

COMMERCIAL LEASE AGREEMENT

This Commercial Lease Agreement ("Lease") is made and effective October 8 2003, by and between CLALLAM TRANSIT SYSTEM ("Landlord" or "Transit") and the CITY OF SEQUIM ("Tenant" or "Sequim"). *ujs*

Landlord is the owner of land and improvements commonly known and numbered as West Cedar Street, Sequim, Washington, and legally described on EXHIBIT "A", attached hereto and incorporated herein by this reference.

Landlord desires to lease a portion of the above described premises, as described on EXHIBIT "B" attached hereto and incorporated herein by this reference (the "Leased Premises") and Tenant desires to lease the Premises from Landlord for the term, at the rental and upon the covenants, conditions and provisions herein set forth.

THEREFORE, in consideration of the mutual promises herein contained, and other good and valuable consideration, it is agreed:

1. Term.

Landlord hereby leases the Leased Premises to Tenant, and Tenant hereby leases the same from Landlord, commencing on 1/9/04 and terminating on 1/9/2103. At the conclusion of this lease term, the parties agree to consider, in good faith, extension of this lease for an additional rental term to be agreed upon. *ujs*

2. Rental.

Due to the responsibilities and duties assumed by Tenant related to the maintenance and operation of the Leased Premises, Tenant shall pay Landlord no rental, beyond performance of such duties.

3. Sublease and Assignment.

Tenant shall not have the right, without Landlord's consent, to assign this Lease.

4. Repairs, landscaping, and snow removal.

During the Lease term, Landlord shall make all reasonable and necessary structural repairs to the improvements on the premises, and shall seal and repair the parking lot. Landlord shall be responsible for the maintenance of the landscaping. Tenant shall be responsible for all other repairs, including all repairs caused by normal wear and tear. All aspects of

this section are subject to the obligations of the parties otherwise set forth in this Lease. Landlord shall provide toilet supplies for the public restrooms located in the building, and Tenant shall provide all maintenance and upkeep of those rest rooms. Landlord shall be responsible for maintenance of any areas not leased to the Tenant.

5. Alterations and Improvements.

Tenant, at Tenant's expense, shall have the right, following Landlord's consent, to remodel, redecorate, and make additions, improvements and replacements of and to all or any part of the Leased Premises from time to time as Tenant may deem desirable, provided the same are made in a workmanlike manner and utilizing good quality materials. Tenant shall have the right to place and install personal property, trade fixtures, equipment and other temporary installations in and upon the Leased Premises, and fasten the same to the premises. All non-leased personal property, equipment, machinery, trade fixtures and temporary installations, whether acquired by Tenant at the commencement of the Lease term or placed or installed on the Leased Premises by Tenant thereafter, shall remain Tenant's property free and clear of any claim by Landlord. Tenant shall have the right to remove the same at any time during the term of this Lease provided that all damage to the Leased Premises caused by such removal shall be repaired by Tenant at Tenant's expense. Tenant shall not have claim to any property or equipment owned or provided by Landlord.

6. Insurance.

a. Landlord shall maintain fire and extended coverage insurance on the Leased Premises in such amounts as Landlord shall deem appropriate. Tenant shall be responsible, at its expense, for fire and extended coverage insurance on all of its personal property, including removable trade fixtures, located in the Leased Premises.

b. Tenant and Landlord shall, each at its own expense, maintain a policy or policies of comprehensive general liability insurance with respect to the respective activities of each in the Building with the premiums thereon fully paid on or before due date, issued by and binding upon some insurance company approved by Landlord, such insurance to afford minimum protection of not less than \$1,000,000 combined single limit coverage of bodily injury, property damage or combination thereof. Landlord shall be listed as an additional insured on Tenant's policy or policies of comprehensive general liability insurance, and Tenant shall provide Landlord with current Certificates of Insurance evidencing Tenant's compliance with this Paragraph. Tenant shall obtain the agreement of Tenant's insurers to notify Landlord that a policy is due to expire at least TEN (10) days prior to such expiration. Landlord shall not be required to maintain insurance against thefts within the Leased Premises or the Building.

7. Indemnification.

a. Sequim agrees to defend, indemnify and hold harmless Transit, its appointed and elected officers and employees, from and against any and all liability, loss, cost, damage, and expenses, including costs and attorney fees in defense thereof, because of actions, claims or lawsuits for damages because of personal or bodily injury, including death at any time resulting therefrom, sustained or alleged to have been sustained by any person or persons, and on account of damage to property, including loss of use thereof, asserted or arising or alleged to have arisen directly or indirectly out of or in consequence of Sequim's or its employees' performance of this Agreement or the negligence or willful acts of Sequim or its employees.

b. Transit agrees to defend, indemnify and hold harmless Sequim, its appointed and elected officers and employees, from and against any and all liability, loss, cost, damage, and expenses, including costs and attorney fees in defense thereof, because of actions, claims or lawsuits for damages because of personal or bodily injury, including death at any time resulting therefrom, sustained or alleged to have been sustained by any person or persons, and on account of damage to property, including loss of use thereof, asserted or arising or alleged to have arisen directly or indirectly out of or in consequence of Transit or its employees' performance of this Agreement or the negligence or willful acts of Transit or its employees.

8. Utilities and Janitorial Services.

Tenant shall pay for janitorial and all other services and utilities used by Tenant on the Leased Premises during the term of this Lease unless otherwise expressly agreed in writing by Landlord. Areas located on the real property and not leased to the Tenant shall be separately metered for electricity, and Landlord shall be responsible for electrical service to such areas. The public bathrooms and the exterior landscaping shall be separately metered for water, and Landlord shall pay for such water usage.

9. Entry.

Landlord shall have the right to enter upon the Leased Premises at reasonable hours to inspect the same, provided Landlord shall not thereby unreasonably interfere with Tenant's business on the Leased Premises.

10. Damage and Destruction.

If the Leased Premises or any part thereof or any appurtenance thereto is so damaged by fire, casualty or structural defects that the same cannot be used for Tenant's purposes, then Tenant shall have the right within THIRTY (30) days following damage to elect by notice to Landlord to terminate this Lease as of the date of such damage. In the event of minor

damage to any part of the Leased Premises, and if such damage does not render the Leased Premises unusable for Tenant's purposes, Landlord shall promptly repair such damage at the cost of the Landlord. In making the repairs called for in this paragraph, Landlord shall not be liable for any delays resulting from strikes, governmental restrictions, inability to obtain necessary materials or labor or other matters which are beyond the reasonable control of Landlord. Tenant shall be relieved from paying rent and other charges during any portion of the Lease term that the Leased Premises are inoperable or unfit for occupancy, or use, in whole or in part, for Tenant's purposes. Rentals and other charges paid in advance for any such periods shall be credited on the next ensuing payments, if any, but if no further payments are to be made, any such advance payments shall be refunded to Tenant. The provisions of this paragraph extend not only to the matters aforesaid, but also to any occurrence which is beyond Tenant's reasonable control and which renders the Leased Premises, or any appurtenance thereto, inoperable or unfit for occupancy or use, in whole or in part, for Tenant's purposes. Tenant shall be responsible for any damage to the building occurring as a result of Tenant's usage of the building.

11. Default.

If default shall be made in any of the covenants or conditions to be kept, observed and performed by Tenant, and such default shall continue for THIRTY (30) days after notice thereof in writing to Tenant by Landlord without correction thereof then having been commenced and thereafter diligently prosecuted, Landlord may declare the term of this Lease ended and terminated by giving Tenant written notice of such intention, and if possession of the Leased Premises is not surrendered, Landlord may reenter said premises. Landlord shall have, in addition to the remedy above provided, any other right or remedy available to Landlord on account of any Tenant default, either in law or equity. Landlord shall use reasonable efforts to mitigate its damages.

12. Quiet Possession.

Landlord covenants and warrants that upon performance by Tenant of its obligations hereunder, Landlord will keep and maintain Tenant in exclusive, quiet, peaceable and undisturbed and uninterrupted possession of the Leased Premises during the term of this Lease.

13. Condemnation.

If any legally constituted authority condemns the Building or such part thereof which shall make the Leased Premises unsuitable for leasing, this Lease shall cease when the public authority takes possession, and Landlord and Tenant shall account for rental as of that date. Such termination shall be without prejudice to the rights of either party to recover compensation from the condemning authority for any loss or damage caused by the

condemnation. Neither party shall have any rights in or to any award made to the other by the condemning authority.

14. Notice.

Any notice required or permitted under this Lease shall be deemed sufficiently given or served if sent by United States certified mail, return receipt requested, addressed as follows:

If to Landlord to:

If to Tenant to:

Clallam Transit System
830 West Lauridsen Boulevard
Port Angeles, WA 98362

City of Sequim
152 West Cedar Street
Sequim, WA 98382

Landlord and Tenant shall each have the right from time to time to change the place notice is to be given under this paragraph, by written notice thereof to the other party.

15. Waiver.

No waiver of any default of Landlord or Tenant hereunder shall be implied from any omission to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default specified in the express waiver and that only for the time and to the extent therein stated. One or more waivers by Landlord or Tenant shall not be construed as a waiver of a subsequent breach of the same covenant, term or condition.

16. Memorandum of Lease.

The parties hereto contemplate that this Lease should not and shall not be filed for record, but in lieu thereof, at the request of either party, Landlord and Tenant shall execute a Memorandum of Lease to be recorded for the purpose of giving record notice of the appropriate provisions of this Lease.

17. Headings.

The headings used in this Lease are for convenience of the parties only and shall not be considered in interpreting the meaning of any provision of this Lease.

18. Successors.

The provisions of this Lease shall extend to and be binding upon Landlord and Tenant and their respective legal representatives, successors and assigns.

19. Consent.

Landlord shall not unreasonably withhold or delay its consent with respect to any matter for which Landlord's consent is required or desirable under this Lease.

20. Performance.

If there is a default with respect to any of Landlord's covenants, warranties or representations under this Lease, and if the default continues more than FIFTEEN (15) days after notice in writing from Tenant to Landlord specifying the default, Tenant may, at its option and without affecting any other remedy hereunder, cure such default and deduct the cost thereof from the next accruing installment or installments of rent payable hereunder until Tenant shall have been fully reimbursed for such expenditures, together with interest thereon at a rate equal to the lesser of TWELVE PERCENT (12%) per annum or the then highest lawful rate. If this Lease terminates prior to Tenant's receiving full reimbursement, Landlord shall pay the unreimbursed balance plus accrued interest to Tenant on demand.

21. Compliance with Law.

Tenant shall comply with all laws, orders, ordinances and other public requirements now or hereafter pertaining to Tenant's use of the Leased Premises. Landlord shall comply with all laws, orders, ordinances and other public requirements now or hereafter affecting the Leased Premises.

22. Final Agreement.

This Agreement terminates and supersedes all prior understandings or agreements on the subject matter hereof. This Agreement may be modified only by a further writing that is duly executed by both parties.

23. Special Provisions.

a. Disputes between the parties in regard to the terms of this Lease Agreement shall be resolved in accordance with the mediation and arbitration provisions which are attached hereto as EXHIBIT C, and incorporated herein by this reference.

b. City of Sequim agrees to make available to CTS, without charge and on a priority basis over all other users, the meeting rooms located in the Leased Premises for meetings of CTS's governing bodies, committees, or for other CTS purposes.

c. CTS agrees to cooperate with the City of Sequim in land use activities related to the parking lot which is a portion of the leased premises, in connection with adjacent property owned by the City of Sequim.

d. Either upon specific request by one of the parties, or on every FIFTH (5th) anniversary of the executing of this Lease, each of the parties agrees that its governing authority will appoint one representative. This representative shall meet, as needed, to consider performance of each party of the terms of this Lease, and any modifications or alterations of the terms of the Lease proposed by either party. Each party agrees to act in good faith in consideration and action upon any such proposed modification or alteration. Disputes between the parties in regard to such modifications or alterations shall be resolved in accordance with the dispute resolution process attached hereto and incorporated herein by this reference.

IN WITNESS WHEREOF, the parties have executed this Lease as of the day and year first above written.

LANDLORD

TENANT

CLALLAM TRANSIT SYSTEM

CITY OF SEQUIM

BY:

David A. [Signature]

BY:

A. B. [Signature]

Its:

General Manager

Its:

City Manager