

NOTE 16 – LEGAL MATTERS, CONTINGENT LIABILITIES, AND OTHER COMMITMENTS**Primary Government**

Any liability from litigation currently pending or probable of assertion against King County and in which, to our knowledge, the likelihood of an unfavorable outcome with material damages assessed against King County is probable, has been accrued in the financial statements.

The following litigation, or threatened litigation, may involve claims for material damages against King County for which the County is unable to provide an opinion as to the ultimate outcome or the amount of damages that may be found:

- A potential court order that may require the County to pay approximately \$3 million in interest related to the refund of vehicle license fees brought about by Initiative 776. While the actual vehicle license fees have already been refunded in accordance with a trial court's order, a pending motion remains with the Supreme Court for direct review of the trial court's decision, which did not specifically include the refund of interest.
- A potential administrative order that may require the County, the City of Seattle, Boeing, and the Port of Seattle to remediate the contamination in the Lower Duwamish Waterway. This will depend on the results of an investigation currently being conducted by these same agencies, in compliance with an earlier administrative order, to determine the nature and extent of the contamination.
- An anticipated settlement agreement between King County and the City of Seattle, and the Environmental Protection Agency (EPA), involving the Slip 4 remediation project in the Lower Duwamish Waterway. The estimated cleanup cost for the project is \$6.9 million and will likely be shared by the County and the City of Seattle.
- Several claims totaling an estimated \$1 million filed by a general contractor who worked on providing backup generators and repairing roofs in certain pump stations operated by the Wastewater Treatment Division.
- Potential claims for past and future cleanup costs in the Harbor Island Superfund Site. Certain removal costs incurred by the Port of Seattle are expected to be settled between the County, the City of Seattle, and the Port of Seattle. The same parties also have an agreement to share the cost of a supplemental investigation and feasibility study required by the EPA and any potential remediation costs for other contamination that may be uncovered by the investigation.
- A claim in the amount of \$1.8 million filed by a contractor, who worked on the treatment plant on Vashon Island, claiming productivity loss due to project delays allegedly caused by the Wastewater Treatment Division.
- A claim for damages in the amount of \$500,000 filed by the purchaser of a former County building. The claimant alleges that the building has mold and moisture damage.
- A proposed class action lawsuit against the County where the plaintiff, representing similarly situated public defenders and their staff, allege that the County should have enrolled them into the State retirement system.
- A proposed class action lawsuit alleging that the County violated state wage and hour laws by failing to accurately or timely pay employees' wages due in accordance with the collective bargaining agreement between the class members' union and the County.
- A class action lawsuit challenging the overall reasonableness of County permit processing fees charged by the Department of Development and Environmental Services. The County has an outstanding motion for reconsideration filed after the Snohomish County Superior

NOTE 16 – CONTINUED

Court's preliminary ruling indicated an intent to order the County to change certain permit processing practices. Plaintiffs seek declaratory and injunctive relief and a refund of fees that plaintiffs were allegedly overcharged.

Contingent Liabilities

King County has entered into several contingent loan agreements totaling \$41 million with the King County Housing Authority (KCHA) and other owners/developers of affordable housing. The County has provided credit support in the form of reserve guarantees for certain bonds issued by KCHA. All projects are currently self-supporting and the County has made no loans pursuant to these agreements.

Other Commitments

The Solid Waste Enterprise paid the County General Fund \$7.21 million for annual rent on the Cedar Hills landfill site in 2005. Solid Waste is committed to pay rent as long as the Cedar Hills site continues to accept waste.

Component Unit – Harborview Medical Center

Harborview Medical Center (HMC) is involved in litigation arising in the course of business. It is HMC management's opinion that these matters will be resolved without material adverse effect to HMC's future financial position or results of operations.

The current regulatory environment in the healthcare industry is one of increasing governmental activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers that could result in the imposition of significant fines and penalties, including substantial repayments of patient services previously billed. HMC believes that it complies with the fraud and abuse regulations, as well as with other laws and regulations. Compliance with such laws and regulations can be subject to future governmental review and interpretation and regulatory actions unknown or unasserted at this time.

HMC is operated by the University of Washington under a management and operations contract with King County. In this contract the University of Washington agrees to defend, indemnify, and save harmless King County, its elected and appointed officials, employees, and agents, from and against any damage, cost, claim, or liability arising out of the negligent acts or omissions of the University, its employees or agents, or arising out of the activities or operations of the medical center.