



Gregory E. DiLoreto
Chief Executive Officer

July 1, 2011

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Chief Financial Officer

Members of the Board of Commissioners:

Dick Schmidt, Board President
Richard Burke
Jim Doane
Jim Duggan
Marilyn McWilliams

Debra Erickson
Manager, Human Resources

Dale Fishback
Manager, Operations & Field Services

BUDGET MESSAGE

Todd Heidgerken
Manager, Community & Intergovernmental Relations

We are pleased to present the Tualatin Valley Water District (District or TVWD) Biennial Budget for 2011-13, which was adopted unanimously by the District's Board of Commissioners on June 23, 2011 following a public hearing. The budget was previously approved unanimously by the District's Budget Committee on May 10, 2011 following a public hearing held by the committee. This budget message provides background information and highlights portions of the budget document to aid your review of the Adopted Budget. The budget message is organized into the following categories:

Mark Knudsen PE
Chief Engineer

- Budget Process, Format and Basis
- Board Goals and Major Initiatives
- Financial Policies
- 2011-13 Biennium Budget Summary
- The Capital Improvement Plan (CIP) and Its Relationship to the Budget
- Concluding Thoughts and Future Planning

Brenda Lennox
Manager, Customer & Support Services

As a special district and a water utility, all of TVWD's costs and planning efforts revolve around the imperative to provide high quality water on demand to all of the residential customers and businesses within our service area boundaries. Those boundaries can and do change as a result of changes to the Metro urban growth boundaries, as well as with changes in the population growth rate and water consumption habits of our resident population. This Adopted Budget reflects the results of our planning efforts and alignment to District goals, as well as the affect of the most recent data available on population growth, projected future water demands of our customers, and expansion of the District to serve new development.

No single water resource is sufficient to meet this challenge. The District's Board of Commissioners (Board) has long recognized the need to balance water supply between multiple sources and supplemental resources such as Aquifer Storage and Recovery (ASR).



WATER - not to be taken for granted

As the second largest water provider in Oregon, we believe it is incumbent upon us to provide high quality service at a competitive price, while showing leadership in key areas such as sustainability, water conservation and operational efficiency.

In recognition of these efforts, the District was honored to receive a Platinum Award for Utility Excellence by the Association of Metropolitan Water Agencies (AMWA) in 2008. At the time this prestigious award was given to only eleven water utilities in the U.S, and we were the only utility from Oregon to receive this honor. This is the second time TVWD has received the award (the first being in 2004). The award recognizes outstanding achievement in implementing the nationally recognized “Attributes of Effectively Managed Utilities.” The Attributes include: product quality, customer satisfaction, employee and leadership development, operational optimization, financial viability, infrastructure stability, operational resiliency, community sustainability, water resource adequacy, and stakeholder understanding and support.

Specifically, the District was recognized for:

- Adopting a 50-year water supply plan that ensures future water supplies
- Conducting a work force planning study, which put in place processes that will ensure a skilled and knowledgeable work force for the future
- Implementing various sustainability initiatives and analyses regarding reduced carbon emissions, workplace efficiency opportunities and community involvement.

The underlying objective of the Adopted 2011-13 Budget is to continue to build on this success of operating an effectively managed utility.

BUDGET PROCESS, FORMAT AND BASIS

Management and staff prepare budgets within the context of Board goals and initiatives and the long-term financial plan. Six individual departmental budgets are prepared by the Chief Executive Officer (CEO) and department managers. These operating budgets are combined with the fund level budgets and the six-year CIP to create a consolidated budget request, which is reviewed by the CEO, Chief Financial Officer, and Budget Officer. The public budget process begins when a consolidated “Proposed Budget” is presented, by fund, to the Budget Committee for consideration, public comment, and approval. The budget, as approved by the Budget Committee, is then presented to the Board of Commissioners who will conduct a public hearing, make revisions if necessary, and adopt the budget. Oregon Local Budget Law limits the revisions that can be made by the Board after approval of the budget by the Budget Committee. The Board then makes appropriations for the budget period in conformity with the Adopted Budget. (The budget process is presented in greater detail in Section 3 of this document.)

Under the definition of Oregon Local Budget Law the Adopted 2011-13 Budget is balanced, meaning the resources in each fund are equal to the expenditures and other requirements in that fund.

The District budgets on a biennial period basis, as allowed by Oregon law. This Adopted Budget covers the period from July 1, 2011 to June 30, 2013. The general presentation format is to show the actual history for the last two completed periods, the adopted budget for the previous biennium, and the Adopted 2011-13 Budget for the current biennium for comparison.

The CIP in Section 14 includes a listing of all of the capital projects, estimates of design and construction costs for a six-year period, and sources of funding. The first two years of the CIP expenses appear in the Construction Fund capital outlay line item.

The District is considered a single enterprise similar to a commercial entity for financial reporting purposes. Accordingly, with the exception of debt service, the District's budget is prepared on an accrual basis, the same basis of accounting used for financial statements. Revenues are recorded at the time they are earned and expenses are recorded at the time the liability is incurred. Debt service is budgeted on a cash basis to provide the reader complete information on our financial obligations pertaining to the District's outstanding revenue bonds.

The budget is comprised of six funds: a general fund, two construction funds, one debt service fund, and two special revenue funds. The two special revenue funds account for partnership activities in which the District performs administrative and bookkeeping functions. A resolution authorizing budget appropriations is adopted by fund for the budget period in the categories of personal services, materials & services, capital outlay, debt service, contingency, and transfers.

Financial System Software Conversion

During 2009-11 the District implemented a new financial software system licensed from New World Systems (Logos). The new system replaced the District's legacy accounting system that had been in place since 1982. The new system provides an integrated web-based system supporting all of the District's financial management, accounting and human resources functions. In addition, the .NET programming platform used by the new system integrates with other District software including utility billing, and provides a wide range of standard and customized reporting capabilities.

In July 2010, the District went "live" on the primary modules including general ledger, accounts payable, accounts receivable, purchasing and inventory. The payroll and human resource modules went "live" in October 2010. The implementation of the remaining modules including fixed assets and contract management will be completed by June 2011. The new system also includes a budgeting module, which will be used for budget monitoring and reporting.

With the implementation of the new financial system the District has changed its fund structure, and now all expenditure and appropriation activity is conducted directly out of each fund. This represents a significant departure from the 2009-11 biennium budget and prior budgets where all expenditures were expensed through the General Fund. The General Fund was reimbursed through a series of transfers and sales between funds. In addition, several operating departments have been reorganized into new divisions to better align the programmatic responsibilities within each department. Applicable references to the changes in the Adopted 2011-13 Budget resulting from this implementation are noted.

ORGANIZATIONAL GOALS AND MAJOR INITIATIVES

The District sets long-term goals that are aligned with community values and balance the interests of its stakeholders. As goals and their specific objectives are established, progress schedules are adopted and departments are assigned lead responsibility. District-wide, departmental and employee outcomes and performance measures are aligned with established goals and objectives.

Progress in achieving objectives supporting goals are tracked and reported to the Board of Commissioners. Critical District plans such as its water master plan, biennial budget, capital improvement plan, and long-term financial forecast incorporate District goals and objectives. In its most recent goal setting process conducted the fall of 2010 the Board reaffirmed the following set of overall goals for the District:

BOARD OF COMMISSIONERS GOALS ADOPTED IN 2008-09	
GROUP I – CORE GOALS	
1. <i>Provide a quality water supply in quantities to meet current & future needs</i>	All the water that TVWD supplies meets or exceeds State and Federal water quality standards and the demands of the community are met with uninterrupted access to water.
2. <i>Provide an efficient, reliable and secure water system</i>	TVWD operates within its publicly approved budget using best management practices, providing water through a distribution infrastructure that results in few disruptions to customers.
3. <i>Provide stewardship of District assets and resources</i>	Physical assets are kept in good repair; natural resources are used to meet District needs consistent with sustainability principles; people are encouraged to use and develop their strengths; money is used for items and programs that move the District closer to its mission.
GROUP II – IN SUPPORT OF THE CORE GOALS	
4. <i>Be an ‘Employer of Choice’ in the water industry</i>	When given the choice about what job offers to accept, the candidates TVWD is most interested in choose to join the TVWD team. And when given the choice about staying with the District or accepting another offer, key employees choose to stay.
5. <i>Promote customer awareness of the services and value we provide</i>	District customers are aware of the services we provide for them and understand the value those services bring to their lives.
6. <i>Promote beneficial partnerships with other entities</i>	TVWD is able to accomplish things with partners that it could not do, or could not do as well, on its own.
7. <i>Support effective organizational performance through enhanced internal operational systems</i>	Day-to-day functions in office and field are completed with few problems or disruptions of service. Internal operations are well-organized, resourceful, professional, competent and not wasteful, resulting in timely and appropriate customer response from all departments.
8. <i>Fulfill District mission in a manner that provides regional leadership, protects the earth’s environment, supports a strong economy, and promotes a robust community</i>	TVWD customers receive quality water and customer service from an organization that provides regional leadership, considers the impact on the earth’s environment, and supports a strong economy, consistent with the needs of the community.

The Board establishes targeted tasks that support the District’s goals. For each of these tasks, the Board, with the assistance of staff, defines the task’s product, completion date, desired outcome, and identifies which department will take the lead. During the budget development process staff present their requested budgets in the context of supporting Board goals and targeted tasks.

Finally, performance measures are developed at the management level, with the purpose of moving the District closer to its goals. Although refinement of performance measures is a continuing process, we are currently tracking the 24 performance measures selected in the last biennium. A complete list of goals and performance measures can be found in Section 4 of this document. Additional reporting and data for the performance measures is also included in the individual department budgets in Sections 8 through 13.

Most of the goal areas represent major, multi-year initiatives that provide overall direction to management and staff, but goal areas also frequently include incremental improvements to the day-to-day operations of the District. Examples of both of these types of goals are provided in the section below, which highlights some of our key initiatives in the upcoming biennium.

2011-2013 INITIATIVES

FUTURE WATER SUPPLY

Long-Term Supply

In December 2007 the TVWD Board selected the Tualatin Basin Water Supply Project (TBWSP) as its future 50-year water supply source. The development of future water supply affects virtually every department, and every fund managed by the District.

Supports: Goal #1 - *Provide a quality water supply to meet current and future needs.*

In partnership with members of the Joint Water Commission (JWC), comprised of the cities of Hillsboro, Beaverton and Forest Grove, and other water users in the Tualatin River Basin, including

Clean Water Services and the Tualatin Valley Irrigation District, work continues on joint projects to create the additional water supply. The District is involved with this effort to meet its long-term water supply needs, and the project is estimated to be completed as early as 2022.

The TBWSP partners are engaged in a number of tasks associated with the planning, permitting, design and construction to expand, or replace, Scoggins Dam to provide up to 54,000 acre feet of additional raw water storage for municipal, agricultural and stream flow restoration needs. As currently envisioned, the District will own about 23,000 acre feet of this new supply, which is sufficient to meet its projected demand for the next 50 years. Even after completion of the TBWSP, the District will continue to buy water from the City of Portland to serve the Metzger area and as a backup supply for the District. This decision enables TVWD to continue to draw water from the same two sources it has relied on for over a decade.

Concurrently, the TBWSP partners are working on planning and right-of way acquisition for a new raw water intake and pipeline from Hagg Lake to the JWC treatment plant. This pipeline also will serve to refill Hagg Lake during the winter during high flows in order to improve summertime water reliability. Members of the Joint Water Commission have completed an update of JWC's master plan, the key component of which is a 60 million gallons per day (MGD) Phase I expansion of the treatment plant to begin handling the additional water supply from the TBWSP. This expansion will bring the JWC treatment plant capacity to 135 MGD. As most of the expansion will supply the District, we will be the largest financial participant in the project.

Finally, the partnership is working with the U.S. Bureau of Reclamation (Reclamation), the agency that currently owns Scoggins Dam. Since early 2010 Reclamation has been working on a Corrective Action Alternatives Study (CAAS) outlining a process to identify and evaluate options, and estimating costs for correcting known seismic issues at the dam. The CAAS study results are expected in late 2011, and will serve as a critical piece to help the TBWSP partners determine the range of options available: remediate and raise the current dam, or replace the dam altogether. TVWD continues working with Reclamation to keep the water supply project moving forward.

The latest estimate of District's share of the TBWSP and JWC treatment plant expansion is almost \$450 million with most of that investment scheduled to occur beginning in FY 2017. In this upcoming 2011-13 biennium TVWD will work with the partnership in reviewing Reclamation's CAAS recommendations on the existing dam, perform predesign of the raw water pipeline, and work on environmental permitting requirements. Staff will continue to lay out the financial ground work required for such a significant obligation. This will involve a series of revenue bond issues, the first of which is anticipated during 2013-15 biennium. The Adopted 2011-13 Budget and CIP includes \$2.7 million for work on the TBWSP. The District's six-year 2012-17 CIP includes \$37.9 million in projected expenditures for ongoing development of the project.

Interim Water Supply Planning

Given the added capacity of TBWSP will not be operational until at least 2022, the District has initiated two interim water supply efforts to provide expanded water supply for its customers, and ultimately dovetail with the larger TBWSP project. The first project is to evaluate the feasibility of expanding TVWD's existing capacity in the JWC water treatment plant by 10 to 15 MGD through a combination of leased water from other members of the JWC and physical improvements to the existing treatment plant.

The second element of Interim Supply Planning involves planning and exploratory work for additional aquifer storage and recovery wells (ASR) wells. The additional ASR capacity is anticipated to include at least one additional ASR well developed by TVWD. This project may provide additional storage capacity of about 300 million gallons (MG) and supply up to 2.5 MGD during peak summer use. The Cooper Mountain well will be the second District ASR facility, along with existing 300 MG Grabhorn ASR. In addition, in partnership with the cities of Hillsboro and Beaverton, TVWD is actively pursuing development of additional JWC ASR capacity.

Taken together, obtaining additional capacity from the JWC treatment plant and new ASR development will help the District meet projected demands, increase ownership in additional water

supply capacity, and provide opportunities to reduce the need to purchase wholesale water from the City of Portland.

The Adopted 2011-13 budget provides funding for continuation of the District's interim supply strategy; \$1.7 million is allocated to planning and design of the interim expansion of the JWC treatment plant; \$2.0 million for joint ASR development with other JWC partners; and \$1.2 million for ASR development at Cooper Mountain by TVWD. The District's six-year 2012-17 CIP continues these activities, highlighted by planned investments of \$12 million to complete the treatment plant expansion and Cooper Mountain ASR during the 2013-15 biennium.

Overall these long and interim water supply projects meet the District's goal of providing future supply to our customers will occupy the focus of the District staff for the next several years.

INFORMATION TECHNOLOGY (IT) STRATEGIC PLAN

The District completed its IT Strategic Plan in 2009, which inventoried current systems that support critical business processes. Projects were scoped, prioritized and assessed for both budgetary and staffing needs. The current 2009-11 biennium was productive with three critical IT Strategic Plan objectives being accomplished.

The District's aging legacy financial system was replaced by an integrated financial, payroll and human resource enterprise system. The Supervisory Control and Data Acquisition (SCADA) system, which makes use of sensors (flow, pressure, level, and water quality monitoring), and telemetry to optimize the operations of the water distribution system was upgraded with new control computers, system software, and a remodeled SCADA control room. The Geographic Information System (GIS) software and hardware was upgraded to an enterprise based GIS system, including mobile GIS capability in the field. Results include accurate mapping locations of critical infrastructure assets, maintenance of asset records, and wider access of GIS records to assist in the planning and design of future water system improvements.

As authorized in the 2009-11 budget three new positions were filled to provide implementation and ongoing support for SCADA, GIS and overall IT application support.

The Adopted 2011-13 Budget continues implementation of the multi-year IT Strategic Plan priorities. The following new project has been included in the budget based on its critical support of business needs.

Computerized Maintenance Management System (CMMS)

The District created an Asset and Work Management Team to develop tools and strategies to manage the water system proactively using best practices. The team has worked over the past two years reviewing maintenance procedures, identifying data gaps and examining asset management from a comprehensive approach involving all levels of District operations and capital planning. Some of the work of the Asset and Work Management team was combined with the mapping and GIS enhancements completed during the current biennium.

Supports: Goal #2, #3 & #7 - *Provide an efficient, reliable and secure water system; Provide stewardship of District assets and resources; Support effective organization performance through enhanced internal operational systems*

Building upon that work the District proposes to implement a CMMS system to track and manage most aspects of an asset's life cycle (other than those tracked through GIS), including an integrated work order system. The goal of using such a system is to develop asset specific maintenance programs to optimize individual asset service lives. CMMS will allow staff to collect, store and analyze data to

inform operational and scheduling decisions regarding asset maintenance, replacement and eventual decommissioning. It will also allow the management of data in an appropriate system of record while sharing data between systems and precluding redundant data entry.

CMMS is expected to enhance labor productivity, improve customer service and reduce costs through appropriate maintenance, improved efficiency and enhanced information availability for daily use and trend analysis. CMMS will be integrated with other District systems including the new financial system for inventory, fixed assets, and project tracking for payroll, and GIS for mapping and asset acquisition and maintenance.

The FY 2011-13 Adopted Budget includes resources in the amount of \$1.0 million; \$400,000 for CMMS software budgeted in capital outlay in the Finance & Information Technology Department; and \$600,000 in the materials & services budget of the Field Operations Department for implementation services. In addition, one new position for an operations analyst is included in Field Operations. This position will be responsible for CMMS system administration, as well as perform other analytical tasks and business process coordination for the department.

IT Strategic Plan Support and Infrastructure Improvements

In direct support to the IT Strategic Plan and other organization-wide technology requirements, the Adopted 2011-13 Budget includes resources for improved infrastructure continuity and data security. Capital outlay in the Finance & Information Technology Department includes appropriations of \$170,000 for new and replacement servers, desktop virtualization, hardware for the SCADA system and software upgrades for mobile GIS. Computer and Software Expense in the Department's materials & services budget include resources for mobile and desktop computer purchases that fall below the District's capitalization threshold of \$7,500, and annual licensing costs of software. Finally, the District is implementing improved customer and credit card data security in compliance with Purchasing Card Industry (PCI) standards. Sensitive customer data will be stored at an offsite secure third party location and not reside on the District's servers. PCI compliance costs involve monthly maintenance fees budgeted in Sundry Expense.

OTHER DISTRICT INITIATIVES

TVWD's emphasis on long range planning is a key to its success in achieving its mission and support to all eight District goals. Below are some key focus areas for the 2011-13 biennium:

Strategic Planning

The District has always focused on long term goals and planning for future trends and challenges. Early in 2011, TVWD began to formally look at its strategy for effectively providing quality water and customer service to its customers now and in the future.

Strategic planning efforts at TVWD provide leadership, facilitation, education, analysis, project management, and accountability for the District's overarching planning efforts. This is accomplished by (a) analyzing available opportunities and potential threats, (b) identifying District strengths, weaknesses and priorities, and (c) identifying strategies to be implemented based on those priorities.

Key goals of this program include:

- District preparation for future opportunities and challenges
- Identification of areas needing improvement throughout District operations
- Work with other governmental entities, non-profits, businesses and other stakeholders on regional efforts to develop strategies that carry out the District's mission and goals.

Key efforts in the 2011-13 biennium include:

- Development of a strategic planning process with focus on addressing future trends in the water industry
- Development and implementation of a method to prioritize strategies and resources across departments, programs and District-wide initiatives
- Work with the Board on the integration of the strategic planning process into current District planning processes
- Integration of goals and performance measures into each department
- Development of a monitoring system to measure actual, sustainable advancement toward District goals

The District's strategic planning is a continuing effort and will be reviewed periodically to keep strategies consistent with and responsive to the changing landscape in which it resides. The Adopted 2011-13 Budget resources allocated to this effort are primarily comprised of management and program staff time. Results of the strategic planning efforts, however, will inform future budgets and District operational priorities.

Sustainability

Through the District's Sustainability Plan and Board-directed initiatives, all District employees are involved at some level in planning and implementing sustainability improvements. The focus has shifted somewhat from developing new projects to integrating sustainable thinking into all aspects of District operations. The Capital Improvement Plan continues to undergo a sustainability review every two years to ensure all projects are accomplished in as responsible a manner as possible.

Supports: Goal #3 & #8 - *Provide stewardship of District assets and resources; Protect the earth's environment.*

The District's Sustainable Purchasing Guidance Document helps District purchasers understand TVWD's expectation that sustainable products be purchased whenever feasible. It details what to look for, provides resources for conducting research, and

offers guidance on how to incorporate sustainability and life-cycle costing into purchasing decisions. The District Greenhouse Gas inventory, which follows best practice protocol for calculating emissions from District operations, gives staff an understanding of the greenhouse gases created by District operations and helps them discover additional ways to decrease emissions wherever possible.

TVWD has completed two years of membership in Partners for a Sustainable Washington County Community (PSWCC). This organization is a joint effort of eleven Washington County public agencies who have agreed to work together to reduce redundant efforts and find ways to accomplish greater sustainable actions than any of the partners could accomplish on their own. The District has housed the sustainability coordinator hired for the effort. This position is budgeted in the PSWCC Fund and managed by the Office of Community & Intergovernmental Relations. Costs for the position are reimbursed by PSWCC partners.

Examples of items in the Adopted 2011-13 Budget tied to sustainability include \$40,000 for Renewable Energy Certificates and carbon offsets in the General Fund materials & services for Pumping Power, and \$50,000 in Field Operations Department capital outlay for the additional costs of alternative fuel fleet vehicles, subject to meeting District performance expectations and reducing overall life-cycle costs. The PSWCC adopted budget is \$233,112 and can be found in Section 13 under Office of Community & Intergovernmental Relations. The District's share of the PSWCC dues is budgeted in the Office of the Chief Executive.

Workforce Planning

Supports: Goal #4 - *Be an 'Employer of Choice' in the water industry*

With over 35% of the District's workforce over the age of 50 and with a workforce average age of 46, the District faces retirements in key positions during the upcoming years. To address this

challenge the 2007 Workforce Planning project remains as a District priority. Through cross training, mentoring and documentation of District operations critical knowledge gaps continue to be closed. Our Human Resources program works with employees to develop skills and record information essential to smooth transition as staff retire. Included within this goal is the continuation of the District's summer intern program to attract new employees to the District and the industry in general.

The Adopted 2011-13 Budget expands our current internship program to include four interns in the Engineering Services Department, and, during the second year of the biennium two interns in the Customer & Support Services Department. In addition, the Adopted Budget continues our summer help program in Field Operations funding seven positions in the Building & Grounds and Valve divisions.

Conservation and Communications

Water conservation programs and customer outreach continue to be a priority. Objectives include reducing peak demands, encouraging the efficient use of water, providing information to our residential and commercial customers on the programs we offer, and educating our youth on the value of water.

Supports: Goal #5 - *Promote customer awareness of the services and value we provide*

Another important objective of the District's conservation program is to retain the conservation savings already achieved. We have assumed that customers will not increase their usage to former levels. A key indicator of this is the District's performance measure to maintain the reductions in the District's gallons per capita per day (GPCPD). We are currently at about 95 GPCPD (a reduction from the performance target of 110 GPCPD), and we are using a projection of 95-99 GPDPC in the purchased water budget for the 2011-13 biennium.

The Adopted 2011-13 Budget includes appropriations to maintain most levels of our conservation and education programs. Funding in the amount of \$186,000 in Public Education materials & services in the Office of Community & Intergovernmental Relations keeps current levels for residential and industry outreach. Also supported are youth education programs and the popular annual "Kid's Calendar," where school children contribute their art work and water saving messages in 12-month wall calendar widely distributed by the District.

Funding for Conservation materials & services is reduced about 8% to \$588,000. We are discontinuing rebate programs for standard toilets and dishwashers, but continuing rebates for high efficiency toilets, washing machines and weather controlled irrigation devices. We also continue our partnership with the Oregon Energy Trust to conduct home water use assessments each year.

Partnerships

Our partnerships with the TBWSP, JWC and PSWCC combine common objectives and broader expertise in pursuit of providing a reliable long-term water supply and promoting sustainability practices in our region. Our active involvement with organizations such as the American Water Works Association and its Pacific Northwest Section creates opportunities for the District to both share our leadership and knowledge, and learn from others on matters important to our industry.

Supports: Goal #6 - *Promote beneficial partnerships with other entities*

Providing contracted services to other entities including Clean Water Services and the City of Beaverton for utility billing, and the Tualatin Hills Park and Recreation District for joint fueling services, not only improves service quality for our customers in common, but also improves economy of scale for delivery of those services. Our ability to offer District customers backflow device testing services performed by certified testers reduces their costs of compliance, and helps ensure the safety of the water supply. Contracted services and programs reduce costs to our rate payers and leverage other resources to fund District operations. About \$2.4 million in the Adopted 2011-13 Budget is paid to the District for its contracted services. This represents about 4.1% of the operating budget. Another \$188,000 is reimbursed for backflow device testing.

Financial Stability

In support of all District Goals

Financial Stability encompasses a wide variety of efforts all aimed at ensuring a healthy and stable financial condition. In 2010, Moody's Investor Service changed the District's bond rating from Aa3 to Aa2 in conjunction with Moody's migration of U.S. public finance ratings to its global rating scale. The District also carries an AA+ rating from Standard and Poor's, which was upgraded two-steps from AA- in 2009. These ratings are among the highest available for non-tax supported public entities, and reflect our strong financial position and commitment to comprehensive long-range planning. These higher bond ratings lead to lower interest costs when issuing debt and instill confidence in our bond holders.

A key activity in the Adopted 2011-13 Budget is planning for a series of revenue bond sales to finance the JWC treatment plant expansion and TBWSP water supply projects, as well as finance other District capital improvements. Currently we anticipate issuing revenue bonds in the amount of \$33 million during the 2013-15 biennium. This issuance will be the first in a series for the supply project. Expenditures for outside debt issuance advisory and bond counsel services are included in the Finance & Information Technology Department.

Other resources in the department budget include funding for annual population updates, which is critical for our water demand forecasting; advisory services for our investment portfolio to maximize safety, maintain diversification and earn a competitive yield; and audit related services to maintain compliance with Governmental Accounting Standards Board (GASB) and Statement of Auditing Standards (SAS) requirements.

FINANCIAL POLICIES

The Board adopted a set of Financial Goals and Policies in 2004 (updated with minor modifications in 2009). These policies supplement our existing investment and accounting policies, and were developed specifically to guide the forecasting and budgeting activities of the District and recognize the special requirements of a water utility enterprise. The complete text of those policies can be found in Section 3 of this document beginning on page 3-8. The policies articulate the financial goals of the District and provide operating and management guidance in four categories: Financial Planning, Capital Planning, Debt Management, and Reserve and Contingency planning. Our financial policies drive forecast and budget decisions.

A 50-year financial forecasting model is used as the framework within which revenues, reserves, operating costs, and capital costs are captured. This extremely long timeframe is necessary because the forecast is used to model and plan for the financial affects on a wide range of factors:

- Multi-year budget and/or contract obligations
- 6-year CIP priorities
- 20-year water conservation (demand management) considerations
- 25-year bonded debt requirements
- 50-year master plan and population growth estimates
- 50-year water supply plans

An important goal of the planning effort is to match cash inflows and outflows, thereby smoothing rate changes over time and ensuring that capital expenditures are appropriately funded by cash or spread to future beneficiaries using tax-exempt debt. To meet this goal, a number of our financial policies, practices, and targets inform the financial forecasting process.

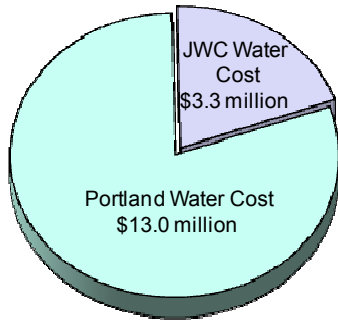
Balanced Water Supply Options and Water Purchases

As an ongoing operating philosophy, the District intends to expand our ownership position in our primary water source though participation in the TBWSP water supply and JWC treatment plant expansion projects. By making a capital investment in this source we can have more control over ongoing operating costs and we can capitalize our share of assets and recover a portion of their cost through system development charges (SDCs). We also have the option of debt financing capital investment in source. Our Board of Commissioners also makes it a policy to encourage diversity of source. Reliance on a single water supply source adds risk in terms of cost and reliability. The water sources available to us are affected differently by rainfall, snowpack, and temperature.

Because purchased water and associated pumping costs represents such a large proportion (about 30%) of our operating expenses we seek to manage this cost by balancing purchases between our various sources. Until the TBWSP/JWC expansion projects come on line, the District's primary source of water is from the City of Portland through a gravity fed transmission line from Powell Butte Reservoir. We can take up to 42.3 million gallons per day (MGD) through this connection with Portland's system. The District has no equity share in the Portland supply, but is required to purchase an average of 13.2 MGD under the terms of a 10-year contract. Water is billed at a pre-determined rate (including a profit element to Portland) and penalties are invoked for high usage during summer months.

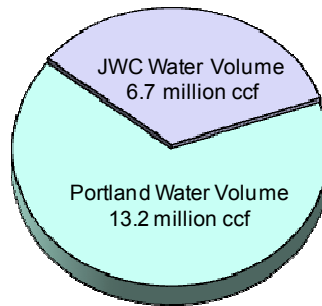
As a member of the Joint Water Commission the District owns capacity rights in JWC facilities. Our capacity right at the treatment plant is 12.5 MGD, and we currently own rights to approximately 7,000 acre-feet of storage (approximately 10 MGD) at the Barney Reservoir. Actual operating and maintenance costs are shared by JWC members in proportion to their water usage. Because JWC water is billed to us at actual cost with no profit element, it is typically about 60% lower than the cost of Portland water – we try to maximize our purchases from this source while concurrently making our required purchases from Portland.

**2011-13 Biennium
Water Cost: \$16.3 million**



**Portland Water is 80%
of Cost**

**2011-13 Biennium
Water Volume: 19.9 million ccf**



**Portland Water is 66%
of Volume**

The District is also able to utilize its Grabhorn ASR well to supplement supply. The well is capable of storing 300 million gallons of water, and can deliver 3 MGD of peak demand supply over a 100 day period. To reduce the higher costs of purchasing water for peak use the District forecasts its projected demand on a regular basis. This helps to keep the Portland water purchases at the minimum contracted levels throughout the year. Additional supply is provided by ASR, the purchase of less expensive “summer interruptible” water, and purchased water from our lower cost JWC source.

Capital Requirements Financed with a Blend of Cash and Debt

As articulated in our capital planning policies, the District utilizes a blend of cash and debt financing for capital. Our policies require that normal ongoing repairs and replacements are always financed with cash. Debt will be considered as the financing mechanism for long-lived improvements, and is a significant part of the construction financing for the TBWSP and JWC supply projects. As part of the CIP process, analysis is conducted to insure that capital expenditures are funded from an appropriate revenue source, and that sufficient cash is being re-invested in the system each year to maintain the public’s investment in infrastructure. On average, the District invests \$6-8 million in cash each year in the system. This compares favorably to annual system depreciation of \$4.6 million. The District uses revenue bonded debt financing to supplement cash in cases where capital facilities are being constructed that have long-term useful lives and will be of benefit to future users. By financing these facilities with debt the cost is spread over time and future beneficiaries help pay for the system.

Operating Revenues Pay For Operating Expenses

As a self-sustaining utility enterprise, it is essential that ongoing operating expenses be fully covered in every year by ongoing operating revenues. In addition to being a sound business practice, this is also a requirement of the covenants the District agreed to when selling revenue bonded debt. Management and elected officials are also committed to evaluating efficiencies to see if reductions in operating costs are possible before raising water rates to generate additional operating revenue. Recent examples include reducing leased water costs by purchasing interruptible water; leading the effort to revise cost allocations in the Portland wholesale water contract; achieving savings in workers compensation through self-insurance of small claims; and cooperative purchasing efforts. These activities returned about \$525,000 in savings to the General Fund.

Other provisions of the revenue bond covenants require that:

- We must generate annual net operating revenues that are at least equal to 1.25 times revenue bond debt service when system development charges (SDCs) are included in gross revenues, and 1.20 times revenue bond debt service when SDCs are excluded.
- Currently a \$33,000,000 balance is maintained in a Rate Stabilization Account in the General Fund. The Rate Stabilization Account is essentially an earmarking from the ending fund balance to assure availability of funds for Debt Service if expected revenues fall short. In the 2011-13 Adopted Budget we are requesting the Rate Stabilization Account be maintained at \$33 million in anticipation of the issuance of revenue bonds for the TBWSP water supply and JWC treatment plant expansion projects. The Rate Stabilization Account will be used in future years to help mitigate rate increases when the bonds are sold.
- Annual transfers must be made from the General Fund to the Construction Fund for renewals and replacements. Renewal and replacement transfer levels are reviewed every six years by a qualified engineering firm to assure transfers are adequate to replace and renew District infrastructure. The most recent Renewal and Replacement study was completed in December 2008. The Adopted 2011-13 Budget includes a transfer of \$7.1 million, which is about \$700,000 above required for scheduled replacements in the biennium to be set aside as future replacements reserves.

Rate Increases Planned Over Multiple Years

Rate increases are linked to the overall level of revenue requirements, and must keep up with the District's projected operating and capital needs. Multi-year planning is essential to keep rate increases as smooth and predictable as possible. It is also critical information needed for the Board of Commissioners in order to make informed decisions on current and future investments.

Contingencies and Reserves

The Adopted 2011-13 Budget includes a 15% General Fund operating contingency of \$8.45 million. (The District's policy is to appropriate at least 10% of General Fund operating expenditures.) Contingency funds provide the flexibility to address any operating and/or regulatory issues that may arise and are not already covered elsewhere in the budget. There is no statutory limit of the amount that may be appropriated for general operating contingency, but Oregon Local Budget Law limits transfers from contingency to 15% of fund appropriation without going through a supplemental budget process. If there is an unforeseen but well-defined need, the transfer of contingency funds to the appropriate expense item requires Board action by resolution.

The District maintains several reserves that are dedicated to specific purposes:

- Rate Stabilization Account for Debt Service: \$33 million
- Capital Renewal and Replacement Reserve: \$1.8-2.8 million
- Working Capital Reserve: \$4.8 million

The Working Capital Reserve follows a recommended utility industry practice of maintaining the equivalent of two months worth of operating expenses as working capital. The District informally restricts a portion of the cash in the general operating fund as working capital in recognition of the fact that a significant portion of water service charge revenues (approximately 84%) are variable in nature, and some portion represents accounts receivable and inventory rather than actual cash on hand.

In addition to these reserves, the District is required by Oregon state law to restrict SDC revenues for certain purposes. Monies collected through SDCs may only be spent on the growth portion of capital projects identified in an adopted capital improvement plan, reimbursements for existing capital assets that have available capacity, or debt service. The average balance of these restricted revenues varies greatly, depending upon SDC receipts and the pace of construction financed by SDCs.

Although the District has seen slower growth and less private development over the past three years due to the national economic slowdown, SDC revenues continue to make a significant contribution. In the current biennium, we are projecting SDC revenue to come in at \$6.7 million, \$300,000 above budget. The Adopted 2011-13 Budget includes \$7.75 million in SDC revenues.

In view of the restricted nature of some of the reserves and the need to have sufficient cash on hand for operations the combined fund balance in the financial forecast, including resources in the Rate Stabilization Account, is never allowed to fall below \$9 million before corrective action is taken.

Detailed information on the multi-year financial forecast is located in Section 5 of the budget document.

2011-13 ADOPTED BIENNIAL BUDGET SUMMARY

The Sources and Uses of Funds Table below presents summary data comparing the key elements of the Adopted 2011-13 Biennial Budget to the current Adopted Budget figures for the 2009-11 biennium. The six funds summarized on this table are of four types: Operating, Construction, Debt Service, and Special Revenue. All funds work together to support the water utility and manage our partnerships. Total budgeted positions increase from 120 to 121 FTEs over the biennium.

SOURCES & USES OF FUNDS

	2009-11 Biennial Adopted Budget	2011-13 Biennial Adopted Budget	% Change from Adopted 2009-11 Biennial
SOURCES OF FUNDS			
Operating Revenue			
Water Service Charges and Fees	\$ 67,197,770	\$ 62,695,400	-6.7%
Miscellaneous Receipts	4,436,525	4,972,100	12.1%
Non-Operating Revenue			
System Development Charges	6,417,000	7,750,000	20.8%
Contrib. & Assessments	200,000	150,000	
Interest Earnings	2,370,524	934,563	-60.6%
Total Revenues:	\$80,621,819	\$76,502,063	-5.1%
Transfers In	91,043,260	14,827,125	-83.7%
Combined Beginning Fund Balance:	78,627,056	82,265,465	4.6%
TOTAL RESOURCES & TRANSFERS	\$ 250,292,135	\$ 173,594,653	-30.6%
USES OF FUNDS			
Operating Expenses			
Personal Services	\$ 23,238,332	\$ 26,652,849	14.7%
Materials and Services	29,797,444	30,042,145	0.8%
Capital Outlay	2,535,400	1,724,800	-32.0%
Total Operating Budget	55,571,176	58,419,794	5.1%
Capital Budget			
Debt Service	3,884,775	3,874,900	-0.3%
Construction	106,868,458	33,567,052	-68.6%
Total Capital Budget	110,753,233	37,441,952	-66.2%
Total Expenditures:	166,324,409	95,861,746	-42.4%
Contingency	10,621,700	8,504,600	-19.9%
Rate Stabilization Account	33,000,000	33,000,000	N/A
Total Exp, Contingency, Rate Stabilization:	209,946,109	137,366,346	-34.6%
Transfers Out	36,682,000	14,827,125	-59.6%
Total Budget Appropriations:	246,628,109	152,193,471	-38.3%
Ending Fund Balance *	3,664,026	21,401,182	484.1%
TOTAL USES, TRANSFERS, CONTING.	\$ 250,292,135	\$ 173,594,653	-30.6%
TOTAL FTE's	120.0	121.0	0.8%

*Ending Fund Balance and the Rate Stabilization Account combined represent the District resources available for future use

In accordance with Oregon budget law, total budget appropriations must include interfund transfers and exclude ending fund balances. Total appropriations for the Adopted 2011-13 Budget are \$152,193,471, a 38.3% decrease from the current biennium budget of \$246,628,109.

Transition to New Financial System and Lower Level of CIP Expenditures

Two primary factors account for the significant change in the Adopted 2011-13 Budget appropriation. The first is tied to the District's new financial system. Since the District no longer expends all activities through the General Fund, the need for interfund transfers has been greatly reduced. The new system provides direct expenditure out of each fund, which is standard business practice.

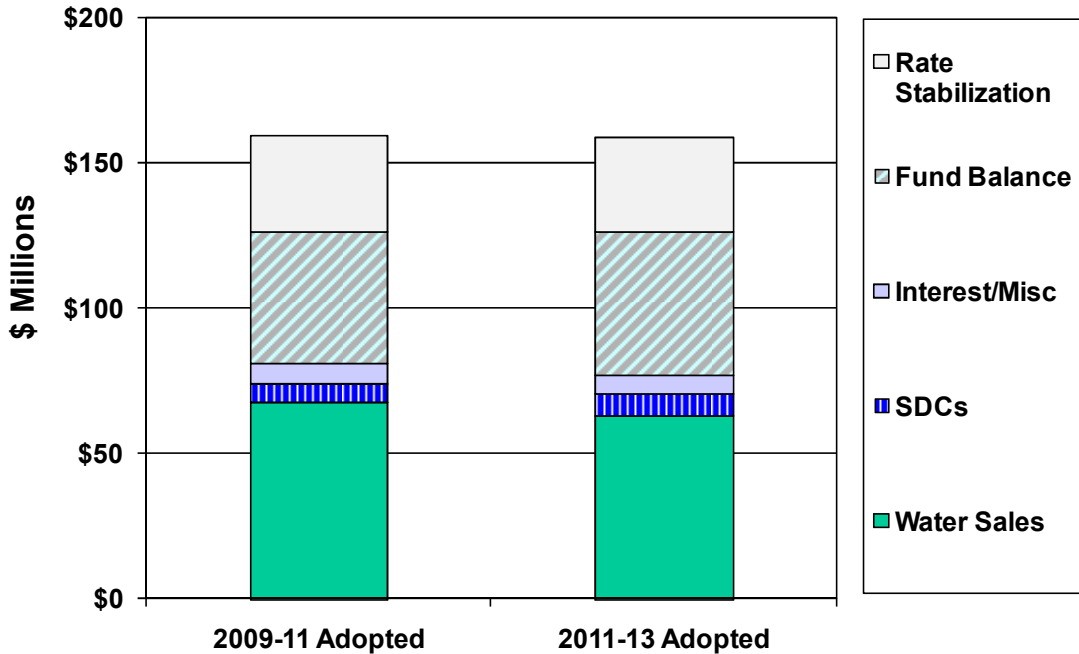
With its previous software system the District was required to budget its capital improvement appropriations in both the General Fund as materials & services, and the Construction Fund as capital outlay. The same held true for the Revenue Bond Debt Service and Intergovernmental Agreement funds. The General Fund was then reimbursed from sales and transfers in from the Construction and other funds.

With the new system the need to transfer funds to the General Fund for expenditures in the other District Funds has been eliminated altogether. In the current biennium these transfers totaled \$54.4 million. The Adopted 2011-13 Budget includes transfers of \$14.8 million, which includes SDCs and other direct General Fund transfers to the Construction Fund and for debt service.

A second factor affecting the variance in between the 2009-11 budget and the Adopted 2011-13 Budgets is a lower level of CIP expenditures in the upcoming biennium. The capital outlay line item was budgeted in 2009-11 at \$106.9 million. This included \$52.7 million for sales to the General Fund to reimburse it for expenditures made on behalf of the Construction Fund (no longer needed with the District's new financial system) and a 2009-11 CIP of \$54.2 million. By comparison, the Adopted 2011-13 Budget includes a CIP of \$33.6 million (a 38% reduction). The lower level CIP reflects appropriation the timing of the TBWSP extended to 2022. The 2009-11 biennium budget had anticipated project completion by 2016.

District Resources Excluding Transfers:

Resources for District operations and capital investment come primarily from sales of water to our customers. These revenues are supplemented by SDCs, interest earnings, and fund balances. As the graphic below shows, overall District resources (net of transfers) are projected to remain flat for the upcoming biennium.



The combined beginning fund balance includes all six of the District’s operating, construction, debt service and special revenue funds. Of the District’s \$82.3 million projected beginning fund balance \$33.0 million is restricted cash for the Rate Stabilization Account. The District continues to maintain a deliberately high fund balance in anticipation of the major capital expenditures required for its share of the TBWSP and JWC water supply projects. Fund balances will be drawn down to help cover a significant portion of these costs. Long-term revenue bonds will be issued to finance the remainder of the projects, with the policy objective of keeping water rates as smooth as possible during the build-out period over the next decade.

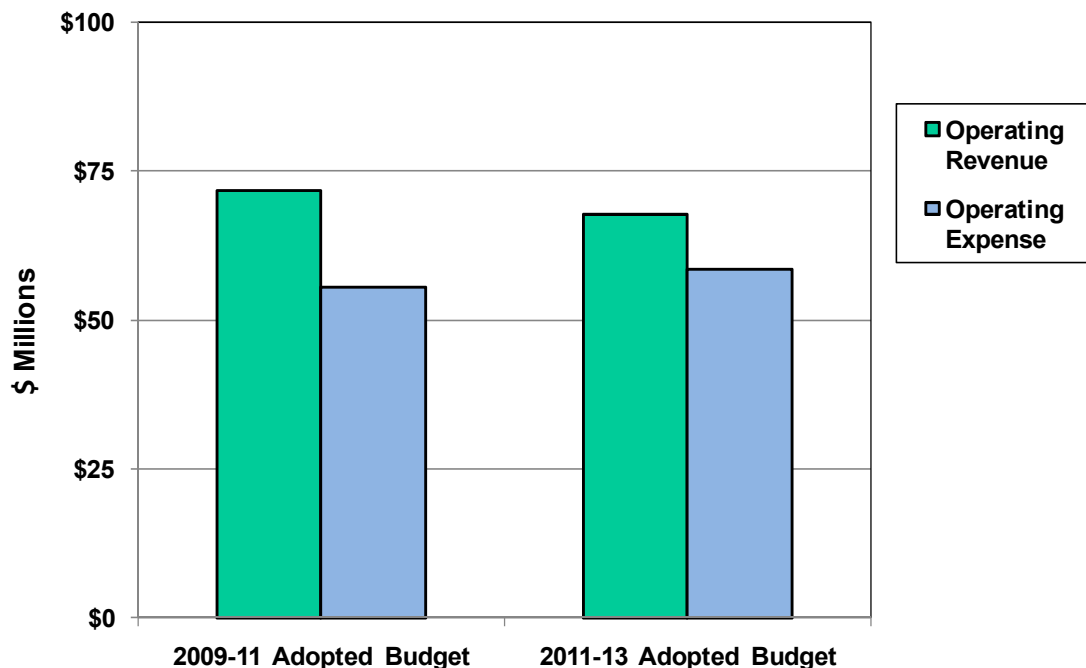
Operating Revenue

- Adopted 2011-13 water service revenues and fees are projected at \$62.7 million, 6.7% lower than the 2009-11 Budget. Like many water utilities the District has been experiencing a decline in demand as measured on a gallons per capita per day basis. We are currently at about 95 GPCPD as compared to 105 GPCPD used in projecting water sales for the current biennium. The lower revenues are related to a combination of factors: mild weather and a successful conservation program have depressed summer peak water sales, and TVWD is experiencing the nation-wide trend towards smaller family size and increased use of water-efficient appliances. The economic downturn has slowed population growth and reduced meter sales as well. As further discussed in Section 5 we have adjusted to this “new normal” by anticipating future growth in water demand at lower levels.

For 2011-13 the District is projecting a 4.0% water rate increase in the first year of the biennium and a 6.0% increase in the second year. The District does anticipate a series of higher rate increases beginning in the 2013-15 biennium for construction of the TBWSP and JWC water supply projects. Lower demand benefits the District by lengthening the timeframe needed to develop future water supplies, but will not eliminate the need altogether.

In the Finance & Information Technology Department, the Adopted 2011-13 Budget includes resources to conduct an update to its cost of service water rate methodology. The last update was completed in 2005, with the commitment that the District would review its methodology after a minimum of five years. The rate study will review our current rate design practices to ensure we continue to give customers options for conservation, while recovering the District’s fixed costs of operations and stay aligned with cost of service principals.

- Miscellaneous receipts projected at \$5.0 million represent about 6.4% of the District’s revenue are expected to be 12.1% higher than the current biennium. Miscellaneous receipts include reimbursements for contracted services, water service repairs that are the responsibility of the customer, backflow device testing, and dues paid to the District for the partnerships it manages.
- As illustrated on the chart below water service charge revenues, along with other operating revenues continue to cover all operating expenses and meet debt service coverage requirements. Water sales and miscellaneous revenue also make contribution to ongoing capital improvement and replacement costs. Additional revenue in excess of projections goes to fund balance for future appropriation.

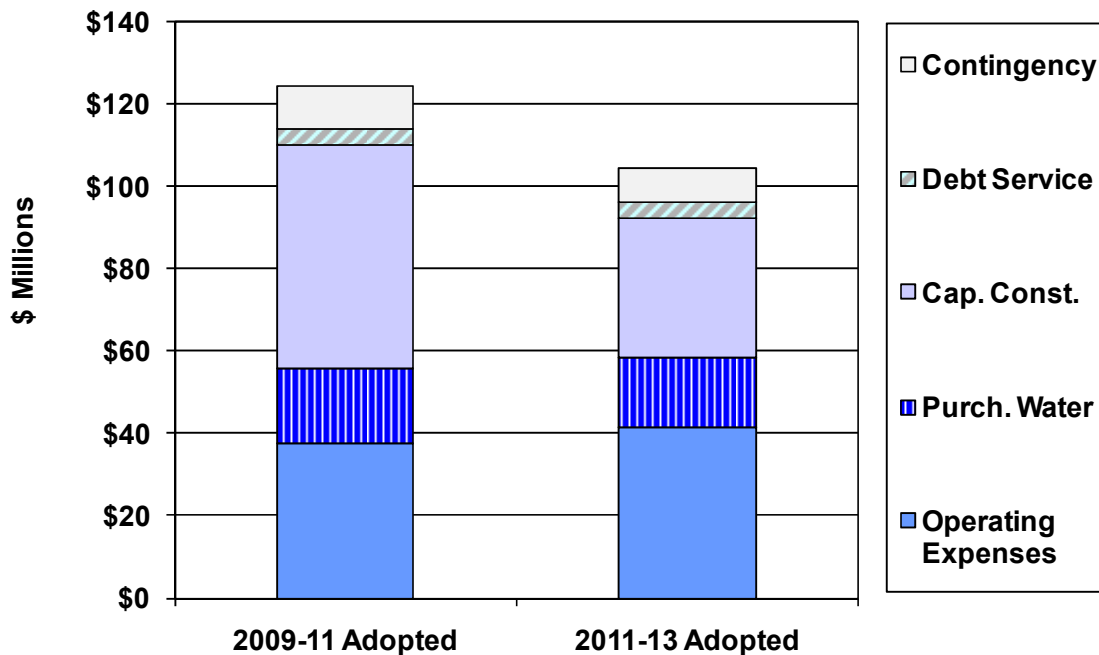


Non-Operating Revenue

- Despite slower growth during the 2009-11 biennium, SDCs are projected to come in about \$6.73 million, 4.8% higher than budgeted. The Adopted 2011-13 Budget includes projected SDCs of \$7.75 million based on projected future growth from the District’s Master Plan and updated financial plan, as well annual increases to SDC fees. SDCs are considered non-operating revenues because of the uncertain nature of the magnitude and timing of the receipts. As such the District maintains a debt covenant that excludes SDC’s to ensure sufficiency of revenue for its obligations.
- Interest earnings are expected to decrease 61% to \$0.93 million as a result of the prolonged market environment of low investment yields. The District anticipates yields will begin to return to historic norms in future years, but we are conservatively projecting a 0.5% yield for the 2011-13 biennium.

District Expenditures Excluding Transfers:

District operating expenditures are predominately personal services, materials & services, and purchased water. As a utility, capital construction is also significant as the District maintains its infrastructure, improves service reliability and plans for future growth. The Adopted 2011-13 Budget continues this work as illustrated below.



Operating Expenses

- Adopted 2011-13 operating expenses (including personal services, materials & services, and capital outlay) increase 5.1%. In personal services one new position is requested in the Field Operations Department. The District is projecting 15.0% annual increases for its health insurance costs. In 2005, the District switched to a higher deductible insurance program supplemented with a Health Reimbursement Arrangement (HRA) for employees. Since the program's inception health plan costs have been reduced by an estimated \$2.0 million (vs. had the District stayed with its prior plan). 2011-13 projected annual health insurance increases, although significant, are therefore based on the lower cost program. Overall, personal services are up 14.7% for the two-year period. Of the 121 positions, all but one are budgeted in the General Fund. One position is budgeted in the PSWCC Fund and paid by member dues.

The 2011-13 Adopted Budget also includes the District's ongoing participation in the Oregon Public Employees Retirement System (PERS). The District will make an average 8.84% employer PERS contribution. District employees continue to pay their own mandatory 6.0% contribution.

- Key drivers in materials & services include increased system maintenance activities, continuation of a multi-year program to retro-fit existing meters with automated reading meter devices, and information technology support to maintain and upgrade existing computer systems. Continued volatility in fuel and commodity prices remain a concern, therefore sufficient resources have been included in the Field Operations Department budget to cover unanticipated price increases. Capital outlay costs include implementation of the CMMS project identified in the District's IT Strategic Plan, scheduled fleet replacements and minor facility improvements.
- Purchased water, and associated power for pumping, is the largest materials & services expense representing about 30% of the District's total operating budget. With actual demand lower than projected in 2009-11, the District has budgeted purchased water and power at \$17.1 million, a 5.9% decrease from 2009-11. This includes wholesale rate increases from the City of Portland averaging 9.7% over the biennium, and 4.5% from JWC. Because the JWC source is about 60% less costly than the Portland source the District makes it a practice to purchase as much water as possible from the JWC to keep overall purchased water costs down.

Capital Expenditures, Debt Service, Contingency

- Adopted expenditures on capital construction projects are \$33.6 million, or 38%, lower than the prior period. This decrease is due timing adjustments in CIP for TBWSP and JWC supply projects.
- Debt service payments over the period will be \$3.9 million, which is substantially the same as the current biennium. The District continues to service its two outstanding bond issues – Series 2002 and Series 2005 Water Revenue Refunding Bonds.
- Contingency is adopted at \$8.5 million calculated on 15% of operating expenses, less capital outlay. The District two smaller special revenue funds – Willamette River Water Coalition and Partners for a Sustainable Washington County Community also include small operating contingencies.

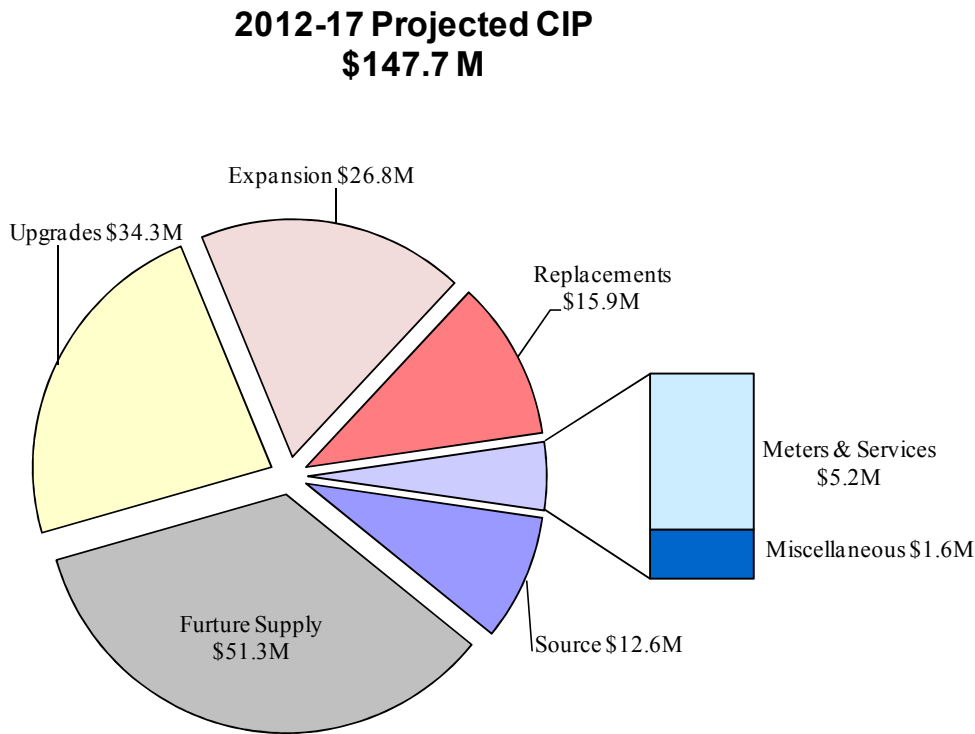
THE 2012-17 CAPITAL IMPROVEMENT PROGRAM AND RELATIONSHIP TO THE ADOPTED 2011-13 BIENNIUM BUDGET

Six-Year Capital Improvement Program Development Process

Each biennium the District updates its six-year Capital Improvement Program (CIP), which is presented in detail in Section 14. New project requests and status updates on existing projects, including those under construction, are prepared by the Engineering Services Department and presented for review by the Chief Executive Officer and Chief Financial Officer prior to being included in the budget.

Driving the District’s capital program is our share of the development costs and participation in the Tualatin Basin Water Supply Project and Joint Water Commission treatment plant expansion. In addition, the District continues its capital investment to develop new aquifer storage and recovery facilities and upgrade or replace critical infrastructure assets in its distribution and reservoir storage system, with a particular emphasis on seismic and reliability related improvements.

The pie chart below lists (by project category) the 2012-17 CIP included in the 2011-13 Adopted Budget. Ongoing investments in the development of future water supply comprise about 35% of the capital plan, and will drive the District’s investments over the next decade.



TVWD is not required to budget an allocated share of capital improvements from the Portland Water Bureau in this CIP as the District does not expect to participate in capital improvement projects during the term of its current ten-year wholesale supply contract. However, we will continue to monitor Portland’s planned source, treatment, storage, and transmission projects as it continues to develop options for treatment of its Bull Run supply in compliance with the

Long-Term 2 Enhanced Surface Water Treatment rules required by the Environmental Protection Agency. Costs incurred by Portland to meet those requirements are passed on to the District through rates for purchased water.

The District's CIP development process is enhanced by the application of a set of sustainability evaluation criteria. Nine criteria address the following aspects for each project - support for local economic development and local employment opportunities, improvements to operational efficiency and safety, compliance with regulatory requirements, minimizing environmental affects, and support for District conservation goals. Each District CIP project, excluding partnership projects with the TBWSP and JWC, is evaluated against the criteria, scored, and ranked in priority order by their sustainability score. The scoring and rankings inform the design and planning scope for each CIP in terms of the District's objectives to meet future water demands, reach conservation goals, and incorporate sustainability practices such as reducing energy costs. The complete set of sustainability evaluation criteria and project rankings are also provided Section 14.

Capital Improvement Program and Relationship to the Adopted 2011-13 Budget

Appropriations for the first two years of the CIP are incorporated in the Adopted 2011-13 Budget, and reflected as capital outlay in the Construction Fund. Because the District is primarily a water distributor, rather than a supplier, the great majority of capital projects undertaken (e.g., laying pipe) do not result in additional operating costs. Where applicable, however, the District has included in adjustments to operating costs when new projects come on-line. The most significant of these operating cost considerations will occur when the operations begin on the new water supply project, which is not expected until 2022, and therefore lies well outside of the upcoming biennium and six-year CIP horizon.

The Adopted 2011-13 Budget includes appropriation of \$33.6 million in CIP expenditures. Key projects for this upcoming biennium include:

1. Source Category

- JWC/ Barney Reservoir Projects (existing facilities): \$3.3M
- JWC Interim Plant Expansion & Design: \$1.7M
- Tualatin Basin Water Supply Project: \$2.7M
- Cooper Mt. ASR Site Acquisition and Development: \$2.0M

2. Expansion Category

- Thompson Pump Station: \$3.5M
- Thompson Pump Station 435 to 820 Pipeline: \$3.4M

3. Upgrade Category

- Hart Rd & 185th 12" Pipeline: \$1.4M
- Miller Rd 16" Pipeline: \$1.5M
- Garden Home Reservoir Seismic Improvements/Replacement: \$2.5M

4. Replacement Category

- Mains Replacement Program: \$2.5M
- Preliminary Engineering: Hyde Park Reservoir Replacement: \$0.5M

5. Miscellaneous

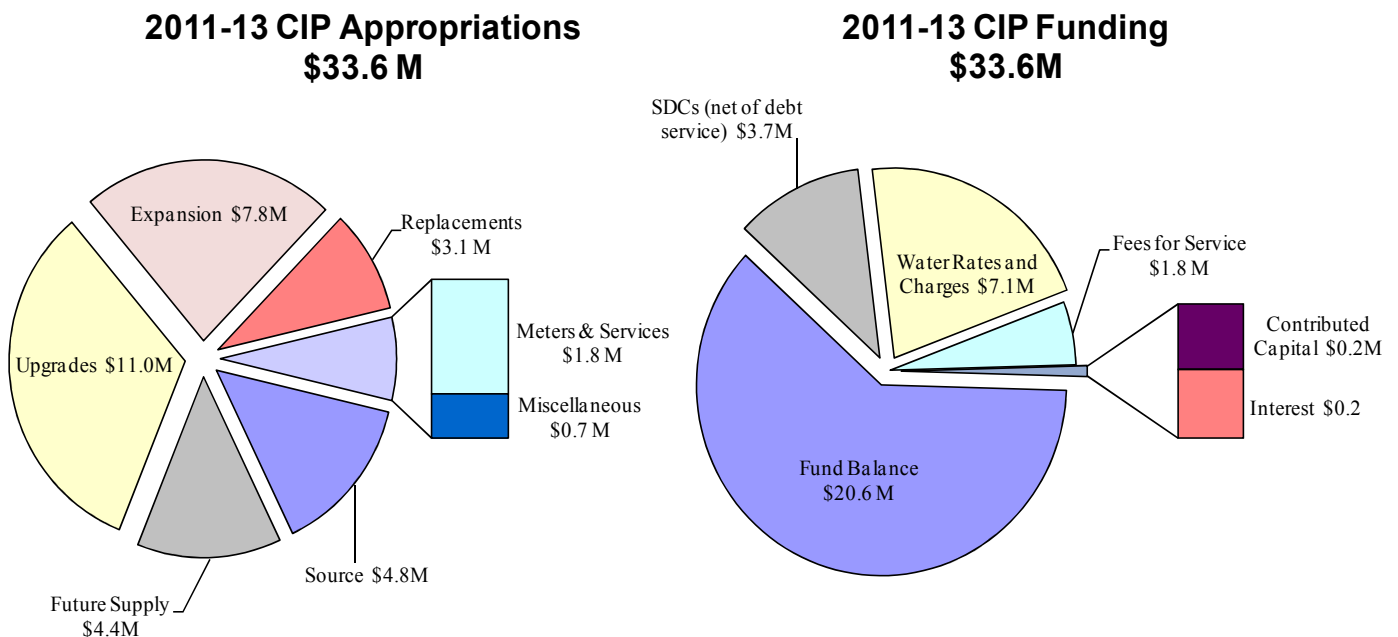
- Portland Meter Vault Intertie: \$0.35M
- Metzger/Portland Emergency Supply: \$0.4M
- Water Distribution System Analysis Study: \$0.15M

6. Meters and Services Category

- Water meter installations for new residential and commercial customers: \$1.8M

Funding for the 2011-13 portion of the CIP will come primarily from water rates, available fund balance, system development charges and dedicated fees. Longer-term, the District plans to issue a series of revenue bonds beginning in the 2013-15 biennium to finance its share of the TBWSP and JWC supply projects..

The pie chart below shows the District’s anticipated CIP projects and funding resources over the 2011-13 biennium:



CONCLUDING THOUGHTS and FUTURE PLANNING

Despite slower growth and the current challenging economic conditions affecting our national and local economies, the District's financial status remains strong and is projected to continue to be so over the long-term. We present an Adopted 2011-13 Budget that reflects the direction provided by the Board of Commissioners, aligns with District goals and financial policies, and continues work on key initiatives such long-term and interim water supply development, and the Information & Technology Strategic Plan. Asset management, sustainability and conservation remain as important priorities with programmatic efforts in these areas included throughout the individual departmental budgets.

The District's underlying revenue bond ratings by Moody's, Standard and Poor's of Aa2, and AA+, respectively, will help reduce future debt service costs and serve as a recognition of the strong financial position of the District. We will continue to utilize our 50-year planning models to highlight and prepare for future opportunities, trends, and challenges. As we move towards our goal of developing additional water supply through our participation in the Tualatin Basin Water Supply Project and expansion of the Joint Water Commission Treatment Plant, we will monitor capital and operating expenditures, debt levels, and investment balances to minimize water rate increases and prevent unexpected spikes. The District's continuing emphasis on cost-effective operations and comprehensive long-range planning should enable us to meet our mission of providing high quality water and excellent customer service to our community.

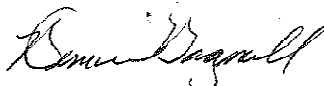
ACKNOWLEDGEMENTS and SUBMISSION

We want to acknowledge the creative energy of staff and their dedication to the customers of the Tualatin Valley Water District. This document represents the expertise and resourcefulness of the department managers, supervisors, and staff. We also want to thank the members of the Budget Committee and Board for your continuing support and thoughtful analysis of the issues facing the District. It is with your help that we are able to face challenges and maintain a strong financial position.

We hereby respectfully present this Tualatin Valley Water District Adopted Budget for the 2011-13 Biennium.



Gregory E. DiLoreto
Chief Executive Officer



Bernice Bagnall
Chief Financial Officer



Tod A. Burton
Budget Officer