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**ANNEXATION AGREEMENT
BETWEEN
THE CITY OF MILL CREEK
AND
SNO-ISLE INTERCOUNTY RURAL LIBRARY DISTRICT**

1.0 Parties

This Annexation Agreement (hereinafter "Agreement") is entered into on the last date set forth below between Sno-Isle Intercounty Rural Library District ("District") and the City of Mill Creek, a Washington municipal corporation ("City").

2.0 Recitals

2.1 The City owns a library facility on land deeded to the City for such purposes under Snohomish County real property record number 8604010162. On August 31, 1998 the City entered into a Library Services Agreement ("LSA") with the District to provide library services within the City. Under Section 10 of the LSA, the LSA will terminate upon annexation of the City into the District.

2.2 On May 11, 2004 the Mill Creek City Council approved Ordinance 2004-586 declaring the City's intent to annex into the District, authorizing the submission of a proposition to that effect to be put before the voters of the City on September 14, 2004, and requesting that Snohomish County take the necessary steps to effectuate that action. The Library Board of the District and the Library Board of the City have each reviewed and concurred in that Ordinance.

2.3 If the annexation is approved by the voters, Snohomish County advises that the District would first be able to collect taxes commencing January 1, 2006. Section 10 of the LSA states that "If the City annexes into the Sno-Isle Regional Library District during the term of this Agreement, then this Agreement shall be terminated following the annexation at the beginning of the first year in which the Library District begins to receive tax revenue from the annexed areas."

2.4 In the event that the annexation is approved by the voters, the purpose of this Agreement is to define the terms, conditions and obligations of the parties commencing January 1, 2006 with respect to the provision of library services within the City.

Therefore, in consideration of the mutual benefits and promises of this Agreement, the receipt and sufficiency of which is hereby acknowledged, the City and the District agree as follows:

3.0 City Obligations

3.1 Library Building. The City shall continue to provide the District with the building space at no rental cost, together with current furnishings, at the City-owned facility known as the Ralph W. Hammitt and Winnifred B. Hammitt Public Library, located at 15429 Bothell-Everett Highway, Mill Creek, Washington ("Library Building").

3.2 Repairs and Maintenance. The City shall keep the Library Building in good order and repair, excluding reasonable wear and tear.

3.3 Services. The City shall provide janitorial services, utility services, and landscaping services necessary for the Library Building and its surrounding grounds.

3.4 City Library Board. The City may appoint and maintain a local library board in accordance the Mill Creek Municipal Code.

4.0 District Obligations

4.1 Operations. The District shall continue to provide library services at the Library Building, including without limitation books, staff, equipment, etc., which services shall be in accordance with RCW Chapter 27.12 ("Library Services").

4.2 Furnishings. The District shall provide all new or replacement furnishings, shelving, office equipment, fixtures and equipment needed to provide Library Services.

4.3 Payment for Utility and Janitorial Services. The District shall reimburse the City for its reasonable costs of providing janitorial and utility services to the Library Building. The City shall periodically invoice the District for such costs, providing reasonable backup documentation as needed. The District shall pay such invoices in accordance with its usual procedures, but not more than 30 days after receipt of the City's invoice.

5.0 Library Building Reserve Fund

5.1 Reserve Fund. The District shall establish a Mill Creek Library Building Reserve Fund ("Reserve Fund"). The District shall pay into the Reserve Fund by June 1 of the first three years of this Agreement the following amounts: \$160,000 in 2006, \$120,000 in 2007, and \$70,000 in 2008, for a total amount of \$350,000.

5.2 Investment. The District shall invest the Reserve Fund in the same manner as any other District reserve funds; provided that the interest earnings on the Reserve Fund shall be credited to and available for the expenditures for which the Reserve Fund was established.

5.3 Use of Funds. The Reserve Fund may be used with the mutual consent of the District and the City to pay for maintenance, furnishings, equipment and improvements within the Library Building, or for expansion, major renovation or replacement of the Library Building. Maintenance and improvements may include but are not limited to carpeting, paint and/or wall coverings, light fixtures, any and all other fixtures and amenities within the Library Building. The level of maintenance and/or replacement paid for from the Reserve Fund shall be at the reasonable discretion of the District.

5.4 Repair and Capital Costs. Except as provided for herein, the City shall be responsible for all other maintenance, repair or capital costs to the Library Building and the property on which it is located. The City shall be responsible to determine the level and timing of all maintenance, repair or capital improvement, with the level and timing being determined in the reasonable exercise of the legislative discretion of the City.

5.5 Termination of Fund. In the event that the Reserve Fund is exhausted, the City and the Library District shall negotiate the responsibility for maintenance, furnishings, equipment and improvements for the Library Building. In the event that this Agreement terminates before the Reserve Fund is exhausted, the District shall be free to apply any remaining balance in the Reserve Fund as it may deem appropriate in its sole discretion.

6.0 Library Building Reconstruction, Destruction, and/or Relocation

6.1 In the event that the Library Building is destroyed, or suffers catastrophic loss, or becomes obsolete, or requires substantial reconstruction or expansion in the reasonable opinion of either party, or the District wishes to move the location of the Library Building within the City, or a library capital facility area encompassing all or a portion of the City is formed pursuant to RCW Chapter 27.15 or any successor statute, the City and the District shall meet and negotiate, in good faith, concerning different terms as appropriate for this Agreement, including without limitation equity ownership in the Library Building and responsibility for building repairs and maintenance, janitorial and utility services, landscaping services, and furnishings and equipment.

7.0 Responsibility

7.1 The City and the District, for themselves, their officers, elected and appointed officials, employees and agents (collectively "personnel") shall each at all times be responsible for their own acts and omissions and for all acts and omissions of their own personnel, when any such acts or omissions arise from or are connected with performance of this Agreement.

8.0 Insurance

8.1 Property Insurance. The District and the City shall each procure, provide annual proof of, and maintain for the duration of this Agreement property insurance coverage for their respective property, except for the District-owned collection utilized in providing Library Services, on a replacement cost basis (if available at commercially reasonable rates) and otherwise on a fair market value basis.

8.2 Liability Insurance. The District and the City shall each procure, provide annual proof of, and maintain for the duration of this Agreement liability insurance against claims for injuries to persons or damage to property which may arise from their respective actions in connection with this Agreement. The liability insurance shall have minimum coverage limits of not less than two million dollars (\$2,000,000) combined single limit per occurrence for bodily injury and property damage.

8.3 Public Officials Liability Insurance. The District and the City shall each procure, provide annual proof of, and maintain for the duration of this Agreement public officials liability insurance with coverage limits not less than one million dollars (\$1,000,000) per occurrence.

8.4 Deductible. Any payment of deductible or self insured retention shall be the sole responsibility of the party procuring the insurance.

8.5 Coverage. Insurance shall contain a clause stating that coverage shall apply separately to each insured against whom claim is made or suit is brought, except with respect to the limits of the insurer's liability. The insurance shall be primary insurance with respect to the other party in accordance with insurance industry conventions. Each party shall be given thirty (30) days prior written notice of any cancellation, suspension or material change in coverage of the other party. All the insurance required of the City under this Section 8.0 shall be considered fulfilled by the City's membership in the Washington Cities Insurance Authority, provided such membership provides required coverage for all the identified liability risks.

8.6 Mutual Waiver of Claims. The District and the City each release and relieve the other, and waive their right of recovery against the other, for loss or damage to their respective property which arises out of the occurrence of any peril normally insured against in a standard all risk property insurance policy. Each party shall have its respective insurer endorse the applicable insurance policies to reflect the foregoing waiver, provided that such endorsement shall not be required if the applicable insurance policy permits the named insured to waive rights of subrogation on a blanket basis, in which case such blanket waiver shall be acceptable.

9.0 Effective Date, Duration and Termination

9.1 Effective Date. This Agreement shall become effective January 1, 2006 if and only if the proposition to annex the City into the District described in Section 2.0 above is approved by the voters of the City on or about September 14, 2004.

9.2 Duration and Termination. Once effective, this Agreement shall remain in effect until (a) mutual agreement of the parties, or (b) the effective date upon which the annexation of the City to the District shall be withdrawn or terminated as provided by state law, at which time this Agreement shall automatically terminate.

10.0 General Terms

10.1 Severability. If any provision of this Agreement or its application is held invalid, the remainder of this Agreement and its application shall not be affected.

10.2 Integration; Modification. This Agreement represents the entire agreement between the parties and supersedes all other agreements whether oral or written. No change, termination or attempted waiver of any of the provisions of this Agreement shall be binding on either party unless executed in writing by authorized representatives of the party against whom the change, termination or waiver is claimed. This Agreement shall not be modified, supplemented or otherwise affected by course of dealings between the parties.

10.3 Notices. All notices, requests, demands and other communications required by this Agreement shall be in writing and, except as expressly provided elsewhere in this Agreement, shall be deemed to have been given at the time of delivery if personally delivered, or at the time of mailing if mailed first class, postage prepaid and addressed to the party at its then current or at such other address as the party may designate at any time in writing.

10.4 Authority. By and through their signatures below, each party warrants to the other that it is fully authorized to enter into this Agreement and has performed all of the actions required for such authorization. Any defect in such performance or authorization shall not release that party from its obligations under this Agreement.

10.5 No Third Party Beneficiaries. This Agreement is entered into solely for the benefit of the District and the City. This Agreement shall confer no benefits, direct, indirect, or implied on or to any third persons, and no third persons shall claim any such benefits.

10.6 Dispute Resolution. In the event of a dispute relating to the interpretation, application or performance of this Agreement, the principals of each party shall meet within twenty (20) days of written notice of the dispute to negotiate a resolution in good faith. In the event the dispute remains unresolved thirty (30) days after such meeting, the

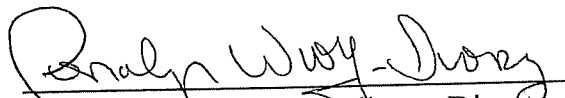
parties may jointly seek professional mediation and/or jointly or individually apply to the Superior Court for Snohomish County for such relief as may be deemed appropriate.

10.7 Attorneys' Fees. The prevailing party in any dispute arising under or in connection with this Agreement shall be entitled to an award of its reasonable costs and attorney fees against the non-prevailing party.

10.8 Re-Opener. Upon mutual agreement of the parties, any provision of this Agreement may be reopened for possible modification.

WHEREFORE, the District and the City enter into this Agreement and agree to be bound by its terms and conditions and to faithfully adhere to same.

**SNO-ISLE INTERCOUNTY RURAL
LIBRARY DISTRICT:**




Jonalyn Woolf-Ivory, Library Director

6/3/04

Date

CITY OF MILL CREEK

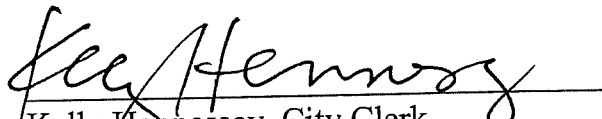


Robert S. Stowe, City Manager

6/9/04

Date

ATTEST:

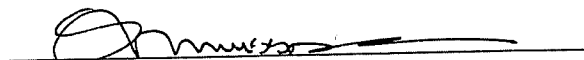


Kelly Hennessey, City Clerk

6/9/04

Date

**APPROVED AS TO FORM:
SHORT CRESSMAN & BURGESS,
PLLC**



Scott M. Missall, City Attorney