

308-14-001

INTERLOCAL AGREEMENT FOR CARLSBORG WASTEWATER DISPOSAL

This Agreement ("Agreement") pursuant to RCW 39.34, the Interlocal Cooperation Act, is made by and between City of Sequim, a Washington municipal corporation ("City"), and Clallam County, a political subdivision of the State of Washington ("County") (individually a "Party" and collectively the "Parties"). In consideration of the terms and conditions set forth in this Agreement, the Parties agree as follows:

Section 1. Recitals

1.1 The City owns and operates a wastewater collection and treatment system ("City System"), including a Wastewater Reclamation Facility ("WRF"), and is authorized pursuant to RCW 35.67.020(1) to provide sewer service to customers and properties located both within and outside of the city limits.

1.2 The County, under its authority granted in RCW 36.94, intends to construct, own, and manage a wastewater collection system ("Carlsborg System") located in the Carlsborg Urban Growth Area, which is located in Clallam County near the City of Sequim.

1.3 The City's WRF currently has available capacity, and the City desires to accept wastewater flows from the Carlsborg System.

1.4 The County has evaluated its options for treating and disposing of wastewater from the Carlsborg System and finds that, given the charges set forth in this Agreement, the most cost-effective method is to discharge the wastewater into the City System and have it be treated by the City's WRF.

1.5 City and County representatives have met and discussed the discharge of wastewater from the Carlsborg System into the City System, including the charges that should be paid by the County to the City for the right to discharge. Both parties are in agreement that the charges, terms and conditions set forth in this Agreement are reasonable and equitable.

1.6 It is the purpose of this Agreement to provide for long-term wastewater disposal, planning and certainty for both the City and the County.

1.7 The Parties now desire to enter into an interlocal agreement pursuant to RCW 39.34, the Interlocal Cooperation Act, for the disposal of wastewater from the Carlsborg System.

Section 2. Definitions

2.1 "Agreement" means this document.

2.2 "Average Carlsborg Transmission Percentage" means the weighted average of the Carlsborg Transmission Percentages, based on the length of each segment of pipe along the Transmission Route. The Average Carlsborg Transmission Percentage set forth in Exhibit A is assumed for the purposes of this Agreement, unless and until that percentage is updated pursuant to Section 5.1.2(c).

2.3 "Biochemical Oxygen Demand" or "BOD" means the quantity of oxygen utilized in the biochemical oxidation of organic matter under standard laboratory procedures during five (5) days at twenty (20) degrees Celsius, expressed as a loading in lbs/day.

2.4 "Capacity Charge" means an up-front payment by the County to the City for the right to discharge a given amount of Wastewater, or a given incremental increase in the amount of Wastewater, into the City System.

2.5 "Capacity Percentage" means the Capacity Reservation divided by the total rated flow capacity of the WRF, measured as a percentage of maximum monthly flow. When determining the Carlsborg Cost Share for capital projects that expand WRF flow capacity, Capacity Percentage means the Capacity Reservation after WRF expansion divided by the total rated flow capacity after WRF expansion.

2.6 "Capacity Reservation" means the maximum Carlsborg Flows that may be discharged to the City System in a given calendar year, as measured by Maximum Monthly Flow in gallons per day (gpd), as updated pursuant to Section 3.4.2.

2.7 "Capital Cost Share" means a required payment from the County to the City toward the cost of capital improvements to the WRF, the Transmission Route, or the City Collection System as a whole, where the capital cost is incurred after December 31, 2013.

2.8 "Carlsborg Flow" or "Carlsborg Flows" mean the actual volume of Wastewater through the Sewer Meter in a given period of time.

2.9 "Carlsborg System" means the sewerage system consisting of a sanitary sewer collection system, sewage trunk lines, sewer pumping stations, and appurtenances owned, operated, and maintained by the County in the Carlsborg Service Area, including a force main extending to the Point of Delivery.

2.10 "Carlsborg Service Area" means the Carlsborg Urban Growth Area as presently designated or as modified in the future.

2.11 "Carlsborg Transmission Percentage" means the projected Carlsborg Flow in gallons per minute gpm, peak hourly, as a percentage of projected total Wastewater flow (gpm, peak hourly) through any given segment of pipe along the Transmission Route. The Carlsborg

Transmission Percentages set forth in Exhibit A are assumed for the purposes of this Agreement, unless and until those percentages are updated pursuant to Section 5.1.2(c).

2.12 "City" means the City of Sequim, a Washington municipal corporation existing and operating pursuant to Title 35 Revised Code of Washington.

2.13 "City Collection System" means the City-owned sanitary sewer trunk lines, laterals in City right-of-way, lift stations, and force mains through which sewage flows to the WRF, including manholes and other appurtenances but not including the WRF.

2.14 "City Service Area" means the current sewer service area boundary of the City, and as such boundary may be modified and amended in the future.

2.15 "City System" means the City Collection System plus the WRF.

2.16 "City Wastewater Source Control Program" means regulations, policies and procedures adopted by the City for the pretreatment of wastewater discharged into the City System, currently set forth in Sequim Municipal Code 13.48, and as such regulations, policies and procedures may be modified, amended, repealed and superseded by the City.

2.17 "County" means Clallam County, a political subdivision of the State of Washington organized, existing and operating pursuant to Title 36 Revised Code of Washington.

2.18 "DOE" means the Washington State Department of Ecology.

2.19 "Domestic Wastewater" means water carrying human wastes, similar in character and volume to wastewater generated from single and multifamily residences and permanent mobile home courts.

2.20 "FOG" means wastewater whose components of fats, oils and grease are subject to measurement by the methods described in Standard Methods of Examination of Water and Wastewater, 20th Edition, 1998, Section 5520, or latest edition; the term "fats, oils and grease" shall include polar and non-polar fats, oils and grease.

2.21 "High Strength Waste" means any water or wastewater having a concentration of BOD, TSS, or FOG in excess of the domestic concentration thresholds set forth in the City Wastewater Source Control Program.

2.22 "Industrial Wastewater" means water or liquid-carried waste from any industry, manufacturing operation, trade, business, or commercial establishment and public use facilities which includes process wastewater, cooling water, contaminated stormwater, contaminated leachates, or other waters in some combination such that the combined effluent differs in some way from Domestic Wastewater, or is subject to regulation under (a) Federal Categorical

Pretreatment Standards ("Standards"), (b) the State Waste Discharge Permit Program ("WDP Program"), or as such Standards and WDP Program may be updated, modified or amended.

2.23 "Inflow and Infiltration" or "I&I" means water that enters the sewer system from the outside environment, not from domestic or industrial structures. "Inflow" means surface water that enters the wastewater system from yard, roof and footing drains, from cross-connections with storm drains, downspouts, and through holes in manhole covers; "infiltration" means infiltration of groundwater that is influenced by surface or sea water, that enters sewer pipes, interceptors, collectors, manholes, or side sewers through breaks, holes, joint failures, connection failures and other openings.

2.24 "Initial Capacity Charge" means the Capacity Charge to be paid when the Carlsborg System is first connected to the City System.

2.25 "Initial Capacity Reservation" means the Capacity Reservation in effect upon initial connection of the Carlsborg System to the City System and thereafter, until updated pursuant to the procedure set forth in Section 3.4.2.

2.26 "Maximum Monthly Flow" ("MMF") means the total flow of sewage in gallons divided by the total number of days in that month during which the greatest volume of flow occurs, in any given calendar year, expressed in gallons per day (gpd).

2.27 "Net Book Value" means the original cost of a capital asset, less the portion of the cost funded by contributed capital such as grants, less accumulated depreciation on the non-contributed portion.

2.28 "O&M Markup" means an amount that is added to the cost basis for the two types of O&M charges set forth in Section 5.1, to account for the City Business & Occupation Tax and an out-of-City multiplier. The O&M Markup is equal to twenty-five (25%) of the cost basis. There is no similar markup for the Capacity Charge or Capital Cost Share.

2.29 "Point of Delivery" means the boundary at which wastewater originating in the Carlsborg System is conveyed into the City System, located in proximity to 1453 West Washington Street within the City, as shown in Exhibit A. All sewer lines upstream of the Point of Delivery are the responsibility of the County.

2.30 "Sewage" or "Wastewater" means water-carried human wastes or a combination of water-carried wastes from residences, business buildings, institutions, industrial establishments and public use facilities, together with such I&I as may be present.

2.31 "Sewer" means any pipe, conduit ditch, or other device used to collect and transport sewage from the generating source to the Wastewater Reclamation Facility.

2.32 "Sewer Meter" means a sewer flow meter, including a vault, sample port, and electronic equipment to allow remote meter reading, through which Carlsborg Flows shall enter the City System.

2.33 "Total Suspended Solids" or "TSS" means the total suspended matter that floats on the surface of, or is suspended in, water, wastewater, or other liquid, and which is removable by laboratory filtering, expressed as a loading in lbs/day.

2.34 "Transmission Route" means the linear path of City Sewer pipes, including manholes and related facilities, through which Carlsborg Flows are primarily conveyed from the Point of Delivery to the City WRF, as shown in Exhibit A. The Transmission Route does not include any sewage lift stations.

2.35 "Wastewater Reclamation Facility" or "WRF" means the City's wastewater treatment and reclamation plant located at 247 Schmuck Road, Sequim, Washington, along with its appurtenant headworks, marine outfall, and water recycling facilities.

Section 3. Delivery and Acceptance of Wastewater

3.1 Wastewater Delivery. The County shall deliver to the City, not to exceed the Capacity Reservation, the Wastewater collected by the Carlsborg System, and the City shall accept and treat the Carlsborg Flows in accordance with the terms of this Agreement.

3.2 Wastewater Metering. The County shall deliver the Wastewater to the City at the Sewer Meter, which the County shall construct at the County's sole expense at the Point of Delivery. Upon completion of construction, the County shall transfer to the City ownership of the Sewer Meter, including any warranties or sureties, after which the City shall operate and maintain it at the City's sole expense.

3.3 Initial Capacity Reservation. The Initial Capacity Reservation is one hundred five thousand (105,000) gallons per day (Maximum Monthly Flow).

3.4 Future Updates to Capacity Reservation.

3.4.1 Planning Basis for Capacity Reservation. The intent of the Parties is that the Capacity Reservation be based on a long-term demand forecast for the Carlsborg System, so that the Carlsborg System has reserved capacity sufficient to accommodate between ten and twenty years of planned growth at any given time. The choice about how much treatment capacity to request is at the sole discretion of the County, and the choice about whether to grant the requested level of capacity is at the sole discretion of the City. Both parties must be reasonable in exercising their discretion.

3.4.2 Process for Updating Capacity Reservation. At five-year intervals, the County shall assess the projected level of demand from the Carlsborg System, and the City shall assess the total projected demand for the WRF. Based on the Carlsborg demand forecast, the County shall determine whether the Carlsborg System has sufficient reserved treatment capacity to accommodate its projected future growth. If the County requests a change in the Capacity Reservation and the request is granted by the City, with approval from their respective legislative bodies, the incremental change and the revised Capacity Reservation shall be documented in a joint memorandum signed by the managers responsible for the Carlsborg System and the City System, such memorandum to be appended to the Agreement. The Capacity Percentage shall thereby be updated to reflect the new percentage of WRF capacity committed to the Carlsborg System, and the County shall pay the appropriate Capacity Charge on the incremental Capacity reservation.

3.4.3 Plan for Maintaining Adequate Capacity Reservation. Even if it has been less than five years since the most recent demand forecast, if the Carlsborg Flow exceeds eighty-five percent (85%) of the Capacity Reservation, the County shall update the Carlsborg demand forecast and submit a plan to the City for continuing to maintain adequate treatment capacity, potentially including a request for additional Capacity Reservation.

3.4.4 Reductions in Capacity Reservation. If the City requests a reduction in Capacity Reservation and the County agrees, then the City shall pay the County a Capacity Refund Payment. As illustrated in Exhibit C, the Capacity Refund Payment shall be based on the then-current Net Book Value of the capital assets previously funded by Capital Cost Shares and the then-current Net Book Value of the pre-2014 assets included in previously paid Capacity Charges, the sum divided by the then-current WRF total capacity (in gpd) and then multiplied by the change in Capacity Reservation (in gpd).

3.5 High Strength Waste and Industrial Wastewater. The City agrees to accept and treat High Strength Waste and Industrial Wastewater from the Carlsborg System; however, the City shall have the right to regulate and control the conditions under which High Strength Waste and Industrial Wastewater is accepted into the City System.

3.5.1 Pretreatment Requirements for Carlsborg Customers. The County shall adopt and implement a pretreatment program for Carlsborg System customers discharging High Strength Waste or Industrial Wastewater, with requirements at least as stringent as what the City Wastewater Source Control Program requires of City System customers. The County pretreatment program may include requirements to install on-site pretreatment facilities, adopt specified wastewater management practices, monitor wastewater flows from particular customers, be subject to inspections by County or City pretreatment staff, and/or pay fees for retreatment program administration and lab testing. The County shall not accept into the Carlsborg System hauled waste discharges, including discharges from septic haulers.

3.5.2 County Responsible for Carlsborg High Strength Waste and Industrial Wastewater. The City shall be responsible for testing at its own expense the BOD, TSS, FOG, and other regulated characteristics of the Carlsborg Flows at the Point of Delivery. The County shall be responsible for any violations of the City Wastewater Source Control Program or DOE permit requirements resulting from Carlsborg Flows. A pattern or practice of violations by the County of the City Wastewater Source Control Program or DOE permit requirements for high strength waste or industrial wastewater may be considered grounds for the City to terminate the Agreement, with ten (10) years advance written notice.

3.6 County Access to Reclaimed Water from Sequim Water Reclamation Facility.

3.6.1 Statement of Intent. Both parties recognize that the County is contributing to the effluent flows at the WRF. The reclaimed water generated by the WRF offers a resource that is valuable to the region and may be of interest to the County in the future. Nothing in this Agreement requires the City of Sequim to have reclaimed water that meets the standards or volumes needed for upland or aquifer recharge. The City shall have the choice of which wastewater treatment standard to apply and may base this decision on many factors, including but not limited to State regulations, discharge permit conditions, cost to produce reclaimed water, market demand for reclaimed water, WRF operating constraints, upset plant conditions, and/or distribution system constraints.

3.6.2 County Right to Acquire Reclaimed Water. Prior to the City selling or committing reclaimed water to other customers or for mitigation projects, the County will have a right of first refusal to purchase a quantity of reclaimed water equal to the amount of Carlsborg Flows, as measured at the Sewer Meter. The County will have ninety (90) calendar days to formally commit to such a purchase after being notified in writing by the City of its availability. The price charged to the County for reclaimed water shall equal the price charged to in-City customers plus fifteen percent (15%), provided that if any part of the cost of creating reclaimed water is already included in the County's wastewater treatment bill, that amount will be deducted from the cost of the reclaimed water purchase. If County use of the reclaimed water requires special pumping or conveyance not otherwise provided to City customers, the cost shall be borne by the County. If the County uses its purchased reclaimed water for water rights mitigation or other long-term commitments, it will do so solely at its own discretion, and the City will not be responsible for any guaranteed delivery of the reclaimed water beyond what is normal policy for all customers of the City.

3.7 Pipe Capacity. The County shall design and operate the Carlsborg System so as not to cause surcharging, as defined in the DOE *Criteria for Sewage Works Design* (Orange Book), due to Carlsborg Flow exceeding its share of pipe capacity. The City shall have the right to review and comment on the design and operating procedures for Carlsborg lift stations.

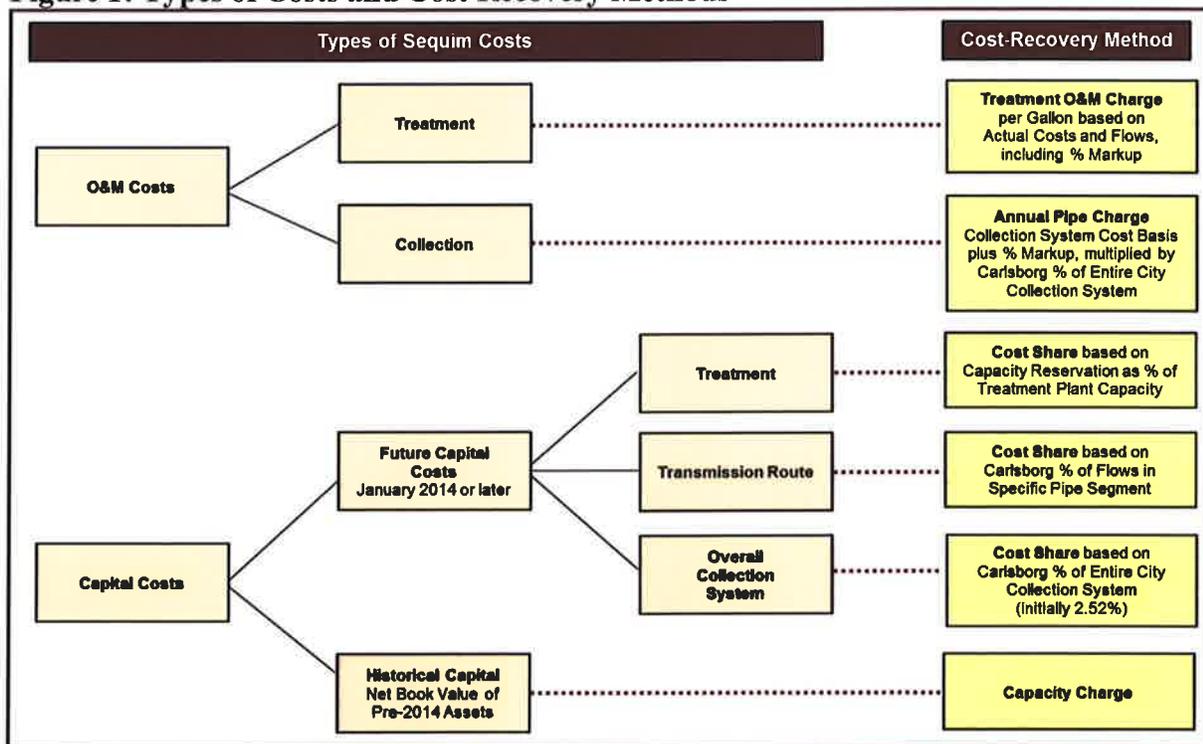
Section 4. Excess Discharge

4.1 Maximum Carlsborg Flow. The County shall not discharge more than the Capacity Reservation into the City System. The City’s acceptance of any wastewater above the Capacity Reservation shall by itself create no right, title or interest in the County in any increase in the Capacity Reservation.

4.2 Remedies for Excess Discharge. If the Capacity Reservation is exceeded in any given year, the City may, at its option, (a) require the County to agree to an increased Capacity Reservation, (b) if the City determines it does not have sufficient WRF capacity to allow an increased capacity reservation, require the County to impose a moratorium on new connections within the Carlsborg UGA, and/or (c) terminate this Agreement and discontinue receiving County Wastewater after at least ten (10) years prior written notice to the County. Before imposing a remedy, the City shall consult with the County to determine which remedy the County considers to be the least burdensome and most realistic, provided, however, the City shall retain the right in its sole discretion to impose the appropriate remedy.

Introductory Note to Sections 5 and 6. Figure 1 is a graphic depiction of the methods by which capital and operating costs related to the City WRF and Transmission Route are to be recovered from the County by the City. Section 5 addresses the recovery of operating and maintenance (“O&M”) costs; Section 6 addresses the recovery of capital costs.

Figure 1: Types of Costs and Cost Recovery Methods



Section 5. Operating & Maintenance Charges

5.1 **Types of Operating and Maintenance Charges.** The County shall pay the City monthly two types of O&M Charges for the disposal of sewage collected by the County within the Carlsborg Service Area and delivered to the City System: a Treatment O&M Charge based on a Treatment O&M Rate per gallon multiplied by the number of gallons of Carlsborg Flow in a given month, and an Annual Pipe Charge divided by twelve (12) months.

5.1.1 **Calculation of Treatment O&M Rate.** A Treatment O&M Rate per gallon shall be calculated each year based on the Treatment Operating Cost Basis plus the O&M Markup, the sum divided by the actual total gallons of influent to the WRF during that year. The Treatment Operating Cost Basis means the actual cost of operating and maintaining the WRF in a given year, subject to the inclusions and exclusions set forth in Section 5.2.

5.1.2 **Annual Pipe Charge.** The Annual Pipe Charge shall be calculated each year based on the Collection System Operating Cost Basis plus the O&M Markup, the sum multiplied by the Carlsborg Percentage of the Entire City Collection System. The Annual Pipe Charge divided by twelve (12) shall be billed each month, beginning with the date the Carlsborg System is connected to the City System, with the first month pro-rated to the number of days of service during that month.

(a) The Collection System Operating Cost Basis means the actual cost of operating and maintaining the City System minus the Treatment Operating Cost Basis, subject to the inclusions and exclusions set forth in Section 5.2.

(b) The Carlsborg Percentage of the Entire City Collection System results from the Average Carlsborg Transmission Percentage being multiplied by [the Transmission Route lineal feet as a percentage of the total lineal feet in the entire City Collection System], as shown in Exhibit A. Until updated in the future, the Carlsborg Percentage of the Entire City Collection System is two point five two percent (2.52%). Every five years, the City shall update the Carlsborg Percentage of the Entire City Collection System based on updated information about total lineal feet in the City Collection System. The updated number of total lineal feet in the City Collection System and resulting updated Carlsborg Percentage of the Entire City Collection System shall be documented in a memorandum from the manager responsible for the City System, appended to the Agreement, and used in subsequent calculations of the Annual Pipe Charge and Capital Cost Share.

(c) If both Parties agree in writing, with approval from their respective legislative bodies, to update the Carlsborg Transmission Percentages, then an engineering analysis shall be performed to forecast the peak hourly flows (in gallons per minute, or gpd) of the Carlsborg System and City System, respectively, through the shared pipes of the Transmission Route. The time frame for the engineering analysis shall be fifteen (15) years, and the cost of the analysis

shall be shared equally by both Parties. The updated Carlsborg Transmission Percentages and Calsborg Percentage of the Entire City System resulting from the analysis shall be documented in a joint memorandum signed by the managers responsible for the Carlsborg System and the City System, to be appended to the Agreement, and shall supersede the percentages shown in Exhibit A and be used for subsequent calculations of the Annual Pipe Charge and Capital Cost Share.

5.2. Included and Excluded Costs.

5.2.1. Included Costs. The Treatment Operating Cost Basis and Collection System Operating Cost Basis shall include both direct and indirect costs of operating and maintaining the City System, subject to the exclusions set forth in Section 5.2.2. Indirect costs such as administrative, general, and insurance costs shall be allocated in proportion to the amount of direct costs.

5.2.2. Excluded Costs. The Treatment Operating Cost Basis and Collection System Operating Cost Basis shall exclude the following:

- (a) Any capital-related costs, such as capital expenditures, debt service costs, or transfers for the purpose of funding capital reserves.
- (b) The City Business & Occupation Tax.
- (c) State public utility and B&O taxes not applicable on sales to governmental customers.
- (d) The cost of services not received by the Carlsborg System, such as stormwater service, sewage pumping, retail meter reading, or retail customer billing.

Exhibit B illustrates the calculation of the Treatment O&M Charge and Annual Pipe Charge.

5.3. Estimated O&M Charges and True-up Adjustment. In advance of a given year, the City shall create an estimated Treatment O&M Rate based on estimated costs and flows, and the estimated rate shall be applied to actual Carlsborg Flows during that year. The City shall also create an estimated Annual Pipe Charge based on the estimated Collection System Operating Cost Basis. After fiscal year-end, the Treatment O&M Rate for the given year shall be re-calculated based on actual costs and flows and a corrected Treatment O&M Charge calculated. Also after fiscal year-end, a corrected Annual Pipe Charge shall be calculated based on the actual Collection System Operating Cost Basis. The difference between estimated and corrected amounts for both types of O&M charges shall be divided into twelve equal parts and added to or subtracted from the following twelve monthly bills to the County. Exhibit B provides an example of a true-up adjustment after the end of a fiscal year.

Section 6. Capacity Charge and Capital Cost Share

6.1 Introduction to Section 6. In general, under the terms of this agreement, Capacity Charges are used to recover a proportionate share of the Net Book Value of WRF and Transmission Route assets built or acquired prior to December 31, 2013, including Construction Work in Progress as of December 31, 2013. For City capital costs incurred for WRF and Transmission Route projects after December 31, 2013, a proportionate share of the City capital cost is recovered through a Capital Cost Share.

6.2 Capacity Charges.

6.2.1 Initial Capacity Charge. Within ninety (90) calendar days of the effective date of this Agreement, the County shall pay to the City an Initial Capacity Charge of \$1,334,666, pursuant to calculations shown in Exhibit C. The Initial Capacity Charge is based on the Carlsborg share of the Net Book Value of pre-2014 WRF and Transmission Route assets, assuming accumulated depreciation as of December 2015, which is the projected date for the Carlsborg System to be connected to the City System.

6.2.2 Subsequent Capacity Charges. If the Capacity Reservation is increased pursuant to Section 3.4.2, a subsequent Capacity Charge shall be paid by the County to the City. Subsequent Capacity Charges shall be calculated following the method illustrated in Exhibit C, based on the Net Book Value per gpd of pre-2014 treatment assets, multiplied by the increase in Capacity Reservation. The Net Book Value for subsequent Capacity Charges shall be net of year-end accumulated depreciation for the year immediately preceding the date the charge is payable. If the increase in Capacity Reservation occurs in conjunction with a WRF expansion project, post-expansion WRF capacity shall be used in calculating the subsequent Capacity Charge. Subsequent Capacity Charges shall be payable prior to the increase in Capacity Reservation taking effect.

6.3 Capital Cost Share. For capital expenditures to the City System incurred subsequent to December 31, 2013, the County shall pay to the City a Capital Cost Share based on Eligible City Capital Costs and the applicable Capital Cost Share percentages.

6.3.1. Capital Cost Share Percentages. The Capital Cost Share shall be based on the percentages set forth below:

(a) Treatment Capital. For capital improvements to the WRF, the applicable Capital Cost Share percentage shall be the Capacity Percentage, except that if the capital improvements are triggered by the need to expand the capacity for BOD or TSS loadings, the cost of those treatment improvements shall be shared on the basis of each party's relative BOD or TSS loadings at the time the need for the expansion is triggered.

(b) Transmission Route Capital. For capital improvements to the Transmission Route, the applicable Capital Cost Share percentage shall be the Carlsborg Transmission Percentage for the applicable segment of the Transmission Route. If more than one segment is involved in a single capital improvement project, the project cost shall be allocated by segment so that the relevant Carlsborg Transmission Percentage can be applied to each improved segment. If a City Collection System project improves sewer lines both on and off the Transmission Route, the Capital Cost Share shall only apply to the portion on the Transmission Route.

(c) Collection Systemwide Capital. For capital improvements or acquisitions that benefit the City Collection System as a whole without being geographically specific, the applicable Capital Cost Share percentage shall be the Carlsborg Percentage of the Entire City Collection System, as set forth in section 5.1.2 (b). Examples of this type of project might include improved GIS mapping or the replacement of a Vactor truck.

(d) City Collection System Projects Not on the Transmission Route. For capital improvements to a geographically specific part of the City Collection System that is not on the Transmission Route, there is no Capital Cost Share.

6.3.2. Eligible City Capital Costs. The Capital Cost Share shall be based on Eligible City Capital Costs actually incurred. Eligible City Capital Costs shall include the cost of construction, engineering fees, staff time spent directly on engineering or project management, major equipment acquisition, legal fees, land acquisition costs, and other types of costs customarily paid for by the City from capital funding sources for a capital asset, provided that eligible City Capital Costs shall not include interest or other financing charges, except for accrued interest as set forth in Section 6.3.3. Eligible City Capital Costs shall be offset by grants specific to the capital project. Eligible City Capital Costs shall not be reduced by capital cost shares paid by other wholesale customers that the City may potentially have in the future, nor shall it be reduced by the City's use of its own connection charge income.

6.3.3 Annual Billing for Capital Cost Share. Beginning in 2015, the City shall bill the County prior to March 31 each year for the Carlsborg Capital Cost Share relevant to the previous year's capital expenditures, and the County shall make the required payment within 30 calendar days, subject to the dispute resolution process outlined in Section 7.5 and Section 12. The City may add three-quarters of one percent (0.75%) to the capital cost share as an approximation of accrued interest during the year in which capital expenditures are incurred. The accrued interest factor is further explained in Exhibit C.

6.3.4. No Markup or Out-of-City Multiplier. The Capital Cost Share shall not include a markup or an out-of-City multiplier.

Section 7. Billing and Payment

7.1 **Billing and Payments for O&M Charges and Capital Cost Share.** In consideration for the transmission, treatment and disposal of Wastewater received from the Carlsborg System, the City shall bill the O&M Charges to the County on a monthly basis for the Treatment O&M Charge and one-twelfth (1/12) of the Annual Pipe Charge. The City shall also bill the County annually as set forth in Section 6.3.3 for the Capital Cost Share. The County shall make payments to the City based on the bill. Billing and payment are further described herein.

7.2 **Billings.** A bill that has been properly addressed and deposited in the United States mail, either to the address shown in Section 13.1 or to another address designated by the County in writing, shall be deemed to be presented to the County for payment. If both parties agree in writing, electronic billing may be used, in which case the billing date is the date the bill is sent electronically to the e-mail address designated in writing by the County. The County's payment in full of the monthly bill shall be due and payable at the City's Business Office twenty-five (25) days after the deposit of the City bill in the United States mail or the bill is sent electronically to the County ("Due Date"). Any bill not paid by the Due Date shall be past due. The City may charge interest on any past due bill at the rate applied to other City customers, subject to RCW 35.67.210 or as such statute may be modified, amended or superseded, for every month or portion of a month that the past due amount remains unpaid.

7.3 **Temporary Lapses in Sewer Meter Data.** If metered sewage volume is incomplete or inaccurate for any period of time, the City may bill the County for such period based on an estimated volume using any of the following methods: historical Carlsborg Flows, historical relationship of Carlsborg Flows to related metered water use, or surrogate Carlsborg Flows agreed upon in writing by the Parties. The City shall provide the County documentation of the basis for the estimated Carlsborg Flow in any such instance.

7.4 **County Customers.** The County shall be solely responsible for billing and collecting for sewer service from retail customers connected to the Carlsborg System.

7.5 **Disputed Bills.** If the County believes that a bill from the City is in error, the County shall notify the City and provide supporting documents within the thirty (30) calendar days after the City's transmittal of the bill to the County. Notice of disputed bills shall include payment of undisputed amounts and fifty percent (50%) of disputed amounts. Within ten (10) business days thereafter the City and County shall meet to attempt to resolve the dispute. If the dispute cannot be resolved, then the Parties shall proceed with dispute resolution under Section 12.

7.6 **Notice and Opportunity to Cure Default.** If a past due bill remains unpaid and no notice of dispute has been timely filed under Section 7.5, the City shall give written notice and opportunity to cure to the County ("Notice to Cure").

7.7 Default on Payment Obligations. If the County does not pay the past due bill within fifteen (15) business days after the Notice to Cure is mailed by the City to the County, the City shall have the right to collect the past due amount and impose a one-time penalty of ten percent (10%) of the amount of each past due bill. If the County has provided notice to the City of a dispute concerning a bill pursuant to Section 7.5, no penalty will be added to the bill, but interest will still accrue on the unpaid due amount until the dispute has been resolved and the appropriate payment made, in which case interest shall only apply to the unpaid portion of the appropriate payment. If the dispute resolution process results in an appropriate payment that is less than what the County has already remitted, the City shall refund the difference. The City shall have the right to pursue all lawful means of pursuing debt collection from the County. Subject to the dispute resolution process set forth in Section 12, failure of the County to make payments required under this agreement shall be considered grounds for the City to terminate this Agreement, on at least ten (10) years prior written notice to the County.

Section 8. Sewage Meter/Monitoring Vault

8.1 Access and Maintenance. The City and the County shall have equal access to the Sewer Meter for the purpose of periodic reading of County flows and to perform maintenance and operation functions.

8.2 Meter Recalibration. The Sewer Meter shall be re-calibrated upon the request of either Party. The cost of this recalibration shall be the responsibility of the requesting Party, except that the cost shall be the City's responsibility if a re-calibration has not been performed within the time frame recommended by the manufacturer of the meter. Representatives of each Party shall have the right to observe the recalibration. Should a meter recalibration reflect meter variation greater than five per cent (5%) of the measured meter reading, either Party may request a billing adjustment for the six (6) months previous to the recalibration using the meter variation percentage.

Section 9. Books, Records and Communications

9.1 Books. The City shall keep full and complete books of accounts showing all costs and expenses incurred in connection with the City System, including the maintenance and operations costs, capital costs, and any other costs or offsetting revenues used in calculating amounts payable by the County under this Agreement.

9.2 Inspection. Each Party shall have the right to inspect and copy, during regular business hours, all reports and records maintained by the other Party that relate to this Agreement, including, but not limited to, maintenance and operations costs or any other matter affecting the County's rates, flow records, wastewater quality reports, pretreatment monitoring records, connection records and reports, and reports to the DOE or other regulatory authorities, excepting public records maintained by either Party that (a) are exempt from disclosure pursuant to chapter 42.56 RCW, the Public Records Act, (b) are privileged and confidential pursuant to

chapter 5.26 RCW, or (c) are otherwise not subject to public disclosure or production in civil litigation.

9.3. Policy Notifications. At least fifteen (15) business days in advance of adoption, the City and County shall provide each other with copies of any policies or ordinances related to City treatment capacity, Carlsborg or City pretreatment requirements, or Carlsborg connection requirements. Each party shall endeavor to maintain communications with the other at the management level in order to be aware of the other party's interests while the proposed policies are being developed.

9.4 Annual Report on Industrial or High Strength Customers. The County shall report to the City annually on individual customers who are permitted to discharge industrial or high strength wastewater into the Carlsborg System. This report shall identify the relevant pretreatment requirements and monitoring results for each industrial or high strength customer.

Section 10. Indemnification and Insurance

10.1 City. The City shall indemnify, defend, and hold harmless the County, its officers, agents, and employees from all suits, claims, or liabilities of any nature, including attorneys fees, costs, and expenses, for or on account of injuries or damages sustained by any person or property, resulting from acts or omissions of and to the extent harm is caused by the City, its agents or employees in connection with maintenance and operation of the City System or for breach of its duties under this Agreement. If suit in respect to the above is filed, the City shall defend the suit at the City's own cost and expense, and if judgment is rendered or settlement made requiring payment by the County, its officers, agents or employees, the City shall pay the same. Should a court of competent jurisdiction determine that this indemnity agreement is subject to RCW 4.24.115, then in the event of liability for damages arising out of bodily injury to persons or damages to property caused or resulting from the concurrent negligence of the City and the County, its officials, officers, employees or agents, the City's liability hereunder shall only be to the extent of the City's negligence. It is further specifically and expressly understood that the indemnification provided herein constitutes the City's waiver of immunity under industrial insurance, Title 51 RCW, solely for the purposes of this indemnification. This waiver has been mutually negotiated by the Parties.

10.2 County. The County shall indemnify, defend, and hold harmless the City, its officers, agents, and employees from all suits, claims, or liabilities of any nature, including attorneys fees, costs, and expenses, for or on account of injuries or damages sustained by any person or property, resulting from acts or omissions of and to the extent harm is caused by the County, its agents or employees in connection with maintenance and operation of the County Sewer System or for breach of its duties under this Agreement. If suit in respect to the above is filed, the County shall defend the suit at the County's own cost and expense, and if judgment is rendered or settlement made requiring payment by the City, its officers, agents or employees, the County shall pay the same. Should a court of competent jurisdiction determine that this

indemnity agreement is subject to RCW 4.24.115, then in the event of liability for damages arising out of bodily injury to persons or damages to property caused or resulting from the concurrent negligence of the City and the County, its officials, officers, employees agents, the County's liability hereunder shall only be to the extent of the County's negligence. It is further specifically and expressly understood that the indemnification provided herein constitutes the County's waiver of immunity under industrial insurance, Title 51 RCW, solely for the purposes of this indemnification. This waiver has been mutually negotiated by the Parties.

10.3 Recovery of Cost of Regulatory Violations. If the City incurs fines, penalties, or remedial capital or cleanup costs for which the County is partially or fully responsible, the City shall have the right to charge the County for a proportionate share of any such fines, penalties and remedial capital or cleanup costs, and the County agrees to pay such charges to the City.

10.4 County Insurance Requirement. The County shall maintain insurance sufficient to pay any suits, claims, or liabilities of the City described in Section 10.2 and, in addition, the cost of remediation of environmental damage caused by any County discharge, such as the discharge into or transfer of toxic wastes from the Carlsborg System into the City System. The County, a charter county government under the Washington State Constitution, maintains an insurance program through the Washington Counties Risk pool for the protection and handling of the County's liabilities including injuries to persons and damage to property. The County's current insurance limits are \$10,000,000 per occurrence. The City presumptively agrees that the County's coverage as of the date of this agreement is sufficient to cover known risks as of that date. The County agrees, at its own expense, to maintain this insurance coverage for all of its liability exposures for this Agreement. The County agrees to provide the City with at least thirty (30) days prior written notice of any material change in the County's insurance program. The City acknowledges and understands the County does not purchase Commercial General Liability ("CGL") insurance and therefore the County does not have the ability to add the City as an additional insured under such insurance. Should the County elect to cease insurance through the risk pool and purchase CGL insurance, County agrees to add the City as an additional insured on such insurance and to provide the City with an endorsement confirming the City as an additional insured on such policy or policies. The maintenance of, or lack thereof, of insurance coverage shall not limit the liability of the County to the City.

10.5 Survival. The obligations of this section shall survive the termination of this Agreement, except that insurance need not be maintained that covers events occurring after the termination of the Agreement.

Section 11. Term of Contract

11.1 Term. The Contract shall commence on the Effective Date and continue until terminated in accordance with Section 11.2.

11.2 Expiration and Termination. In the absence of agreement to the contrary, or termination as otherwise provided in this Agreement, this Agreement shall expire on December 31, 2044 ("Expiration Date"); provided, at least ten (10) years prior to the Expiration Date, either Party must notify the other Party in writing if the Party intends to (a) let the Agreement expire and terminate on the Expiration Date, or (b) negotiate changes in the terms and conditions of the Agreement and renew and extend the Agreement. If neither Party provides notice as provided in Section 11.2(a) or (b), the Agreement shall automatically be extended for an additional ten (10) year term on its existing terms and conditions commencing from the Expiration Date set forth above, subject to the ten (10) year notice provision prior to any new Expiration Date, and thereafter until the Agreement is terminated. Notwithstanding the foregoing, the County may terminate this Agreement at any time on at least ten (10) years prior written notice to the City. In addition, the City may terminate this Agreement at any time for cause, only as provided in Section 3.5.2, Section 4.2, or Section 7.7 of this Agreement, on at least ten (10) years prior written notice to the County.

Section 12. Dispute Resolution

12.1 Applicable Law. This Agreement, including all matters of interpretation, validity and performance, shall be governed and enforced in accordance with the laws of the State of Washington.

12.2 Informal Resolution of Disputes. Any dispute arising out of this Agreement, including without limitation issues relating to the validity or enforcement of the Agreement and billing disputes under Section 7.5, shall be referred to representatives of the Parties, who shall meet and make a good faith effort to resolve the dispute among themselves.

12.3 Notice of Formal Dispute. If the Parties have met to resolve the dispute informally and the dispute remains unresolved, then within thirty (30) days of the informal dispute resolution meeting, the Party raising the issue in dispute may invoke formal dispute resolution by providing the other Party with written notice of the dispute, including a brief description of the nature of the dispute and the Party's proposed resolution of the dispute. Notice given by the County of a billing dispute under Section 7.5 shall satisfy the notice requirement for billing disputes.

12.4 Alternative Dispute Resolution. Within fifteen (15) business days after notice is given the Parties shall meet to explore whether the dispute should be resolved by mediation or arbitration. By mutual agreement, the Parties may submit the dispute to non-binding mediation or to binding arbitration. If the Parties agree on arbitration, the arbitration shall be conducted in accordance with this subsection.

12.4.1 Any agreement to arbitrate shall be in writing signed by the Parties, shall conform to the requirements of this subsection, and shall specify the procedures governing the arbitration.

12.4.2 The arbitrator or arbitration panel selected shall have the power and authority to grant legal and equitable relief in accordance with Washington law and the provisions of this Agreement.

12.4.3 The decision of the arbitrator or of a majority of the arbitration panel members shall be final and binding. The costs of arbitration shall be borne equally by the Parties, unless the arbitrator or arbitration panel rules otherwise.

12.5 Litigation of Disputes. In the event that the dispute is not resolved informally or by mediation and the Parties do not agree to arbitration, either Party may commence a suit in Clallam County Superior Court on all claims related to the dispute.

12.6 Emergency Relief. Notwithstanding the other provisions of this Section 12, either Party may seek emergency or temporary equitable relief in Clallam County Superior Court concerning disputes governed by this Section 12 if imminent and irreparable harm to the Party will likely result if action is delayed until completion of the dispute resolution procedures. The Court may grant such temporary relief as may be required to preserve the status quo or otherwise prevent irreparable harm while the Parties pursue resolution of the dispute. The Court may require the Party requesting relief to give such security as the Court deems necessary for the payment of costs and damages that may be incurred by the other Party resulting from temporary relief wrongfully granted.

Section 13. General Provisions

13.1 Notice. Whenever written notice is required by this Agreement, except for notice to cure or notice to terminate, the notice may be given to the following representatives by actual delivery, by United States mail, or by electronic mail addressed to the respective Party at the following addresses or a different address hereafter designated in writing by the Party:

CITY
City Manager
152 W. Cedar Street
Sequim, WA 98382

COUNTY
County Administrator
223 East 4th Street
Port Angeles, WA 98362

The date of notice shall be deemed to be the date of actual delivery in person or by electronic mail, or the postmarked date if notice is by United States mail. Notice to Cure or notice of termination must be accomplished by actual delivery or by both first-class mail and certified mail (with return receipt requested) deposited with the United States Postal Service. In these cases the date of the notice shall be the date received.

13.2 Severability. The purpose of this Agreement is to provide for long-term wastewater disposal, planning and certainty for both Parties. It is the intent of the Parties that if

any provision of this Agreement or its application is held by a court of competent jurisdiction to be illegal, invalid or void, the validity of the remaining provisions of the Agreement or its application shall not be affected. The remaining provisions shall continue in full force and effect, and the rights and obligations of the Parties shall be construed and enforced as if the Agreement did not contain the particular invalid provision; however, if the invalid provision or its application is found by a court of competent jurisdiction to be substantive and to render the performance of the remaining provisions unworkable and non-feasible, or is found to seriously affect the consideration and is inseparably connected to the remainder of the Agreement, the entire Agreement shall be null and void.

13.2.1 Agreement Contingent on DOE Approval. This agreement is contingent on DOE approval of the Carlsborg Wastewater Facilities Plan Amendment (“Amendment”) submitted in June 2014, and other agreements deemed necessary by DOE to allow delivery of Carlsborg wastewater to the City in lieu of constructing a treatment plant in Carlsborg. If the DOE response to the Amendment prevents the County from delivering wastewater to the City, or if the DOE imposes conditions that substantially change the economic viability of delivering wastewater to the City as determined by the County, then this entire Agreement shall be null and void. In that case, any payments the County has paid to the City prior to the DOE decision shall be refunded to the County within ninety (90) calendar days of DOE’s decision or as agreed upon in writing by the Parties.

13.3 No Joint Venture - Individual Liability. This is not an agreement of joint venture or partnership, and no provisions of this Agreement shall be construed so as to make the City individually or collectively a partner or joint venturer with the County. Neither Party is an agent of the other. Neither the City nor the County shall be liable for the acts of the other in any representative capacity whatsoever.

13.4 Complete Agreement. This Agreement represents the entire agreement between the Parties concerning this subject matter. The Agreement may be amended as provided herein, or as otherwise agreed to by the legislative bodies of both Parties.

13.5 Venue, Jurisdiction and Specific Performance. In the event of litigation between the Parties, venue and jurisdiction shall lie with the Clallam County Superior Court of the State of Washington. The Parties shall be entitled to specific performance of the terms and conditions of this Agreement.

13.6 Default Other Than Payment Default. In the event of default other than on payment obligations addressed in Section 7, the non-defaulting Party shall issue written notice to the other Party setting forth the nature of the default. The defaulting Party shall use its best efforts to cure the default within ninety (90) calendar days. If such default cannot be reasonably cured within such ninety (90) day period, the defaulting party shall, upon written request prior to the expiration of the ninety (90) day period, be granted an additional sixty (60) calendar days to cure the default.

13.7 Force Majeure. The time periods for the Parties performance under any provisions of this Agreement shall be extended for a reasonable period of time during which the respective Party's performance is prevented, in good faith, due to fire, flood, earthquake, lockouts, strikes, embargoes, acts of God, war or civil disobedience. If this provision is invoked, the Parties agree to immediately take all reasonable steps to alleviate, cure, minimize or avoid the cause preventing such performance, at their respective sole cost and expense.

13.8 Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Parties and their respective successors and assigns, provided the County shall not have the right to assign its rights and obligations in this Agreement without the City's prior written approval of any such proposed assignment, such approval not to be unreasonably withheld.

13.9 Recitals Incorporated by Reference. The Recitals set forth in Section 1 above are hereby incorporated in this Agreement in full by this reference.

13.10 No Third Party Beneficiaries. Except as expressly set forth in this Agreement, nothing in this Agreement is intended to confer upon any person or entity, other than the Parties hereto, any rights, benefits, privileges or obligations. No such third-party shall have any right to enforce any of the terms of this Agreement unless expressly stated otherwise.

13.11 Waiver. A waiver by either Party of any terms or conditions of this Agreement shall not be deemed or construed to be a waiver of any other term or condition, nor shall the waiver of any breach or default by either Party under the Agreement be deemed or construed to constitute a waiver of any subsequent breach or default, whether of the same or any other term or condition of this Agreement.

13.12 Exhibits. Exhibits A, B, and C are attached and incorporated into this Agreement in full by this reference.

13.13 Effective Date. This Agreement and its terms and conditions shall be effective on the date by which the Agreement is signed by both Parties ("Effective Date").

13.14 Recording. This Agreement shall be recorded with the Clallam County Auditor following its approval and execution by the Parties.

IN WITNESS WHEREOF, the Parties hereby execute this Agreement.

CITY OF SEQUIM

By: Candace Pratt

Title: Mayor

Date: 11/24/14

APPROVED AS TO FORM:

G O M
City Attorney

CLALLAM COUNTY

APPROVED this 24th day of November 2014

William Payne
County Prosecutor William Payne

BOARD OF CLALLAM COUNTY COMMISSIONERS

Michael C. Chapman
Michael C. Chapman, Chair

Jim McEntire
Jim McEntire

ATTEST:

Trish Holden
Trish Holden, CMC, Clerk of the Board

Howard V. Doherty, Jr.
Howard V. Doherty, Jr.

EXHIBIT A: Maps and Table of Transmission Route

EXHIBIT A

Map and Table Identifying Transmission Route and Carlsborg Transmission Percentages

EXHIBIT A: Map and Table of Transmission Route

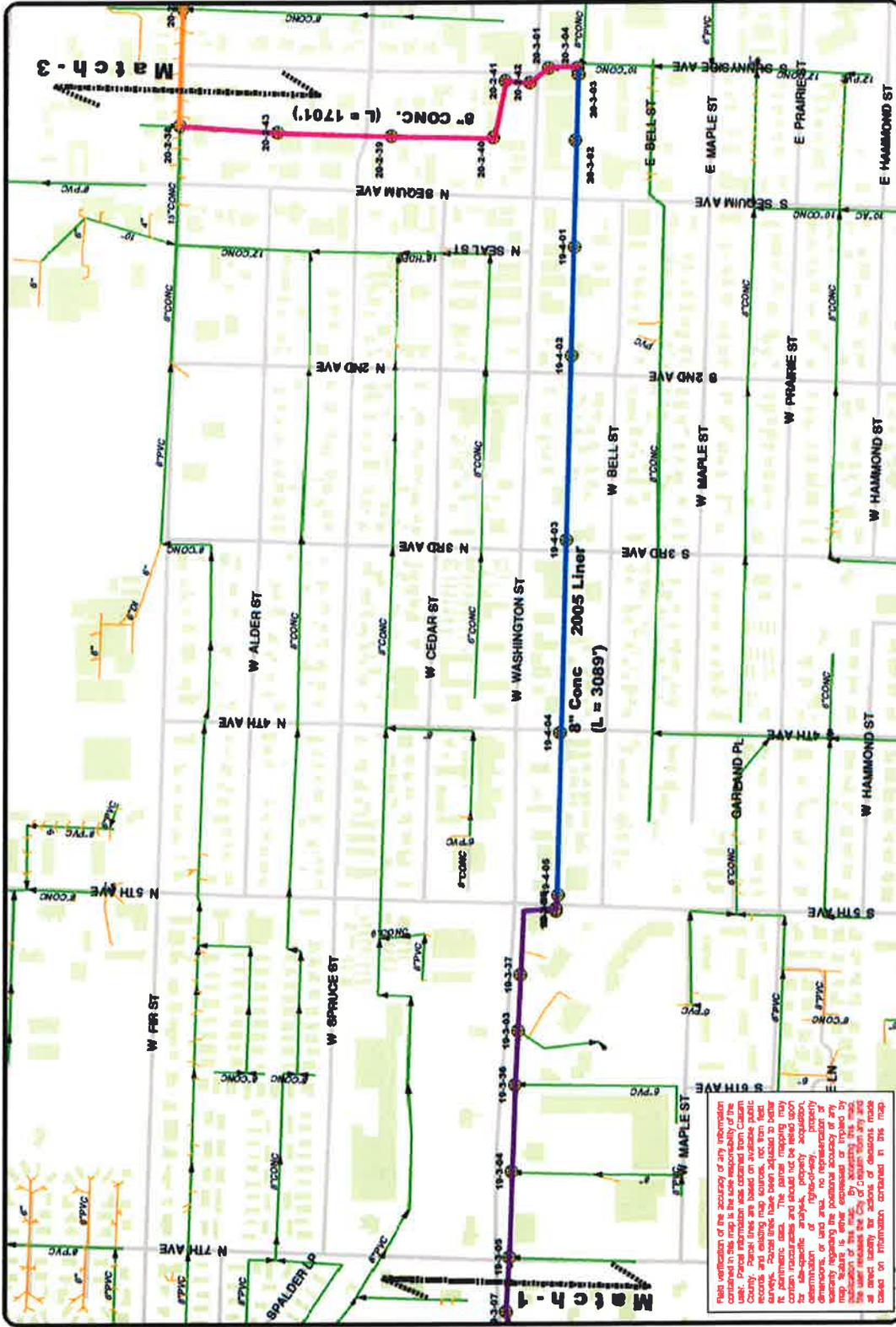
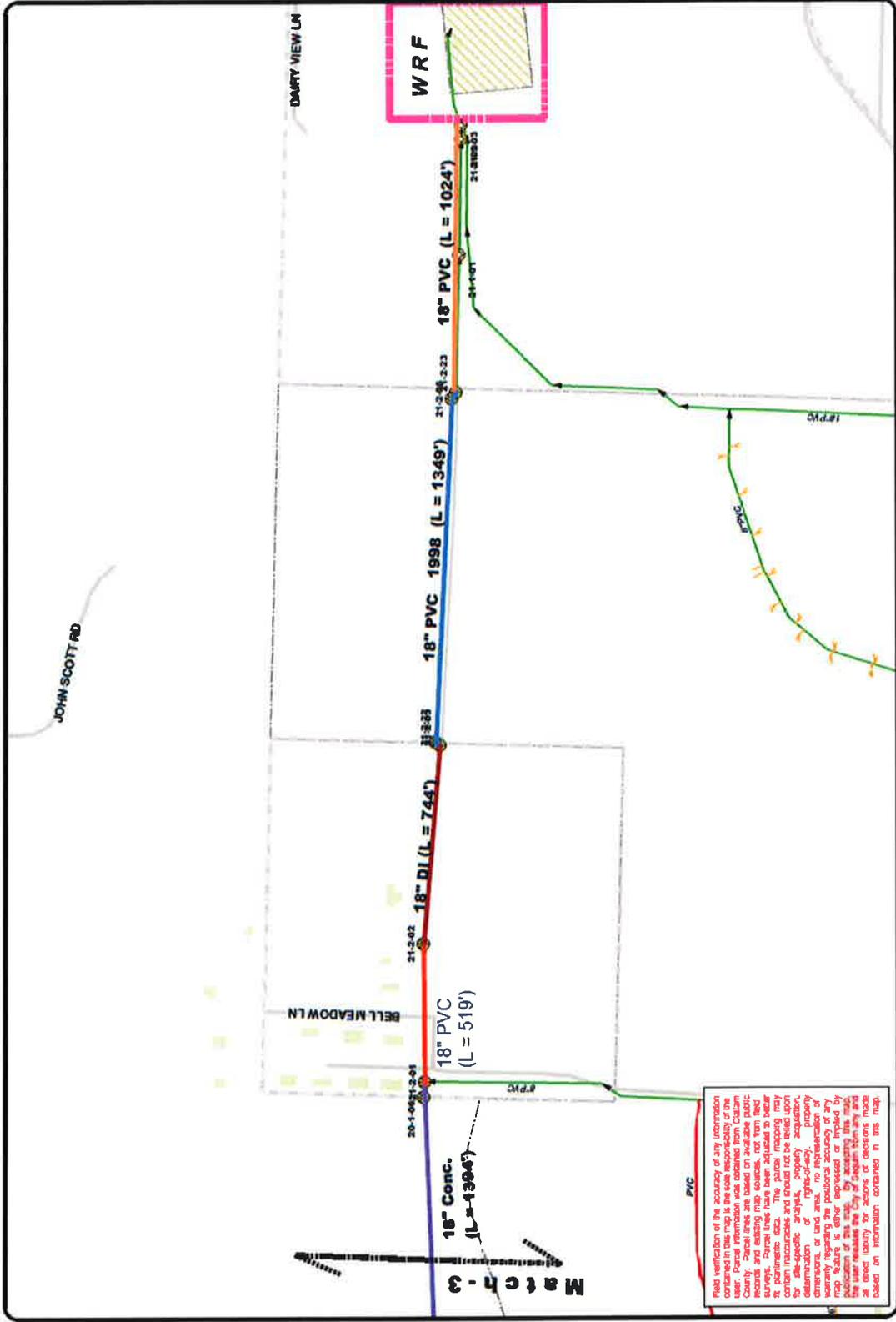


EXHIBIT A: Transmission Route Map

Project Date: 11/16/2014

EXHIBIT A: Map and Table of Transmission Route



PVC

Each section of the route of any information contained in this map is the sole responsibility of the user. Parcel information was obtained from Cullman County. Parcel lines are based on available public records and may not be 100% accurate. The route shown may have been adjusted to better fit planning etc. The parcel mapping may contain inaccuracies and should not be relied upon for legal, engineering, surveying, or other purposes. The user assumes the City of Sequim has no liability for actions or decisions made based on information contained in this map.



EXHIBIT A: Transmission Route Map

EXHIBIT A: Map and Table of Transmission Route

Table Identifying Transmission Route and Carlsborg Transmission Percentages

| Exhibit A: Carlsborg Percentage of Transmission Route Projected Flows | | | | | | | | Carlsborg |
|---|------------|-------------------|--------------------------------------|-------------------|---------------|---------------------|------------------|--------------------------|
| From Manhole | To Manhole | Direction of Flow | Direction & Nearest Street Alignment | Diameter (inches) | Pipe Material | Length (lineal ft.) | Total Flow (gpm) | Transmission Percentages |
| <i>Source: Gray & Osborne, Pipe Replacement_020314.xlsx, with pipe lengths from City GIS. Assumes 227 gpm Peak Hour Flow from Carlsborg in 2030, per Table 2-3, Carlsborg Wastewater Facilities Plan Amendment.</i> | | | | | | | | |
| 24-3-06 | 24-4-47 | East | Grant Road/Priv. Prop. | 8 | PVC | 2,404 | 268 | 84.6% |
| 24-4-47 | 24-4-46 | North | Private Property | 8 | PVC | 398 | 268 | 84.6% |
| 24-4-46 | 24-4-45 | West | Private Property | 8 | PVC | 240 | 268 | 84.6% |
| 24-4-45 | 24-4-03 | North | Private Property | 8 | PVC | 401 | 268 | 84.6% |
| 24-4-03 | 19-3-04 | East | W. Washington St. | 8 | PVC | 2,685 | 268 | 84.6% |
| 19-3-04 | 19-4-05 | East | W. Washington/S. 5th | 8 | PVC | 1,149 | 268 | 74.3% |
| 19-4-05 | 20-3-04 | East | Alley W. Bell/Etta St. | 8 | Insituform | 3,089 | 306 | 74.3% |
| 20-3-04 | 20-3-01 | North | S. Sunnyside Ave. | 12 | Concrete | 110 | 1,088 | 74.3% |
| 20-3-01 | 20-2-38 | North | S. Sunnyside Ave. | 12 | Concrete | 1,591 | 1,088 | 20.9% |
| 20-2-38 | 20-2-34 | East | E. Fir St. | 15 | Concrete | 440 | 1,477 | 15.4% |
| 20-2-34 | 20-2-29 | East | E. Fir St. | 15 | Concrete | 660 | 1,529 | 14.8% |
| 20-2-29 | 20-2-25 | East | E. Fir St. | 15 | Concrete | 332 | 1,546 | 14.7% |
| 20-2-25 | 20-2-17 | East | E. Fir St. | 15 | Concrete | 339 | 1,554 | 14.6% |
| 20-2-17 | 20-2-05 | East | E. Fir St. | 15 | Concrete | 654 | 1,561 | 14.5% |
| 20-2-05 | 20-2-04 | North | N. Brown Rd. | 15 | Concrete | 313 | 1,589 | 14.3% |
| 20-2-04 | 20-1-19 | East | Alley E. Willow St. | 15 | Concrete | 1,321 | 2,256 | 10.1% |
| 20-1-19 | 20-1-07 | North | N. Blake Ave. | 15 | Concrete | 288 | 2,659 | 8.5% |
| 20-1-07 | 21-2-01 | East | West of WRF | 18 | Concrete | 1,394 | 2,659 | 8.5% |
| 21-2-01 | 21-2-02 | East | West of WRF | 18 | PVC | 519 | 2,683 | 8.5% |
| 21-2-02 | 21-2-22 | East | West of WRF | 18 | DI | 744 | 2,683 | 8.5% |
| 21-2-22 | 21-2-23 | East | West of WRF | 18 | PVC | 1,349 | 2,683 | 8.5% |
| 21-2-23 | Headworks | East | West of WRF | 18 | PVC | 1,024 | 2,683 | 8.5% |
| Total | | | | | | 21,444 | | |
| Weighted Average Carlsborg Percentage of Transmission Route | | | | | | | | 45.39% |
| Total Sequim Collection System (lineal feet) | | | | | | 385,440 | | |
| Transmission Route as % of Total Collection System | | | | | | | | 5.56% |
| Carlsborg Percentage of Entire City Collection System | | | | | | | | 2.52% |

EXHIBIT B: Examples Showing Calculation of O&M Charges

EXHIBIT B

Examples Showing Calculation of O&M Charges:

1. Treatment O&M Charge
2. Annual Pipe Charge
3. Estimated vs. Adjusted O&M Charges

EXHIBIT B: Examples Showing Calculation of O&M Charges

1. Treatment O&M Charge

| Calculation of Treatment O&M Charge Example | City Expenditures | Exclude | Applicable City Expenditures |
|---|-------------------|------------------|------------------------------|
| Sequim Treatment O&M Cost Basis | | | |
| Direct: | | | |
| City B&O Tax - Treatment | 184,665 | (184,665) | - |
| Salaries | 224,345 | | 224,345 |
| OT | 13,417 | | 13,417 |
| Call Wages | 14,252 | | 14,252 |
| L&I Ins | 8,498 | | 8,498 |
| FICA/Medicare | 19,621 | | 19,621 |
| PERS | 20,535 | | 20,535 |
| Health Ins | 55,037 | | 55,037 |
| Other Benefits | 8,747 | | 8,747 |
| Supplies/Chemicals | 116,328 | | 116,328 |
| Fuel | 45,027 | | 45,027 |
| Small Tools/Minor Equip | 5,772 | | 5,772 |
| Prof Svcs | 49,564 | | 49,564 |
| Travel & Meals | 23 | | 23 |
| Utilities | 71,664 | | 71,664 |
| Repair & Maint | 47,095 | | 47,095 |
| Misc Svcs & Fees | 9,937 | | 9,937 |
| State Utility Taxes | 47,210 | (47,210) | - |
| Reuse Prof Svcs | 155,832 | | 155,832 |
| Subtotal | 1,097,570 | (231,874) | 865,696 |
| Share of Utility Mgr Salary | 26,786 | | 26,786 |
| Total Treatment O&M Direct | 1,124,357 | (231,874) | 892,482 |
| Indirect: | | | |
| Transfer - Allocated Central Services | 691,964 | | 691,964 |
| Capital Replacement Reserve | 100,657 | (100,657) | - |
| Debt Svc | 629,895 | (629,895) | - |
| Total Indirect | 1,422,516 | (730,552) | 691,964 |
| Total Treatment O&M Cost Basis (annual \$) | 2,546,873 | (962,426) | 1,584,447 |
| O&M Markup Percentage | | | 25.00% |
| O&M Markup - Treatment | | | 396,112 |
| Treatment O&M Cost Basis plus O&M Markup | | | 1,980,558 |
| Total Flow to WRF (gallons/year) | | | 204,112,542 |
| Treatment O&M Rate (\$/gallon, rounded off to four decimal places) | | | \$ 0.0097 |
| Carlsborg Actual Flows in example month (gal) | | | 680,375 |
| Treatment O&M Charge in example month | | | \$ 6,600 |
| Carlsborg Actual Flows in example year (gal) | | | 9,185,064 |
| Treatment O&M Charge in example year | | | \$ 89,095 |

EXHIBIT B: Examples Showing Calculation of O&M Charges

2. Annual Pipe Charge

| Calculation of Pipe Charge Example | City Expenditures | Exclude | Applicable City Expenditures |
|--|---------------------|---------------------|------------------------------|
| Sequim Collection System O&M Cost Basis | | | |
| Direct: | | | |
| Billing Supplies | \$ 1,530 | \$ (1,530) | \$ - |
| Admin Communications | 8,695 | | 8,695 |
| Admin Repair & Maint | 3,611 | | 3,611 |
| Admin Intergov Prof Svcs | 15,131 | | 15,131 |
| City B&O tax - Admin | 89,156 | (89,156) | - |
| Trans Salaries | 150,127 | | 150,127 |
| Trans OT | 9,407 | | 9,407 |
| Trans Call Wages | 7,300 | | 7,300 |
| Trans L&I Ins | 4,657 | | 4,657 |
| Trans FIC/Medicare | 13,381 | | 13,381 |
| Trans PERS | 13,708 | | 13,708 |
| Trans Health Ins | 36,582 | | 36,582 |
| Trans Supplies | 24,298 | | 24,298 |
| Trans Inv for Sale (BFP) | 1,902 | | 1,902 |
| Trans Tools & Minor Equip | 28,161 | | 28,161 |
| Trans Prof Svcs | 20,766 | | 20,766 |
| Trans Travel & Meals | 1,508 | | 1,508 |
| Pump Station Utilities | 17,131 | (17,131) | - |
| Trans Repair & Maint | 36,283 | | 36,283 |
| Trans Misc Svcs & Fees | 13,535 | | 13,535 |
| State Utility Taxes | 19,252 | (19,252) | - |
| Subtotal | 516,122 | (127,070) | 389,052 |
| Share of Util Manager Salary | 26,786 | | 26,786 |
| Total Sewer O&M Direct | 542,908 | (127,070) | 415,839 |
| Indirect: | | | |
| Transfer - Allocated Central Services | 334,123 | | 334,123 |
| Capital - Utility Repair | 319,163 | (319,163) | - |
| Capital Transfer to Stormwater | 24,000 | (24,000) | - |
| Operating Transfer to Stormwater | 55,000 | (55,000) | - |
| Capital Replacement Reserve | 48,603 | (48,603) | - |
| Total Indirect | 780,889 | (446,766) | 334,123 |
| Total Collection/Transmission Costs | 1,323,797 | (573,835) | 749,961 |
| Exclude: | | | |
| Pump Station Maintenance Labor | (24,200) | | (24,200) |
| Sewer Share of Customer Service Labor | (30,470) | | (30,470) |
| Total Collection System O&M Cost Basis (annual \$) | \$ 1,269,127 | \$ (573,835) | \$ 695,291 |
| O&M Markup Percentage | | | 25.00% |
| O&M Markup - Collection System | | | 173,823 |
| Collection System O&M Cost Basis plus O&M Markup | | | \$ 869,114 |
| Carlsborg Percentage of Entire City Collection System: | | | |
| <i>As of September 2014</i> | | | |
| Total Sequim Collection System (lf) | | | 385,440 |
| Shared pipes along Carlsborg transmission route (lf) | | | 21,444 |
| Shared pipes as % of total City collection system (rounded off) | | | 5.56% |
| Average projected Carlsborg % of flow in shared pipes (rounded off) | | | 45.39% |
| Carlsborg Percentage of Entire City Collection System (rounded off) | | | 2.52% |
| Annual Pipe Charge for Example Year | | | \$ 21,902 |
| Monthly Pipe Charge during Example Year | | | \$ 1,825 |

EXHIBIT B: Examples Showing Calculation of O&M Charges

3. Estimated vs. Adjusted O&M Charges

| Estimated vs. Adjusted O&M Charge Example | Estimate | Actual/Corrected | Adjustment |
|--|-------------|------------------|------------|
| Treatment O&M Charge | | | |
| Treatment O&M Cost Basis | 1,600,000 | 1,584,447 | |
| O&M Markup % | 25.00% | 25.00% | |
| O&M Markup | 400,000 | 396,112 | |
| Treatment O&M Basis plus O&M Markup | 2,000,000 | 1,980,558 | |
| Total Flow to WRF (gallons/year) | 210,000,000 | 204,112,542 | |
| Treatment O&M Rate (\$/gallon) | \$ 0.009524 | \$ 0.009703 | |
| Carlsborg Flows (gallons/year) | 9,185,064 | 9,185,064 | |
| Treatment O&M Charge | \$ 87,477 | \$ 89,125 | \$ 1,648 |
| Annual Pipe Charge | | | |
| Collection System O&M Cost Basis | 730,000 | 695,291 | |
| O&M Markup % | 25.00% | 25.00% | |
| O&M Markup | 182,500 | 173,823 | |
| Collection System O&M Cost Basis plus O&M Markup | 912,500 | 869,114 | |
| Carlsborg Pct of Entire City Collection System | 2.52% | 2.52% | |
| Annual Pipe Charge | \$ 22,995 | \$ 21,902 | \$ (1,093) |
| Combined O&M Charges | | | |
| Total O&M Charges | \$ 110,472 | \$ 111,027 | \$ 555 |
| Monthly Adjustment for Next 12 Months | | | \$ 46 |

EXHIBIT C: Calculation of Capacity Charges and Explanation of Accrued Interest Factor

EXHIBIT C

Calculation of Capacity Charges and Explanation of Accrued Interest Factor:

1. Calculation of Initial Capacity Charge for Transmission Route
2. Calculation of Initial Capacity Charge for Treatment Assets and Total Initial Capacity Charge
3. Hypothetical Calculation of Future Capacity Charges if Capacity Reservation is Increased
4. Hypothetical Calculation of Future Capacity Refund Payment if Capacity Reservation is Decreased
5. Explanation of Accrued Interest Factor

EXHIBIT C: Calculation of Capacity Charges and Explanation of Accrued Interest Factor

1. Calculation of Initial Capacity Charge for Transmission Route

Assumed Unit Replacement Costs by Pipe Size

| Actual Unit Cost of Collection System Extension | | | Estimated Replacement Cost/LF by Pipe Size | | | | | |
|---|----------|------------|---|-----------------|-------------|--------------|----------------------|-------------------------|
| <i>Source: City bid records</i> | | | <i>Source of Pipe Unit Costs: Carlsborg Wastewater Facilities</i> | | | | | |
| Length of Sewer Extension | 1,800 LF | | <i>Plan Amendment, Appendix F (pp. 341, 349)</i> | | | | | |
| Cost of Pipe: | | | Pipe Diameter | Pipe Unit Costs | Cost Factor | Pipe Cost/LF | Installation Cost/LF | Est. Cost/LF Sewer Line |
| 8" pipe | | \$ 144,000 | 8" | \$55 | 1.00 | \$87 | \$145 | \$232 |
| Sales Tax | 8.40% | 12,096 | 12" | 75 | 1.36 | 118 | 145 | 263 |
| Total Cost of Pipe | | \$ 156,096 | 15" | 80 | 1.45 | 126 | 145 | 271 |
| Cost of Pipe per LF | | \$ 87 | 18" | 85 | 1.55 | 134 | 145 | 279 |
| Cost of Installation & Project Mgt: | | | | | | | | |
| Installation Costs | | \$ 163,700 | | | | | | |
| Sales Tax | 8.40% | 13,751 | | | | | | |
| Engineer/Project Admin | 25% | 83,387 | | | | | | |
| Total Installation/Proj Mgt Cost | | \$ 260,838 | | | | | | |
| Installation/Proj Mgt Cost per LF | | \$ 145 | | | | | | |
| Total Cost of Sewer Extension | | \$ 416,934 | | | | | | |
| Avg Replacement Cost/LF (8" pipe) | | \$ 232 | | | | | | |

Estimated Original Cost by Pipe Segment

| Exhibit C - Transmission Route | | | | | Assumed | Assumed | Est 2014 | ENR | Estimated |
|--|-----------|-----------|------------------------|---------------|-----------|-------------|---------------------|-----------|---------------------|
| From | To | Direction | Direction & Nearest | Length | Year | Replacement | Replacement | Inflation | Original |
| Manhole | Manhole | of Flow | Street Alignment | (lineal ft.) | Installed | Cost/LF | Cost (\$) | Factor | Cost (\$) |
| <i>Source: City of Sequim GIS data. Installation date of 1960 is assumed average for sewer lines installed 1950-1970. Actual cost of 2005 Insituform lining of W. Bell line is shown. Manhole 21-2-22 to 21-2-23 segment replaced by WSDOT in 2000 at no cost to City.</i> | | | | | | | | | |
| 24-3-06 | 24-4-47 | East | Grant Road/Priv. Prop. | 2,404 | 1999 | \$ 232 | \$ 556,838 | 0.613 | \$ 341,487 |
| 24-4-47 | 24-4-46 | North | Private Property | 398 | 1999 | 232 | 92,189 | 0.613 | 56,536 |
| 24-4-46 | 24-4-45 | West | Private Property | 240 | 1999 | 232 | 55,591 | 0.613 | 34,092 |
| 24-4-45 | 24-4-03 | North | Private Property | 401 | 1999 | 232 | 92,884 | 0.613 | 56,962 |
| 24-4-03 | 19-3-04 | East | W. Washington St. | 2,685 | 1984 | 232 | 621,926 | 0.420 | 260,961 |
| 19-3-04 | 19-4-05 | East | W. Washington/S. 5th | 1,149 | 1984 | 232 | 266,143 | 0.420 | 111,674 |
| 19-4-05 | 20-3-04 | East | Alley W. Bell/Etta St. | 3,089 | 2005 | | | | 153,249 |
| 20-3-04 | 20-3-01 | North | S. Sunnyside Ave. | 110 | 1960 | 263 | 29,016 | 0.083 | 2,420 |
| 20-3-01 | 20-2-38 | North | S. Sunnyside Ave. | 1,591 | 1960 | 263 | 418,694 | 0.083 | 34,917 |
| 20-2-38 | 20-2-34 | East | E. Fir St. | 440 | 1960 | 271 | 119,261 | 0.083 | 9,946 |
| 20-2-34 | 20-2-29 | East | E. Fir St. | 660 | 1960 | 271 | 178,919 | 0.083 | 14,921 |
| 20-2-29 | 20-2-25 | East | E. Fir St. | 332 | 1960 | 271 | 89,988 | 0.083 | 7,504 |
| 20-2-25 | 20-2-17 | East | E. Fir St. | 339 | 1960 | 271 | 91,774 | 0.083 | 7,653 |
| 20-2-17 | 20-2-05 | East | E. Fir St. | 654 | 1960 | 271 | 177,363 | 0.083 | 14,791 |
| 20-2-05 | 20-2-04 | North | N. Brown Rd. | 313 | 1960 | 271 | 84,813 | 0.083 | 7,073 |
| 20-2-04 | 20-1-19 | East | Alley E. Willow St. | 1,321 | 1960 | 271 | 358,054 | 0.083 | 29,860 |
| 20-1-19 | 20-1-07 | North | N. Blake Ave. | 288 | 1960 | 271 | 78,062 | 0.083 | 6,510 |
| 20-1-07 | 21-2-01 | East | West of WRF | 1,394 | 1960 | 279 | 388,831 | 0.083 | 32,426 |
| 21-2-01 | 21-2-02 | East | West of WRF | 519 | 1960 | 279 | 144,765 | 0.083 | 12,073 |
| 21-2-02 | 21-2-22 | East | West of WRF | 744 | 1960 | 279 | 207,525 | 0.083 | 17,306 |
| 21-2-22 | 21-2-23 | East | West of WRF | 1,349 | 2000 | | | | - |
| 21-2-23 | Headworks | East | West of WRF | 1,024 | 1960 | 279 | 285,626 | 0.083 | 23,820 |
| Total | | | | 21,444 | | | \$ 4,338,262 | | \$ 1,236,179 |

EXHIBIT C: Calculation of Capacity Charges and Explanation of Accrued Interest Factor

1. Calculation of Initial Capacity Charge for Transmission Route, continued

Carlsborg Share of Net Book Value by Pipe Segment

| Exhibit C - Transmission Route | | | | Estimated | Assumed | Age | Net Book | Carlsborg | Carlsborg |
|---|-----------|-----------|------------------------|---------------------|---------|------|-------------------|--------------|-------------------|
| From | To | Direction | Direction & Nearest | Original | Useful | in | Value as of | Transmission | Share of Net |
| Manhole | Manhole | of Flow | Street Alignment | Cost (\$) | Life | 2015 | 2015 | Percentages | Book Value |
| 24-3-06 | 24-4-47 | East | Grant Road/Priv. Prop. | \$ 341,487 | 60 | 16 | \$ 250,424 | 84.6% | \$ 211,858 |
| 24-4-47 | 24-4-46 | North | Private Property | 56,536 | 60 | 16 | 41,459 | 84.6% | 35,075 |
| 24-4-46 | 24-4-45 | West | Private Property | 34,092 | 60 | 16 | 25,001 | 84.6% | 21,151 |
| 24-4-45 | 24-4-03 | North | Private Property | 56,962 | 60 | 16 | 41,772 | 84.6% | 35,339 |
| 24-4-03 | 19-3-04 | East | W. Washington St. | 260,961 | 60 | 31 | 126,131 | 84.6% | 106,707 |
| 19-3-04 | 19-4-05 | East | W. Washington/S. 5th | 111,674 | 60 | 31 | 53,976 | 74.3% | 40,080 |
| 19-4-05 | 20-3-04 | East | Alley W. Bell/Etta St. | 153,249 | 60 | 10 | 127,708 | 74.3% | 94,830 |
| 20-3-04 | 20-3-01 | North | S. Sunnyside Ave. | 2,420 | 60 | 55 | 202 | 74.3% | 150 |
| 20-3-01 | 20-2-38 | North | S. Sunnyside Ave. | 34,917 | 60 | 55 | 2,910 | 20.9% | 607 |
| 20-2-38 | 20-2-34 | East | E. Fir St. | 9,946 | 60 | 55 | 829 | 15.4% | 127 |
| 20-2-34 | 20-2-29 | East | E. Fir St. | 14,921 | 60 | 55 | 1,243 | 14.8% | 185 |
| 20-2-29 | 20-2-25 | East | E. Fir St. | 7,504 | 60 | 55 | 625 | 14.7% | 92 |
| 20-2-25 | 20-2-17 | East | E. Fir St. | 7,653 | 60 | 55 | 638 | 14.6% | 93 |
| 20-2-17 | 20-2-05 | East | E. Fir St. | 14,791 | 60 | 55 | 1,233 | 14.5% | 179 |
| 20-2-05 | 20-2-04 | North | N. Brown Rd. | 7,073 | 60 | 55 | 589 | 14.3% | 84 |
| 20-2-04 | 20-1-19 | East | Alley E. Willow St. | 29,860 | 60 | 55 | 2,488 | 10.1% | 250 |
| 20-1-19 | 20-1-07 | North | N. Blake Ave. | 6,510 | 60 | 55 | 542 | 8.5% | 46 |
| 20-1-07 | 21-2-01 | East | West of WRF | 32,426 | 60 | 55 | 2,702 | 8.5% | 231 |
| 21-2-01 | 21-2-02 | East | West of WRF | 12,073 | 60 | 55 | 1,006 | 8.5% | 85 |
| 21-2-02 | 21-2-22 | East | West of WRF | 17,306 | 60 | 55 | 1,442 | 8.5% | 122 |
| 21-2-22 | 21-2-23 | East | West of WRF | - | 60 | 15 | - | 8.5% | - |
| 21-2-23 | Headworks | East | West of WRF | 23,820 | 60 | 55 | 1,985 | 8.5% | 168 |
| Total | | | | \$ 1,236,179 | | | \$ 684,905 | | |
| Initial Capacity Charge for Transmission Route | | | | | | | | | \$ 547,460 |

EXHIBIT C: Calculation of Capacity Charges and Explanation of Accrued Interest Factor

2. Calculation of Initial Capacity Charge for Treatment Assets and Total Initial Capacity Charge

| Carlsborg Initial Capacity Charge | | | | | | |
|---|-----------------------|----------------------|-------------------------|------------------------|--------------------|-------------------------|
| Pre-2014 Sequim Wastewater Treatment Assets | | | | | | |
| Estimated Original Cost less Depreciation as of December 2015 | | | | | | |
| Exhibit C - Treatment Assets | | | | | | Net Book |
| Pre-2014 Asset | Year Installed | Original Cost | Est. Useful Life | Annual Deprec % | Age in 2015 | Value as of 2015 |
| <i>Sources: Gray & Osborne November 2011 Technical Memo Appendix B, subsequent City accounting records.</i> | | | | | | |
| Treatment Assets: | | | | | | |
| 1984 Plant Improvements: | 1984 | 1,224,364 | 50 | 2.0% | 31 | 465,258 |
| New Headworks | | | | | | |
| Secondary Splitter Box | | | | | | |
| New Lab Building 2 | | | | | | |
| New Oxidation Ditch | | | | | | |
| New Clarifier 1 | | | | | | |
| Waste Sludge Pump Building | | | | | | |
| Tank Conversions | | | | | | |
| Chlorine Tank | | | | | | |
| Aerobic Digesters | 1993 | 600,000 | 40 | 2.5% | 22 | 270,000 |
| Building Conversion | 1993 | 150,000 | 50 | 2.0% | 22 | 84,000 |
| Clarifier #2 | 1993 | 620,000 | 50 | 2.0% | 22 | 347,200 |
| RAS Pumping Station | 1993 | 60,000 | 40 | 2.5% | 22 | 27,000 |
| Other 1993 Projects | 1993 | 897,000 | 40 | 2.5% | 22 | 403,650 |
| Flow Equalization Basin | 1997 | 442,000 | 50 | 2.0% | 18 | 282,880 |
| Flow Diversion | 1997 | 70,000 | 40 | 2.5% | 18 | 38,500 |
| Coagulation Facility | 1997 | 676,000 | 40 | 2.5% | 18 | 371,800 |
| Holding Pond | 1997 | 321,000 | 40 | 2.5% | 18 | 176,550 |
| Control Building | 1997 | 233,000 | 50 | 2.0% | 18 | 149,120 |
| Backwash Basin | 1997 | 42,000 | 50 | 2.0% | 18 | 26,880 |
| UV Basin | 1997 | 207,000 | 40 | 2.5% | 18 | 113,850 |
| Other 1997 Projects | 1997 | 319,000 | 40 | 2.5% | 18 | 175,450 |
| Biosolids Improvements | 2003 | 1,107,165 | 30 | 3.3% | 12 | 664,299 |
| Phase 1A & 1B WRF Improvements | 2010 | 9,755,000 | 30 | 3.3% | 5 | 8,129,167 |
| Filtration Basin Design 2011 | 2011 | 24,028 | 40 | 2.5% | 4 | 21,625 |
| Carlsborg Engineering | 2011 | 17,985 | 30 | 3.3% | 4 | 15,587 |
| Miscellaneous Treatment Projects | 2011 | 11,908 | 40 | 2.5% | 4 | 10,717 |
| General Sewer Plan | 2012 | 88,150 | 6 | 16.7% | 3 | 44,075 |
| Filtration Basin Design 2012 | 2012 | 31,920 | 40 | 2.5% | 3 | 29,526 |
| Filtration Basin Construction 2012 | 2012 | 205,545 | 40 | 2.5% | 3 | 190,129 |
| WRF Server Room | 2012 | 38,117 | 40 | 2.5% | 3 | 35,258 |
| Digester Engineering | 2013 | 70,067 | 40 | 2.5% | 2 | 66,564 |
| Filtration Basin Construction 2013 | 2013 | 401,315 | 40 | 2.5% | 2 | 381,249 |
| Total Pre-2014 Treatment Assets | | \$17,612,564 | | | | \$12,520,335 |
| Total Projected Treatment Capacity (gpd) | | | | | | 1,670,000 |
| Net Book Value of Pre-2014 Assets per gpd Capacity | | | | | | \$ 7.50 |
| Initial Capacity Reservation (gpd) | | | | | | 105,000 |
| Initial Capacity Charge for Treatment Assets | | | | | | \$ 787,207 |
| <i>Initial Capacity Percentage</i> | | | | | | 6.29% |
| Initial Capacity Charge for Transmission Route Assets | | | | | | \$ 547,460 |
| Total Initial Capacity Charge | | | | | | \$ 1,334,666 |

EXHIBIT C: Calculation of Capacity Charges and Explanation of Accrued Interest Factor

**3. Hypothetical Calculation of Future Capacity Charges
if Capacity Reservation is Increased (applies to Treatment Assets only)**

| Exhibit C - Treatment Assets Pre-2014 Asset | Year Installed | Original Cost | Est. Useful Life | Hypothetical Future Capacity Charges Net Book Value of Pre-2014 Assets | | | |
|--|-------------------|---------------------|---------------------|---|---------------------|---------------------|-------------------|
| | | | | 2020 | 2025 | 2035 | 2045 |
| | | | | Treatment Assets: | | | |
| 1984 Plant Improvements: | 1984 | 1,224,364 | 50 | 342,822 | 220,386 | - | - |
| New Headworks | | | | | | | |
| Secondary Splitter Box | | | | | | | |
| New Lab Building 2 | | | | | | | |
| New Oxidation Ditch | | | | | | | |
| New Clarifier 1 | | | | | | | |
| Waste Sludge Pump Building | | | | | | | |
| Tank Conversions | | | | | | | |
| Chlorine Tank | | | | | | | |
| Aerobic Digesters | 1993 | 600,000 | 40 | 195,000 | 120,000 | - | - |
| Building Conversion | 1993 | 150,000 | 50 | 69,000 | 54,000 | 24,000 | - |
| Clarifier #2 | 1993 | 620,000 | 50 | 285,200 | 223,200 | 99,200 | - |
| RAS Pumping Station | 1993 | 60,000 | 40 | 19,500 | 12,000 | - | - |
| Other 1993 Projects | 1993 | 897,000 | 40 | 291,525 | 179,400 | - | - |
| Flow Equalization Basin | 1997 | 442,000 | 50 | 238,680 | 194,480 | 106,080 | 17,680 |
| Flow Diversion | 1997 | 70,000 | 40 | 29,750 | 21,000 | 3,500 | - |
| Coagulation Facility | 1997 | 676,000 | 40 | 287,300 | 202,800 | 33,800 | - |
| Holding Pond | 1997 | 321,000 | 40 | 136,425 | 96,300 | 16,050 | - |
| Control Building | 1997 | 233,000 | 50 | 125,820 | 102,520 | 55,920 | 9,320 |
| Backwash Basin | 1997 | 42,000 | 50 | 22,680 | 18,480 | 10,080 | 1,680 |
| UV Basin | 1997 | 207,000 | 40 | 87,975 | 62,100 | 10,350 | - |
| Other 1997 Projects | 1997 | 319,000 | 40 | 135,575 | 95,700 | 15,950 | - |
| Biosolids Improvements | 2003 | 1,107,165 | 30 | 479,772 | 295,244 | - | - |
| Phase 1A & 1B WRF Improvements | 2010 | 9,755,000 | 30 | 6,503,333 | 4,877,500 | 1,625,833 | - |
| Filtration Basin Design 2011 | 2011 | 24,028 | 40 | 18,622 | 15,618 | 9,611 | 3,604 |
| Carlsborg Engineering | 2011 | 17,985 | 30 | 12,590 | 9,592 | 3,597 | - |
| Miscellaneous Treatment Projects | 2011 | 11,908 | 40 | 9,229 | 7,740 | 4,763 | 1,786 |
| General Sewer Plan | 2012 | 88,150 | 6 | - | - | - | - |
| Filtration Basin Design 2012 | 2012 | 31,920 | 40 | 25,536 | 21,546 | 13,566 | 5,586 |
| Filtration Basin Construction 2012 | 2012 | 205,545 | 40 | 164,436 | 138,743 | 87,357 | 35,970 |
| WRF Server Room | 2012 | 38,117 | 40 | 30,494 | 25,729 | 16,200 | 6,670 |
| Digester Engineering | 2013 | 70,067 | 40 | 57,805 | 49,047 | 31,530 | 14,013 |
| Filtration Basin Construction 2013 | 2013 | 401,315 | 40 | 331,085 | 280,921 | 180,592 | 80,263 |
| Total Pre-2014 Treatment Assets | | \$17,612,564 | | \$9,900,152 | \$ 7,324,045 | \$ 2,347,979 | \$ 176,574 |
| <i>Hypothetical Future Capacity Charges (applies to Treatment only):</i> | | | | | | | |
| Assumed WRF Treatment Capacity (gpd) | | | | 1,670,000 | 1,670,000 | 2,240,000 | 2,240,000 |
| Net Book Value of Pre-2016 Assets per gpd | | | | \$ 5.93 | \$ 4.39 | \$ 1.05 | \$ 0.08 |
| Assumed Carlsborg Capacity Reservation (gpd) | | | | 105,000 | 130,000 | 160,000 | 180,000 |
| Incremental Capacity Reservation | | | | - | 25,000 | 30,000 | 20,000 |
| Future Capacity Charge | | | | \$ - | \$ 109,641 | \$ 31,446 | \$ 1,577 |
| <i>Future Carlsborg Capacity Percentages</i> | | | | 6.3% | 7.8% | 7.1% | 8.0% |

EXHIBIT C: Calculation of Capacity Charges and Explanation of Accrued Interest Factor

**4. Hypothetical Calculation of Future Capacity Refund Payment
if Capacity Reservation is Decreased (applies to Treatment Assets only)**

| Exhibit C - Capacity Refund Payment | | | | | | Net Book |
|--|-------------------|---------------------|---------------------|--------------------|----------------|---------------------|
| Pre-2014 Asset | Year Installed | Original Cost | Est. Useful Life | Annual Deprec % | Age in 2025 | Value as of 2025 |
| Net Book Value of Pre-2014 Treatment Assets included in Capacity Charges: | | | | | | |
| 1984 Plant Improvements | 1984 | 1,224,364 | 50 | 2.0% | 41 | 220,386 |
| Aerobic Digesters | 1993 | 600,000 | 40 | 2.5% | 32 | 120,000 |
| Building Conversion | 1993 | 150,000 | 50 | 2.0% | 32 | 54,000 |
| Clarifier #2 | 1993 | 620,000 | 50 | 2.0% | 32 | 223,200 |
| RAS Pumping Station | 1993 | 60,000 | 40 | 2.5% | 32 | 12,000 |
| Other 1993 Projects | 1993 | 897,000 | 40 | 2.5% | 32 | 179,400 |
| Flow Equalization Basin | 1997 | 442,000 | 50 | 2.0% | 28 | 194,480 |
| Flow Diversion | 1997 | 70,000 | 40 | 2.5% | 28 | 21,000 |
| Coagulation Facility | 1997 | 676,000 | 40 | 2.5% | 28 | 202,800 |
| Holding Pond | 1997 | 321,000 | 40 | 2.5% | 28 | 96,300 |
| Control Building | 1997 | 233,000 | 50 | 2.0% | 28 | 102,520 |
| Backwash Basin | 1997 | 42,000 | 50 | 2.0% | 28 | 18,480 |
| UV Basin | 1997 | 207,000 | 40 | 2.5% | 28 | 62,100 |
| Other 1997 Projects | 1997 | 319,000 | 40 | 2.5% | 28 | 95,700 |
| Biosolids Improvements | 2003 | 1,107,165 | 30 | 3.3% | 22 | 295,244 |
| Phase 1A & 1B WWTF Improvements | 2010 | 9,755,000 | 30 | 3.3% | 15 | 4,877,500 |
| Filtration Basin Design 2011 | 2011 | 24,028 | 40 | 2.5% | 14 | 15,618 |
| Carlsborg Engineering | 2011 | 17,985 | 30 | 3.3% | 14 | 9,592 |
| Miscellaneous Treatment Projects | 2011 | 11,908 | 40 | 2.5% | 14 | 7,740 |
| General Sewer Plan | 2012 | 88,150 | 6 | 16.7% | 13 | - |
| Filtration Basin Design 2012 | 2012 | 31,920 | 40 | 2.5% | 13 | 21,546 |
| Filtration Basin Construction 2012 | 2012 | 205,545 | 40 | 2.5% | 13 | 138,743 |
| WRF Server Room | 2012 | 38,117 | 40 | 2.5% | 13 | 25,729 |
| Digester Engineering | 2013 | 70,067 | 40 | 2.5% | 12 | 49,047 |
| Filtration Basin Construction 2013 | 2013 | 401,315 | 40 | 2.5% | 12 | 280,921 |
| Total Pre-2014 Treatment Assets | | \$17,612,564 | | | | \$ 7,324,045 |

EXHIBIT C: Calculation of Capacity Charges and Explanation of Accrued Interest Factor

4. Hypothetical Calculation of Future Capacity Refund Payment if Capacity Reservation is Decreased, continued

| Exhibit C - Capacity Refund Payment | | | | | | Net Book |
|---|----------------|---------------|------------------|-----------------|-------------|---------------------|
| Pre-2014 Asset | Year Installed | Original Cost | Est. Useful Life | Annual Deprec % | Age in 2025 | Value as of 2025 |
| Net Book Value of Treatment Assets Funded by Capital Cost Shares: | | | | | | |
| <i>Hypothetical capital expenditures from 2014 through 2025, for which Carlsborg will have paid a 6.29% capital cost share based on a 105,000 gpd Capacity Reservation. Assume reduction of capacity reservation is effective at the end of 2025, so that Carlsborg will still be responsible for 6.29% of the 2025 capital expenditures.</i> | | | | | | |
| Aux Generator Loadbanks | 2014 | 30,000 | 40 | 2.5% | 11 | 21,750 |
| WRF Headworks Modifications #1 | 2014 | 270,000 | 40 | 2.5% | 11 | 195,750 |
| Equalization Basin Aeration System | 2014 | 54,000 | 40 | 2.5% | 11 | 39,150 |
| Grit Removal System Replacement | 2014 | 280,000 | 40 | 2.5% | 11 | 203,000 |
| Lime Sludge Mixing Improvements | 2015 | 111,000 | 40 | 2.5% | 10 | 83,250 |
| Replace WRF Recirculation Pump | 2015 | 25,000 | 40 | 2.5% | 10 | 18,750 |
| Digester Aeration System Improvemts | 2015 | 650,000 | 40 | 2.5% | 10 | 487,500 |
| Purchase New Land near WRF | 2015 | 195,000 | 40 | 2.5% | 10 | 146,250 |
| Aerobic Digester Capacity Upgrades | 2017 | 1,950,000 | 40 | 2.5% | 8 | 1,560,000 |
| Biosolids Handling & Distrib Ctr | 2018 | 1,320,000 | 40 | 2.5% | 7 | 1,089,000 |
| WRF Headworks Modifications #2 | 2019 | 350,000 | 40 | 2.5% | 6 | 297,500 |
| WRF Pumping System Reconfiguration | 2019 | 660,000 | 40 | 2.5% | 6 | 561,000 |
| Outfall Pipeline Repair/Replacement | 2023 | 1,450,000 | 40 | 2.5% | 2 | 1,377,500 |
| Rapid Infiltration Basin Improvements | 2023 | 1,700,000 | 40 | 2.5% | 2 | 1,615,000 |
| High Pressure Zone Expansion | 2025 | 1,550,000 | 40 | 2.5% | 0 | 1,550,000 |
| Total Treatment Assets Funded by Capital Cost Shares | | | | | | \$ 9,245,400 |
| Total Treatment Assets - Net Book Value 2025 | | | | | | 16,569,445 |
| Assumed Total Treatment Capacity (gpd) | | | | | | 1,670,000 |
| Net Book Value of Treatment Assets per gpd Capacity | | | | | | \$ 4.39 |
| Initial Capacity Reservation (gpd) | | | | | | 105,000 |
| Assumed Revised Capacity Reservation (gpd) | | | | | | 95,000 |
| Reduction in Capacity Reservation (gpd) | | | | | | 10,000 |
| Capacity Refund Payment | | | | | | \$ 43,857 |
| <i>Revised Capacity Percentage</i> | | | | | | <i>5.69%</i> |
| <i>So in this scenario, for the Capital Cost Share for the year 2025, the City would bill Carlsborg prior to March 31, 2026 as follows:</i> | | | | | | |
| | | Cost: | | multiplied by: | | |
| Capital Cost Share for 2025 capital expenditures | | 1,550,000 | | 6.29% | | \$ 97,495 |
| Plus accrued interest | | 97,495 | | 0.75% | | 731 |
| Total payment for Carlsborg share of 2025 capital | | | | | | \$ 98,226 |
| Less credit for Capacity Refund Payment (reducing Capacity Reservation to 95,000 gpd) | | | | | | (43,857) |
| Net Carlsborg capital payment to City in this scenario | | | | | | \$ 54,370 |

EXHIBIT C: Calculation of Capacity Charges and Explanation of Accrued Interest Factor

5. Explanation of Accrued Interest Factor

Referred to in Section 6.3.3

| Calculation of Accrued Interest Factor | | | | | |
|---|----------------------------|--------------------|-------------------|------------------|--|
| <i>Assumptions:</i> | | | | | |
| | Annual expenditure by City | \$ | 1,000 | | |
| | Annual interest rate | | 1.2% | | |
| | Quarterly interest rate | | 0.30% | | |
| Quarter | Quarterly Expenditure | Quarterly Interest | Number of Periods | Accrued Interest | |
| 1Q | \$ 250 | \$ 0.75 | 4 | \$ 3.00 | |
| 2Q | \$ 250 | \$ 0.75 | 3 | \$ 2.25 | |
| 3Q | \$ 250 | \$ 0.75 | 2 | \$ 1.50 | |
| 4Q | \$ 250 | \$ 0.75 | 1 | \$ 0.75 | |
| | <u>\$ 1,000</u> | | | <u>\$ 7.50</u> | |
| Implied accrued interest rate | | | | 0.75% | |
| <p>In other words, if we assume a level stream of capital expenditures by the City throughout the year, and if we assume an annual interest rate of 1.2% (representing the City's foregone interest earnings), and if we assume that the City completes its year-end project accounting and bills the County by March 31 of the following year, then then a 0.75% markup on the Capital Cost Share will approximately compensate the City for accrued interest.</p> | | | | | |