

NOTE 9 CLAIMS, JUDGMENTS and RISK MANAGEMENT (\$ 000's)

Pima County is a defendant in a number of court actions. In the opinion of County management, the final disposition of these actions, if unfavorable, will not have a material effect upon the County's financial statements.

On August 16, 1995, the Metropolitan Domestic Water Improvement (District) filed a lawsuit in the Pima County Superior Court seeking a declaratory judgement that it was not bound by the terms of a contract entered into between the District and the City of Tucson (City) on September 30, 1992. That contract purports to require the District to take or pay for treated CAP water from the City in an amount equal to 80% of the District's water demand from August 1, 1995 to June 1, 1996, and to take or pay for a quantity of CAP water for as long as the City has a CAP allocation (at least 50 years).

As a result of ongoing negotiations and settlement conferences, on December 17, 1997 the District and the City entered into a settlement agreement to resolve the issues raised in the litigation. The agreement required the District and the City of Oro Valley to make their respective share of the initial payment due March 25, 1998, and to pay their respective share of the next 42 semi-annual installment payments starting August 1, 1998. To date, all required payments have been made. In return for these payments, the settlement agreement also provides for the assignment by the City to the District and the City of Oro Valley a total of 9,500 acre feet of entitlement to CAP water.

The assignment of the CAP water entitlements has received all the required regulatory approvals and now awaits judicial validation. No difficulty in obtaining judicial validation is anticipated. However, if the Courts fail to approve the assignment, the settlement agreement will be void and all payments made under the settlement agreement will be returned to the District and the City of Oro Valley plus interest and less CAP water deductions. A hearing on judicial validation is set for December 14, 1998.

Unvested accumulated sick leave of County employees at June 30, 1998 totaled \$18,287. This unvested accumulated sick leave is not payable to County employees upon termination of employment. Vested sick leave is accrued and payable to County employees upon termination of employment.

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; medical malpractice; environmental claims; and natural disasters. Claims against the County are accounted for in the Self Insurance Trust Fund, an internal service fund. Annually, an actuarial evaluation is performed to determine the County's anticipated losses except for environmental losses. Environmental losses are based on reported claims and the County risk manager's knowledge and experience. Losses accounted for include reported and paid, reported but unpaid, and incurred but not reported. All liabilities of the Self Insurance Trust Fund except for environmental losses are reported at their present value using an expected future investment yield assumption of four percent. The County purchases commercial insurance for claims in excess of coverage provided by the Fund and for some other risks of loss. Settled claims have not exceeded insurance coverage in any of the last three fiscal years.

All funds of the County participate in the Fund. With the exception of environmental losses, payments to the Fund are based on actuarial estimates of the amounts needed to pay prior and current-year claims and to establish some reserve for catastrophe losses. That reserve was estimated to be \$ 1,000 at June 30, 1998 and is a designation of the Self Insurance Trust Fund retained earnings. Payments for environmental losses are based on historical experience.

The claims liability of \$ 26,775 (in thousands) reported in the Fund at June 30, 1998 is based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The ultimate cost of claims includes incremental claim adjustment expenses that have been allocated to specific claims, as well as salvage and subrogation. No other claim adjustment expenses have been included.

Changes in the Fund's claims liability amount for the fiscal years ended June 30, 1998 and 1997 are as follows (in thousands):

	<u>1998</u>	<u>1997</u>
Claims liability balance - beginning	\$ 23,990	\$ 27,395
Current year claims and changes in estimates	8,993	2,772
Claim payments	<u>(6,208)</u>	<u>(6,177)</u>
Claims liability balance - ending	<u>\$ 26,775</u>	<u>\$ 23,990</u>