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JUN 28 2001
Hallingstad Lowman Associates, Inc.

WATER SUPPLY SYSTEM PROJECT DEVELOPMENT AGREEMENT

BETWEEN

CITY OF CLE ELUM, TOWN OF SOUTH CLE ELUM, TRENDWEST INVESTMENTS, INC., TRENDWEST RESORTS, INC. AND TRENDWEST PROPERTIES, INC.

THIS Agreement ("Agreement") is entered into on this 19th day of JUNE, 2001, by and between the City of Cle Elum, Washington ("Cle Elum"), a second class municipal corporation organized under the laws of the state of Washington, the Town of South Cle Elum ("South Cle Elum"), a fourth class municipal corporation organized under the laws of the state of Washington, Trendwest Investments, Inc., a Washington corporation ("Trendwest Investments"), Trendwest Resorts, Inc., an Oregon corporation registered to conduct business in the state of Washington ("Trendwest Resorts"), and Trendwest Properties, Inc., a Washington corporation ("Trendwest Properties"). For purposes of this Agreement, Cle Elum and South Cle Elum are sometimes collectively referred to as "the Communities," and Trendwest Investments, Trendwest Resorts and Trendwest Properties are sometimes collectively referred to as "Trendwest."

RECITALS

WHEREAS, Cle Elum owns and operates an existing water treatment facility and associated diversion works for the purposes of supplying treated water to customers within the City's water service area. The Communities, with the guidance and encouragement of the Washington State Department of Ecology ("Ecology") and the Washington State Department of Health ("Health"), are in the process of developing a regional public water supply system that is designed to provide water to users within the City and the Town as well as users on lands in the vicinity of the City and the Town; and

WHEREAS, on June 23, 1998, the Cle Elum City Council established, pursuant to City of Cle Elum resolution No. 6/23/98-1, an Urban Growth Areas ("UGA") of the City of Cle Elum, which includes the Bull Frog Flats area immediately west of the City; and

WHEREAS, on December 22, 1998, the Kittitas County Board of Commissioners adopted Ordinance No. 98-24 amending the County Comprehensive Plan to establish the Bull Frog Flats area immediately west of the Cle Elum city limits as Cle Elum's UGA. This decision is final and was not appealed; and

WHEREAS Trendwest Investments, Inc., a Washington corporation licensed to do business in the State of Washington, is the owner of approximately 1,120 acres located in the Bull Frog Flats area of Kittitas County, which lies wholly within the Urban Growth Area of the City of Cle Elum, and which property is currently being considered for annexation into the City of Cle Elum (the "Trendwest's UGA Properties"). Trendwest's UGA Properties are described more fully in Exhibit A hereto; and

WHEREAS Trendwest has submitted a notice of intention to commence annexation petition ("10% Petition") to the City of Cle Elum, pursuant to RCW 35.13.125, requesting that the Trendwest UGA Property be annexed to the City of Cle Elum; and

WHEREAS on June 27, 2000, the City of Cle Elum by motion voted to accept Trendwest's 10% Petition and further agreed that the City would review and adopt preannexation zoning and planning to take effect immediately upon annexation pursuant to RCW 35.13.177 and 35.13.178; and

WHEREAS the Eastern Washington Growth Management Hearings Board decision in *Ridge v. Kittitas County*, EWGMHB No. 96-1-0017 (Final Decision, 4/16/1998) and the Growth Management Act, RCW 36.70A.360, allow for Master Planned Resorts ("MPR") outside of UGAs and further authorize cities, special purpose districts and purveyors to provide capital facilities, utilities, and urban services to MPRs; and

WHEREAS, Trendwest Investments owns additional property adjacent to the Cle Elum UGA, which is described more fully in Exhibit B hereto ("Trendwest's MPR Properties"). On October 10, 2000, Kittitas County approved Trendwest Investments' proposal to develop its property described in Exhibit B as an MPR; and

WHEREAS, Trendwest Resorts, Inc. is an Oregon corporation licensed to do business in the State of Washington and is the parent company to Trendwest Investments, Inc., and Trendwest Properties, Inc. By the signatures appearing below, Trendwest Resorts expressly approves the commitments entered into hereby by Trendwest; and

WHEREAS, in 1997 Trendwest approached Cle Elum with a request to provide water to Trendwest's UGA Properties and Trendwest's MPR Properties, relying on the aforenoted City's proposed regional water supply system. The Communities expect to expand their water service areas to include Trendwest's UGA Properties. Cle Elum further expects, based on appropriate changes to Trendwest owned water rights, to deliver treated and untreated water to Trendwest's MPR Properties; and

WHEREAS, on July 26, 2000, Trendwest entered into a Pre-annexation Agreement with Cle Elum ("Pre-annexation Agreement") in which Trendwest has agreed to enter into a cost sharing agreement whereby Trendwest will pay for all costs associated with water system improvements that would not otherwise be required to address existing deficiencies, but for the proposed development of Trendwest's UGA and MPR Properties. A true and correct copy of the Pre-annexation Agreement is attached hereto as Exhibit C and incorporated herein by this reference. The Pre-annexation Agreement also specifies the general development standards that are applicable to the proposed development of Trendwest's UGA and MPR properties. Trendwest and Cle Elum have also agreed in the Pre-annexation Agreement that Trendwest's expenditures for utility extension and capital improvements for the City to serve the UGA are eligible for partial reimbursement by other property owners or by other new development that specifically benefit from such

improvements, through various legal reimbursement mechanisms such as a Local Improvement District, a Latecomer's Agreement, hookup charges, impact fees, or such other legally appropriate mechanisms for reimbursement; and

WHEREAS, RCW 35.92.025 authorizes Cle Elum to charge property owners seeking to connect to the City's water supply system a reasonable connection charge as the Cle Elum City Council determines proper so that property owners bear their equitable share of the cost of the water supply system; and

WHEREAS, RCW 36.70B.170 authorizes Cle Elum to enter into a development agreement that obligates Trendwest to fund or provide services, infrastructure, or other facilities and that includes provisions whereby Trendwest is reimbursed over time for financing such public facilities; and

WHEREAS, pursuant to RCW 36.70B.200, a duly noticed public hearing was conducted on this Agreement on May 8, 2001; and

WHEREAS, Cle Elum is presently subject to a Washington State Department of Health ("DOH") order and compliance schedule to design and construct improvements to its water supply facility; and

WHEREAS, Trendwest and Cle Elum have entered into a Water Supply Agreement wherein Cle Elum has agreed, under conditions specified in that Agreement, to supply water to Trendwest's UGA Properties. A copy of the Water Supply Agreement is attached hereto as Exhibit D; and

WHEREAS, Trendwest and Cle Elum have entered into a Water Delivery Agreement, wherein Cle Elum has agreed, under conditions specified in the Agreement, to deliver water to Trendwest's MPR Properties. A copy of the Water Delivery Agreement is attached hereto as Exhibit E; and

WHEREAS, on April 7, 1999, Cle Elum, Trendwest and Huibregtse, Louman Associates, Inc., entered into a Design, Engineering, and Surveying Services Agreement ("Design Agreement") for the new water supply system, a copy of which is attached hereto as Exhibit F, for design, engineering and surveying services related to Cle Elum's water supply system. That Agreement thereafter was amended on October 10, 2000 to cover the costs of engineering, design and construction of certain in-river improvements in the vicinity of Cle Elum's Yakima River diversion; and

WHEREAS, on January 18, 2001, Cle Elum issued a Mitigated Determination of Non-Significance ("MDNS") under the State Environmental Policy Act, 43.21C RCW, for the water supply system that is the subject of this Agreement, including the Yakima and Cle Elum River diversion works, the new transmission mains and the new treatment plant. The MDNS is now final and was not appealed; and

WHEREAS, if the Communities did not construct the regional facility contemplated in this Agreement, the Communities would have upgraded their existing water supply system to comply with Department of Health regulations and compliance orders and to provide capacity for the Communities' 20-year projected growth. Such upgraded facilities, which would not have included improvements to Cle Elum's Cle Elum River diversion works and transmission lines, would have cost an estimated $4,268,823; and

WHEREAS, the new water supply system that is the subject of this Agreement will not preclude the capacity assignments agreed to between Cle Elum and South Cle Elum, and it is intended that this Agreement be consistent with and not supersede any agreement between Cle Elum and South Cle Elum relating to water treatment and delivery.

NOW, THEREFORE, the following AGREEMENT is made upon the basis of the foregoing recitals, and in consideration of the mutual promises and covenants herein, and the mutual benefits to be derived by the Parties therefrom.

AGREEMENT

1. Regional Water Supply System ("WSS").

1.1. The City of Cle Elum shall construct the Regional Water Supply System ("WSS") identified in Exhibit G, commencing as soon as practicable after the execution of this Agreement and agency approval of the plans and specifications for that WSS. The City of Cle Elum shall also use its best efforts to obtain all permits necessary for the construction and operation of the WSS.

1.2. Trendwest officials shall be given an opportunity to review and comment upon plans for construction of the WSS. Nothing in this provision shall be construed as granting to Trendwest any right to approve or reject any plans for construction of the WSS.

1.3. All facilities, improvements, permits, supplies, materials, equipment, fixtures, and other property of whatsoever kind or nature that is included in the WSS, whether or not incorporated therein, shall be owned and controlled by Cle Elum. Nothing in this Agreement shall be construed as granting Trendwest or any other party any ownership or possessory rights in the WSS.

1.4. Trendwest shall be responsible for the construction of the infrastructure necessary to transport treated and untreated water from the WSS to Trendwest's MPR Properties ("MPR Transmission Facilities"). Pursuant to the MPR Water Delivery Agreement attached hereto as Exhibit E, the City will not deliver water to the MPR unless and until the Washington State Department of Health approves the MPR Transmission Facilities.

1.5. Trendwest shall also be responsible for the construction of the infrastructure necessary to transport treated and untreated water from the WSS to Trendwest's UGA Properties ("UGA Transmission Facilities"). The UGA Transmission Facilities shall be the subject of a future Developer Extension Agreement between Trendwest and Cle Elum. The City agrees to consider partial reimbursement for Trendwest's expenditures on the UGA Transmission Facilities by other property owners or other new development that specifically benefits from those facilities, through either a Local Improvement District or a Latecomers' Agreement.

2. Funding the WSS.

2.1. Cost Allocation

2.1.1. The costs for the design, permitting, engineering and construction of the WSS ("WSS Costs") shall include, but are not limited to: costs for design of the WSS; costs for construction of the WSS, including construction/improvement of the diversion works on the Yakima and Cle Elum Rivers, construction/improvement of the facilities necessary to convey untreated water from those diversion works to the treatment plant, construction of the regional treatment plant, construction of facilities necessary to convey treated water from the treatment plant to Cle Elum's existing water system, and construction of a new water storage reservoir for Cle Elum pressure Zone 2; all expenses paid by the Communities for the WSS, including without limitation, plan review, shop drawing review, and construction and oversight by the City's engineers and consultants; all other work, fees, services, plans and improvements required for project construction and maintenance; and all other costs associated with permits and environmental review of the WSS, including, without limitation, any required changes to Cle Elum's Comprehensive Plan or Development Regulations.

2.1.2. WSS Costs shall not include the costs associated with the Transmission Facilities addressed in Sections 1.4 and 1.5 of this Agreement. WSS Costs shall also not include the costs of any of the pipes, pumps, pump station, basins, or other equipment or structures required to provide untreated irrigation water to Trendwest's Properties ("Irrigation Facilities"), although some of the Irrigation Facilities may be constructed by the City, at Trendwest's sole cost, simultaneous with the construction of the initial WSS. The City shall own those portions of the Irrigation Facilities located at the City's Yakima and/or Cle Elum River diversions as well as the Irrigation Facilities located between those diversions and the property boundary of the new water treatment plant site. The City shall also own all Irrigation Facilities within the property boundaries of the new water treatment plant site. Trendwest shall own those portions of the Irrigation Facilities from the property boundary of the new water treatment plant site

to Trendwest's MPR Properties. The ownership of the Irrigation Facilities from the property boundary of the new water treatment plant site to Trendwest's UGA Properties shall be addressed in the Developer Extension Agreement referenced in Paragraph 1.5, above.

2.1.3. The estimated WSS Costs total $13,556,000. The WSS Costs shall be funded as follows: The Communities will provide a maximum of $4,268,823, and Trendwest shall fund the remainder, subject to the provisions of paragraph 2.1.5, below.

2.1.4. The Parties further acknowledge that any contribution the Communities receive from the County and/or utility providers for the in river improvements that were constructed in the bed of the Yakima River will be reimbursed to Trendwest in recognition of Trendwest's funding of those improvements.

2.1.5. After public bids are received and reviewed, but prior to commencement of construction, the Parties shall review the total estimates for WSS Costs. If it is apparent at that point that the WSS (not including the Phased Elements discussed in Section 2.2, below) cannot be designed, engineered and constructed for at or less than a total cost of $12,392,950, the Parties agree to make all reasonable efforts to renegotiate the terms of this Agreement to address the increased WSS Costs. If the Parties are unable to reach agreement on that issue, this Agreement shall be null and void. If this Agreement is nullified pursuant to this provision, Trendwest shall be responsible for all costs associated with the redesign of the City's water treatment plant or the WSS to a facility capable of providing capacity for the City and Town's 20-year growth projection. In the event of nullification under this section, any and all real property interests conveyed to the City by Trendwest shall remain in City ownership, provided that any property conveyed to the City for siting of the WSS that is no longer needed for the City's redesigned facility shall be reconveyed to Trendwest. The Parties hereby agree that Trendwest's obligation as discussed in this Paragraph is necessary to restore the City to its "pre-Trendwest fiscal condition," as that term is used in Section 7 of the Pre-annexation Agreement, in the event this Agreement is nullified pursuant to this Paragraph. The Parties also agree that the lien provisions contained in Section 7 of the Pre-annexation Agreement apply to Trendwest's obligations discussed in this paragraph.

2.1.6. The Communities entire $4,268,823 funding obligation is currently derived from and committed to by the United States Department of Agriculture Rural Development loan and grant funds and Community Development Block Grant funds. If some portion of those funds becomes unavailable in the future, Trendwest agrees to advance the unfunded balance of the Communities' share of WSS Costs subject to

reimbursement through the capital reimbursement charge discussed in Section 2.3, below, or, at the Communities' discretion, through a rate increase, bond issue or some similar mechanism.

2.2. Project Phasing

2.2.1. The new customers to be served by the WSS will connect to that system over a period of time, as the City, Town, UGA and MPR are built out. The Parties acknowledge that, because of this delay in the actual use of capacity of the WSS, some of the components of the WSS will not be needed at the outset of the WSS's service. The following components of the WSS may therefore be constructed over time, as further specified herein: 2.0 MGD of the 6 MGD capacity of the Yakima River pump station pump and piping facilities; 2.0 MGD of the 6.0 MGD capacity of the water treatment plant filter units, pumps, and piping facilities; and 0.5 MGD of the 1.0 MGD capacity of the Zone 2 water storage reservoir. These items shall be referred to herein as the "Phased Elements."

2.2.2. The initial capacity of the WSS (*i.e.* without the Phased Elements) will be 4.0 MGD, all of which is allocated to the Communities, in accordance with Paragraph 3.1, below, to accommodate the Communities' 20-year projected growth. The Communities' water supply demands will be less than 4.0 MGD at the time of initial construction of the WSS. In light of this fact, and because an immediate increase of capacity through the completion of the Phased Elements would not improve the operation of the WSS, the Communities shall temporarily provide Trendwest potable water from the 4.0 MGD initial WSS capacity. Trendwest's capacity shall be added by the City's construction of the Phased Elements at Trendwest's sole cost when either of the following conditions have been met: 1) potable water production from the initial 4.0 MGD WSS has reached 2.0 MGD for three (3) or more days within a 12-month consecutive period; or 2) Trendwest has added 1334 new residential water service connections or their equivalent in the UGA and/or MPR.

2.3. Payment of WSS Costs

2.3.1. To fund Trendwest's portion of the WSS Costs, Trendwest shall establish and fund a "Trendwest WSS Improvement Account." The Trendwest WSS Improvement Account shall be an interest-bearing account against which the City is authorized to draw funds to pay Trendwest's portion of all WSS Costs. The Account shall be established after the City's opening of bids for the WSS contemplated in this Agreement but prior to awarding a contract, unless this Agreement is nullified pursuant to Paragraph 2.1.5, above.

2.3.1.1. To determine the amount of Trendwest's funding for the Account during 2001, the City shall estimate monthly project costs for calendar year 2001. Trendwest shall initially fund the Trendwest WSS Improvement Account with funds sufficient to pay 50% of the total WSS Costs for the two months that the City estimates will represent the largest estimated project costs for 2001 ("2001 Baseline Balance"). As the City draws against the Trendwest WSS Improvement Account to pay invoices for WSS Project Cost, Trendwest shall make monthly contributions to the Trendwest WSS Improvement Account to insure that the 2001 Baseline Balance is maintained in the Account on a monthly basis.

2.3.1.2. Commencing January 1, 2002, Trendwest shall fund the Trendwest WSS Improvement Account with funds sufficient to pay 50% of the total WSS Costs for the two months that the City estimates will represent the largest estimated project costs for 2002 ("2002 Baseline Balance"). The 2001 Baseline Balance shall be applied to the 2002 Baseline Balance. After January 1, 2002, as the City draws against the Trendwest WSS Improvement Account to pay invoices for WSS Project Cost, Trendwest shall make monthly contributions to the Trendwest WSS Improvement Account to insure that the 2002 Baseline Balance is maintained in the Account on a monthly basis.

2.3.2. The Parties acknowledge that Trendwest has already funded portions of the WSS Costs, including those items covered by the April 7, 1999 Design Agreement, as amended on October 10, 2000. In addition, the Phased Elements will not be constructed until after initial construction, as specified in Paragraph 2.2.2, above. To account for those funds already expended by Trendwest and Trendwest's sole funding of the Phased Elements, all invoices for WSS Costs shall be divided evenly between the City and Trendwest, so that the City is responsible for 50% of said invoices (up to a total contribution of $4,268,823), and the remaining 50% of said invoices shall be paid through draws against the Trendwest WSS Improvement Account. If WSS Costs continue to be incurred after the City has contributed $4,268,823, invoices for such continuing WSS Costs will be paid fully from the Trendwest WSS Improvement Account. Half (50%) of any construction contract retainage shall be comprised of community funds until final acceptance of the completed construction contract by the Communities.

2.3.3. As additional security for its obligations discussed in Paragraphs 2.3.1 and 2.3.2, above, Trendwest shall provide, at the commencement of initial project construction, a bond, readily actionable by the Communities and subject to the Communities' approval, in the full amount of its funding obligations herein.

2.3.4. As to Phased Elements, Trendwest shall be solely responsible for the costs of those items, as discussed in Paragraph 2.2.2, above. Upon commencement of construction of the Phased Elements pursuant to Paragraph 2.2.2, above, Trendwest shall establish and fund a "WSS Phase 2 Account." The Trendwest WSS Phase 2 Account shall be an interest-bearing account against which the City is authorized to draw funds to pay the costs of the Phased Elements. The Account shall be established after the City's opening of bids for the WSS contemplated in this Agreement but prior to awarding a contract. Trendwest shall fund the WSS Phase 2 Account with sufficient funds to pay all estimated costs of the Phased Elements.

2.3.5. In the alternative to the WSS Phase 2 Account funding discussed in the preceding section, Trendwest may, at its discretion, fund the Trendwest WSS Improvement Account with funds sufficient to pay 50% of the total WSS Costs for the two months that the City estimates will represent the largest estimated project costs for the Phased Elements ("Phased Elements Baseline Balance"). As the City draws against the WSS Phase 2 Account to pay invoices for the Phased Elements, Trendwest shall make monthly contributions to the WSS Phase 2 Account to insure that the Phased Elements Baseline Balance is maintained in the Account on a monthly basis. If Trendwest decides to avail itself of the optional funding discussed in this Paragraph, Trendwest shall also provide, at the commencement of Phased Elements, a bond, readily actionable by the Communities and subject to the Communities' approval, in the full amount of its Phased Elements funding obligations.

2.3.6. Funds shall be disbursed by the City from the Trendwest WSS Improvement Account and the WSS Phase 2 Account only for payment of invoices for WSS Costs. The City's engineering consultant, Huibregtse, Louman Associates, Inc., shall recommend to the City Council for approval all invoices prior to payment. If Trendwest objects to all or a part of any invoice for WSS Costs, Trendwest shall immediately commence discussions among the City, the contractor, and Trendwest to attempt to resolve the disputed charge or charges. In no event shall any such dispute modify Trendwest's obligation to replenish the Trendwest WSS Improvement Account and WSS Phase 2 Account in accordance with Paragraphs 2.3.1, 2.3.1.1, 2.3.1.2, 2.3.4 and 2.3.5, above. If any such dispute remains unresolved, Trendwest reserves any claim for a refund it may have under applicable law.

2.3.7. In the event this Agreement is terminated or breached by Trendwest prior to completion of the WSS, for reasons other than those discussed in Paragraph 2.1.5, above, Trendwest shall continue to be responsible for the WSS Costs as discussed herein. The Parties hereby agree that Trendwest's continued obligation to fund such remaining WSS Costs, in the event of

termination of this Agreement, is necessary to restore the City to its "pre-Trendwest fiscal condition," as that term is used in Section 7 of the Pre-annexation Agreement. The Parties also agree that the lien provisions contained in Section 7 of the Pre-annexation Agreement apply to Trendwest's obligations discussed in this Paragraph.

2.4. Capital Reimbursement Charge

2.4.1. The Communities will partially reimburse Trendwest for the WSS Costs Trendwest actually pays through a capital reimbursement charge to be paid at hookup (1) by new connections in the UGA and (2) by new connections in the existing City and Town for lots that were platted after January 1, 2001 and that have not paid a water connection fee at the time this Agreement is executed.

2.4.2. While existing, platted lots within the City and Town that are not currently connected to the City's water system will be exempt from the capital reimbursement charge discussed in Paragraph 2.4.1, above, that exemption will only be for a single Equivalent Residential Unit ("ERU") connection. Additional ERU connections (for example, for construction of a condominium or duplex) will be subject to the capital reimbursement charge discussed in Paragraph 2.4.1, above.

2.4.3. The capital reimbursement charge will be calculated as follows:

2.4.3.1. The total amount of the WSS Costs (including estimated costs for the Phased Elements) (currently estimated at $13,556,000) will be reduced by the Communities' contribution to WSS Costs ($4,268,823) and further by any contributions received pursuant to Paragraph 2.1.4, above.

2.4.3.2. Twenty and one half percent (20.5%) of the amount remaining after the calculation in Paragraph 2.4.3.1, above, (numerator) will then be divided by the total number of projected new connections in both the UGA and the existing City and Town that will be served by the 6 MGD WSS, less those connections required: 1) to serve existing customers in the City and Town and 2) to provide a single ERU connection to existing buildable, platted lots in the City and Town that are not currently connected to the City's existing water treatment facility (denominator). The resulting figure will be the capital reimbursement charge that will be assessed on all new connections in the UGA, connections to newly platted lots in the City and Town, and connections in addition to the one ERU exempt connection on existing platted lots in the City and Town that are not currently connected to the City's existing water treatment plant.

A sample of the capital reimbursement charge calculation is attached hereto as Exhibit H. The capital reimbursement payments collected by the Communities will be reimbursed to Trendwest over time until such time as Trendwest has been reimbursed 20.5% for its expenditure on WSS Costs. At such time as Trendwest has been reimbursed 20.5% for its expenditure on WSS Costs, any capital reimbursement payments will be retained by the Communities. The capital reimbursement charge will be in addition to the then current general connection fee specified by Cle Elum ordinance for connections to the City's water supply system. Trendwest expressly acknowledges that this provision in no way warrants that all additional capacity created by the WSS will be utilized or that Trendwest will be fully reimbursed for the entirety of the funds it expends for WSS Costs.

2.4.4 The 20.5% figure included in the Paragraph 2.4.3 is based on the percentage of Trendwest's total (MPR and UGA) treated water demand that is currently attributable to the UGA. If the maximum number of units allowed in the MPR is decreased through regulatory action or in settlement of pending litigation, the percentage in Paragraph 2.4.3 shall be recalculated to reflect the actual percentage of Trendwest's total (MPR and UGA) treated water demand that is attributable to the UGA.

3. Allocation of WSS Capacity.

3.1. The WSS will provide 6 MGD of capacity, with the capability of adding facilities to provide an additional 2 MGD of capacity in the future. Of the initial 6 MGD of capacity, 3 MGD shall be allocated to the Communities, 2 MGD to Trendwest, and 1 MGD for redundancy for both the Communities' and Trendwest's capacity.

4. Regulatory Approvals.

4.1. The Communities and Trendwest acknowledge the important role of the Washington State Department of Health and the United States Department of Agriculture, Rural Development, in the WSS contemplated by this Agreement. As a result, Trendwest shall actively assist the Communities in their efforts to secure:

4.1.1. United States Department of Agriculture, Rural Development approval of this Agreement;

4.1.2. Department of Health review and approval of all facilities plans, design and engineering reports, and plans and specifications for WSS;

4.1.3. Any modifications to Department of Health compliance schedules necessary to accomplish the projects contemplated by this Agreement; and

4.1.4. Any regulatory approvals required before the City can supply water to Trendwest's UGA Properties or deliver water to Trendwest's MPR Properties.

4.2. In the event the Department of Health, or any other regulatory agency, at any time requires through directive, compliance order, or otherwise that Cle Elum or South Cle Elum revise, modify, or abandon in whole or in part any portion of the WSS and/or implement additional design requirements, this Agreement shall be modified to address such requirements. If such directive, compliance order, or other mandate results in a decrease in the total capacity created by the WSS, the allocation of capacity discussed in Section 3, above, shall be adjusted accordingly. If such directive, compliance order or other mandate relates to the Transmission Facilities, Trendwest alone shall bear the costs of compliance with the agency directive, compliance order or other mandate.

5. Miscellaneous Provisions.

5.1. The Parties hereto intend and acknowledge that this Agreement is a voluntary contract binding upon the Parties hereto, as well as their successors and assigns. The Parties recognize that the financial obligations undertaken by Trendwest are voluntary, and Trendwest acknowledges that it is fully aware that the Communities have relied on Trendwest's recitals and commitments made above and further herein, and that it understands that the Communities have relied upon said recitals in making the decision to commit to the WSS. Trendwest acknowledges that it is entering into this Agreement knowingly and voluntarily in consideration of the benefits to be derived therefrom.

5.2. Except as otherwise provided herein, Trendwest agrees to defend, indemnify and hold harmless the City and all of its elected officials and its employees from all liability, claims and costs arising in connection with the construction of the Transmission Facilities, except to the extent resulting from any negligence or intentional act or omission of the City, its officers, agents or employees in relation to the Transmission Facilities.

5.3. All notices under this Agreement shall be in writing, and shall be delivered or mailed by certified mail, return receipt requested, and shall be effective as of the date of delivery, on the date of receipt as shown on the return receipt, or three days after the postmark date if there is no return receipt. Notices shall be addressed to the following addresses or to such other address as the Party may specify in writing:

TO CLE ELUM:

City of Cle Elum
119 W. 1st Street
Cle Elum, WA 98922

With a copy to:
Erin L. Anderson
Cone, Gilreath, Ellis, Cole & Anderson
P. O. Box 499
Ellensburg, WA 98926

TO SOUTH CLE ELUM:

Town of South Cle Elum
P.O. Box 160
South Cle Elum, WA 98943

With a copy to:
Erin L. Anderson
Cone, Gilreath, Ellis, Cole & Anderson
P. O. Box 499
Ellensburg, WA 98926

TO TRENDWEST:

Trendwest Properties, Inc.
P.O. Box 887
109 S. 1st Street
Roslyn, WA 98941

With a copy to:
Richard M. Peterson
Hillis, Clark, Martin & Peterson
1221 Second Avenue, Suite 500
Seattle, WA 98101-1090

5.4. The Parties expressly intend that this Agreement does not supersede that Memorandum of Understanding executed by the Parties on April 13, 1999, until and unless the same is revised or terminated, recognizing that the Mediation and Arbitration Agreement dated and executed by the parties on December 7, 1999, does supersede Section IX, Dispute Resolution, as contained in the April 13, 1999, Memorandum of Understanding between the Parties.

5.5. Venue and jurisdiction to enforce all obligations under this Agreement, except those subject to mediation or arbitration, shall lie in the Kittitas County Superior Court. The obligations of the Parties hereunder may not have an adequate remedy by way of an action for damages, and may be enforced by an action for specific performance.

5.6. This Agreement is entered into under the laws of the State of Washington, and the Parties intend that Washington law shall apply to the interpretation hereof.

5.7. This Agreement may not be modified, supplemented or otherwise amended, except by written instrument duly executed by all Parties and approved by the Cle Elum and South Cle Elum Councils.

5.8. This Agreement shall be binding upon, and shall inure to the benefit of, the Parties and their respective heirs, successors and assigns.

5.9. In the event any Party commences proceedings in Superior Court to enforce this Agreement, the prevailing party or parties shall be entitled to an award of attorneys' fees and costs and disbursements, including expert witness fees, reasonably incurred or made in such proceedings, including appellate proceedings.

5.10. This Agreement shall become effective on the date first appearing above.

CITY OF CLE ELUM

By Gary Bricht
Its Mayor

Date: 6/15/01

Witnesseth:

DeLiela Bannister, Cle Elum City Clerk

TOWN OF SOUTH CLE ELUM

By
Its Mayor

Date: 6/18/01

Witnesseth:

Sarah M Nelson
Sally Nelson, City Clerk for South Cle Elum

Approved as to form:

Erin L. Anderson, City Attorney for the City of Cle Elum and the Town of South Cle Elum

TRENDWEST INVESTMENTS, INC.

By W. F. Peare
WILLIAM F. PEARE, President

Date: 6/19/01

TRENDWEST RESORTS, INC.

By W. F. Peare
WILLIAM F. PEARE, President

Date: 6/19/01

TRENDWEST PROPERTIES, INC.

By W. F. Peare
WILLIAM F. PEARE, President

Date: 6/19/01

Exhibits:

A. UGA Legal Description
B. MPR Legal Description
C. Pre-Annexation Agreement
D. UGA Water Supply Agreement
E. MPR Water Delivery Agreement
F. Design Services Agreement, as amended
G. Description of WSS
H. Sample Capital Reimbursement Charge Calculation

EXHIBIT H

SAMPLE CALCULATION OF CAPITAL REIMBURSEMENT CHARGE

ASSUMPTIONS:

- TOTAL PROJECT COST: $13,500,000
- TOTAL TREATMENT PLANT CONNECTIONS THAT WILL BE PROVIDED TO CLE ELUM, SOUTH CLE ELUM AND THE TRENDWEST UGA: 2700
- TOTAL NUMBER OF EXISTING CONNECTIONS AND BUILDABLE PLATTED LOTS NOT CURRENTLY CONNECTED TO CITY OR TOWN WATER SYSTEMS: 1000

CALCULATION:

$13,500,000 - $4,268,823 = $9,231,177

20.5% of $9,231,177 = $1,892,391

2700 - 1000 = 1700

$1,892,391 / 1700 = $1113 per connection capital reimbursement charge