any charges for depreciation) on the following basis:

5.3.1 **Schedule of Payments.** Charges for debt service shall be determined on a pro-rata basis by multiplying each Party's Capacity Allocation by the official schedule for payment for each issuance of bonds. Yakima shall not include any debt service charges for reserves other than those provided for under Sections 5.3.3, 5.3.4, and 5.4. Yakima shall have the sole responsibility to satisfy bond reserve requirements and shall own all amounts accumulated as reserves, and interest thereon. By September 30 of each year, Yakima shall, by invoice or notice, provide to Terrace Heights and Union Gap a schedule for debt service payments for the following year. Terrace Heights and Union Gap's payments are due three working days before the due date listed on the debt service payment schedule. If any payment is late, interest shall accrue at the rate of 6% on the outstanding amount as of the due date listed on the debt service payment schedule.

5.3.2 **PWTF.** Charges for PWTF loans shall be determined on a pro-rata basis by multiplying each Party's Capacity Allocation by the amounts due under actual PWTF invoices. The Parties acknowledge that Yakima may not be able to provide 30 days notice of the actual amounts due. Yakima shall send Terrace Heights and Union Gap copies of the invoice as soon after it is received as practicable. Terrace Heights and Union Gap shall make payment within 30 days

permanent increase of their Capacity Allocation. Terrace Heights and Union Gap will provide Yakima with copies of their respective wastewater planning documents (and amendments) indicating the jurisdiction's respective wastewater treatment needs. Yakima shall include Union Gap's and Terrace Heights' wastewater treatment needs in its own planning documents and shall plan for expansion of the Wastewater Facilities based on the total capacity needs of all the Parties. When Yakima commences planning for Wastewater Facilities improvement or expansion, Yakima shall notify Union Gap and Terrace Heights of this activity, and upon reasonable notice by Terrace Heights and/or Union Gap, Yakima shall include in any comprehensive or system plans, and in facility design, the additional Capacity Allocation requested by Terrace Heights and/or Union Gap. Terrace Heights and/or Union Gap, as applicable, shall bear all Capital Costs and Expenses associated with any increase Terrace Heights or Union Gap requests, including both expansion costs and costs reflecting any increase in the share of existing wastewater facilities used to provide service to the Party increasing its Capacity Allocation. Each Party shall give prior written notice to the other Parties of Comprehensive Plan processes, drafts, submittals to regulatory agencies and public hearings.

5.7 Temporary Increase. Terrace Heights and/or Union Gap may wish to seek a temporary increase in its Capacity Allocation in the event that it expects to require more capacity than its current Capacity Allocation. Yakima shall consider a request for temporary additional capacity, if at the time of the request, allocating more capacity to Terrace Heights and/or Union Gap would not adversely affect Yakima's ability to serve as authorized by state law. Additionally, Terrace Heights and Union Gap may allocate between each other by separate agreement the capacity recognized in Section 5.5, or as later authorized by the Parties.

6. PAYMENT OF FUTURE DISPUTED AMOUNTS INTO ESCROW

In the event that Terrace Heights or Union Gap disputes any charges imposed under the Agreement or this Settlement Agreement, the Party disputing the charges shall pay all disputed charges into an interest-bearing escrow account. Disbursements from such account shall be made on the joint instruction of Yakima and the Party raising the dispute upon joint resolution of the dispute pursuant to Section 9 of the Agreement, through mediation, or otherwise.

7. CHARGES FOR PAST SERVICE - RELEASE OF CLAIMS

7.1 Yakima-Terrace Heights. Upon execution of this Settlement Agreement and payment of the amount set forth on Exhibit A, Terrace Heights and Yakima agree to release their claims against each other, as set forth in paragraph 1.6 above. A chart of the amounts at issue under this Settlement Agreement and the reconciliation thereof is attached as Exhibit A, which is incorporated herein by this reference. Yakima shall pay Terrace Heights the total amount set forth on Exhibit A within 30 days of the effective date of the Settlement Agreement.

7.2 Yakima-Union Gap. Upon execution of this Settlement Agreement and payment of the amount set forth in Exhibit B, Union Gap and Yakima agree to release their claims against each other as set forth in paragraph 1.6 above. A chart of the amounts at issue under this Settlement Agreement and the reconciliation thereof is attached as Exhibit B, which is incorporated herein by this reference. Union Gap shall pay Yakima the total amount set forth on Exhibit B within 30 days of the effective date of the Settlement Agreement.

8. RESOLUTION OF ISSUES RELATING TO CAPITAL COSTS

8.1 Debt Service Reconciliation. Upon execution of this Settlement Agreement and payment of the amounts set forth in Exhibit A and B, Yakima shall have acquired Terrace Heights' and Union Gap's interests in accumulated reserves that have been generated by their payment of debt service in the past.

8.2 Depreciation. Terrace Heights' and Union Gap's past depreciation payments have been credited to and netted out of the equitable shares of the system cost set forth in Exhibits A and B.

8.3 Equitable Share of System Costs. Upon execution of this Settlement Agreement and payment of the amounts set forth in Exhibit A and B, Terrace Heights and Union Gap shall be deemed to have paid an equitable share of the Capital Costs and Expenses of Yakima's existing Wastewater Facilities, notwithstanding any outstanding share of local cash.

9. UTILITY TAXES

9.1 Utility Tax Settlement. Yakima shall not include, in charges to Terrace Heights or Union Gap under the Agreement or this Settlement Agreement, any amounts for its own utility taxes or any taxes other than those that are both (1) imposed by third parties and (2) related to the Wastewater Facilities and their operation.

9.2 Order of Dismissal. Upon the respective Parties' receipt of all payments required under this Settlement Agreement (the reconciliation of which is set forth in Exhibits A and B), the Parties shall enter into an Order of Dismissal, dismissing the Litigation with prejudice.

10. REPRESENTATIONS AND WARRANTIES

10.1 Warranty of Capacity to Execute Agreement. Yakima, Terrace Heights, and Union Gap represent and warrant that no other person or entity has or has had any interest in the claims, demands, obligations, or causes of action referred to in this Settlement Agreement except as otherwise set forth herein and that the Parties have the right and authority to execute this Settlement Agreement and receive any sum specified in it; and that they have not sold, assigned, transferred, conveyed or otherwise disposed of any of the claims, demands, obligations, or causes of action referred to in this Settlement Agreement.

10.2 Performance. The Parties each agree to diligently perform any other acts and execute and deliver any further documents which may be reasonable and necessary to carry out the terms and provisions of this Settlement Agreement.

11. MISCELLANEOUS

11.1 Payment for Benefit of Facility Only. Any money Terrace Heights and Union Gap pay under the Agreement or the Settlement Agreement shall be used exclusively for the benefit of the Wastewater Facilities except as is allowed under Section 3.8.

11.2 Binding Effect. This Settlement Agreement, including but not limited to any Capacity Allocation under Section 5, shall be binding upon and inure to the benefit of the Parties hereto and their predecessors, successors, heirs and assigns.

11.3 Governing Law. This Settlement Agreement shall be construed and interpreted in accordance with the laws of the State of Washington.

11.4 No Third-Party Beneficiary. This Settlement Agreement is entered into for the exclusive benefit of the Parties hereto and shall not be construed to create any rights in any third party.

11.5 Litigation. Each Party shall bear its own costs and expenses relating to the mediation and the Litigation, and Yakima shall not include its mediation or the Litigation costs and expenses in charges to Terrace Heights and Union Gap.

11.6 Entire Agreement. This Settlement Agreement and all exhibits hereto constitute the entire agreement between the Parties relating to the settlement of the disputes relating to the claims identified in Section 1.6. No statements, communications, letters or agreements relating to this settlement shall have any force or effect unless embodied in this Settlement Agreement or the Exhibits hereto. No representation, promise, inducement or statement of intention has been made by any Party to any other Party relating to the settlement which is not set forth in this Settlement Agreement and no Party shall be bound by or liable for any alleged representation, promise, inducement or statement of intention not so set forth.

11.7 Modification of Agreement. No modification or waiver of this Settlement Agreement or any part hereof shall be valid or effective unless in writing and signed by all Parties to this Settlement Agreement; no waiver of any breach or condition of this Settlement Agreement shall be deemed to be a waiver of any other subsequent breach or condition, whether of like or different nature.

11.8 Authorization to Enter Dismissal. The Parties to this Settlement Agreement hereby authorize and instruct their attorneys to, upon payment of the amounts set forth in this Settlement Agreement, seek an order of dismissal of the Litigation with prejudice.

11.9 Multiple Counterparts. This Settlement Agreement, or any amendment thereto, may be executed in multiple counterparts, each of which shall be deemed an original agreement, and all of which shall constitute one agreement, by each of the Parties hereto on the date respectively indicated in the acknowledgments of such Parties, notwithstanding that all of the Parties are not signatories to the original or the same counterpart, to be effective as of the day and year first above written.

11.10 Effectiveness. This Settlement Agreement shall become effective upon execution by all of the Parties and shall remain in effect for as long as Terrace Heights or Union Gap have an interest in the capacity of the Wastewater Facilities. The Agreement shall remain in effect pursuant to its terms.

11.11 Accounting. Annually, Yakima shall provide Terrace Heights and Union Gap with an accounting with respect to all charges under this Agreement and this Settlement Agreement.

ATTEST:



Karen S Roberts
Karen S Roberts
Yakima City Clerk
CITY CONTRACT NO: 97-85
RESOLUTION NO: R-97-107

CITY OF YAKIMA

R. A. Zais, Jr.
R. A. Zais, Jr.
City Manager

Date: 8/27, 1997

ATTEST:

Kathleen M Holscher
Kathleen M. Holscher
Union Gap City Clerk

CITY OF UNION GAP

Paul Burlingame
Paul Burlingame
City Manager

Date: 9/9, 1997

ATTEST:

Lucille McFarland
Lucille McFarland
District Secretary

TERRACE HEIGHTS SEWER DISTRICT

Norman Alderson
Norman Alderson
District Manager

Date: 8/28, 1997