

# Tualatin Valley Water District



1850 SW 170<sup>th</sup> Ave. • Beaverton, Oregon 97006 • Phone: (503) 642-1511 • Fax: (503) 649-2733 • www.tvwd.org

Gregory E. DiLoreto  
General Manager

Bernice Bagnall  
Chief Financial  
Officer

Debra Erickson  
Manager, Human  
Resources

Dale Fishback  
Manager, Operations  
& Field Services

Todd Heidgerken  
Manager, Community  
& Intergovernmental  
Relations

Mark Knudsen PE  
Chief Engineer

Brenda Lennox  
Manager, Customer  
& Support Services

July 21, 2009

To the Budget Committee:

## Elected Members

Richard Burke  
Jim Doane  
Jim Duggan  
Dick Schmidt  
Marie Haynes

## Appointed Members

Craig Hopkins  
Angela Kendrick  
Todd Sanders  
John Velehradsky  
Mike Whiteley

## **BUDGET MESSAGE**

We are pleased to present the Tualatin Valley Water District's Biennial Budget for 2009-11, which was adopted by the District's Board of Commissioners in a public hearing on June 24, 2009. 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:

- Budget Process, Format and Basis
- Board Goals and Major Initiatives
- Financial Policies
- 2009-11 Biennium Budget Summary
- The Capital Improvement Plan (CIP) and Its Relationship to the Budget
- Final Thoughts and Future Planning

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, as well as the impact 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 currently sufficient to meet this challenge. The District's Board has long recognized the need to balance water supply between multiple sources and back-up 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 of emphasis such as sustainability, water conservation and operational efficiency.

In recognition of these efforts, the District was honored to receive last October a Platinum Award for Utility Excellence by the Association of Metropolitan Water Agencies (AMWA). 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 this award. 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, 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.

It is with the objective to continue to build on this success of operating an effectively managed utility that we present the Adopted 2009-11 Budget.



## **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 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 Chief Financial Officer, General Manager 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 of Commissioners after approval of the budget by the Budget Committee. The Board of Commissioners 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.)

The District budgets on a biennial period basis, as allowed by Oregon law. The move from annual to biennial was made in 2003 to take advantage of the longer-term financial information we already maintain and to reduce staff time spent on budget production. This budget covers the period from July 1, 2009 to June 30, 2011. 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 2009-11 Budget for the current biennium for comparison.

The CIP in Section 14 of the budget 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 contract projects line item of the materials and services (M&S) category, and in the Construction Fund capital outlay and related M&S.

The District’s budget is prepared on full 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. Organized as a water utility enterprise, the budget is composed of five funds: a general fund, two construction funds, one debt fund, and one internal service fund. A sixth intergovernmental agreement fund was closed during the current biennium. A resolution authorizing budget appropriations is adopted by fund for the budget period in the categories of personal services, materials and services, capital outlay, debt service, contingency, and transfers.

## **BOARD 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. Important District plans such as its water master and facilities plans, budget, capital improvement plan, and long-term financial plan incorporate District goals and objectives. In its latest goal setting process conducted in the late summer and fall of 2008 the Board adopted the following set of overall goals for the District shown on the next page.

**MISSION – TO PROVIDE OUR COMMUNITY QUALITY WATER AND CUSTOMER SERVICE**

**BOARD OF COMMISSIONERS GOALS ADOPTED IN 2008-09**

- 1. *Provide a quality water supply in quantities to meet current & future needs***  
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. *Provide an efficient, reliable and secure water system***  
TVWD water is supplied through a distribution infrastructure with few service disruptions that operates within the District’s publicly approved budget using best management practices.
- 3. *Provide stewardship of District assets and resources***  
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.
- 4. *Be an ‘Employer of Choice’ in the water industry***  
When given the choice about what job offers to accept, the candidates TVWD is most interested in choose to join the TVWD team more often than not. And when given the choice about staying with the District or accepting another offer, most key employees choose to stay.
- 5. *Promote customer awareness of the services and value we provide***  
District customers are aware of the services we provide for them and understand the value those services bring to their lives.
- 6. *Promote beneficial partnerships with other entities***  
TVWD is able to accomplish things with partners that it could not do, or could not do as well, on its own.
- 7. *Support effective organizational performance through enhanced internal operational systems***  
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. *Fulfill District mission in a manner that provides regional leadership, protects the earth’s environment, supports a strong economy, and promotes a robust community***  
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's annual goal setting process is open to the public and is facilitated by District staff. Staff reviews progress with the Board on previously adopted goals and objectives and provides new information regarding emerging issues. Staff also provides information regarding customer surveys and feedback from other stakeholders including members of the public, business partners, water industry peer groups and employees.

In addition to adopting goals, 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.

Finally, performance measures are developed at the management level, and have undergone a significant refinement to coincide with the beginning with the 2009-11 biennium. The purpose of this work was to undertake an in-depth review and develop performance measures that continue to move the District closer to its goals. From this management staff review, 24 performance measures have been selected. Some of the measures have been tracked in the past and some are new. 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 8-13.

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 shown in the section below, which highlights some of our key initiatives in the upcoming biennium.

## **2009-2011 INITIATIVES**

### **FUTURE WATER SUPPLY**

No other project in support of the goal of providing a quality water supply to meet current and future needs has more of a significant financial and organizational impact than the Board's December 2007 selection of 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.

In partnership with members of the Joint Water Commission, which includes 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 timed to coincide with the first ending date of our wholesale supply agreement with the City of Portland in 2016.

The TBWSP partners are engaged in a number of tasks associated with the planning, permitting, design and construction to expand Scoggins Dam at Hagg Lake to provide for 50,000 additional acre feet for municipal water, agricultural and stream flow restoration needs. TVWD will own about 23,000 acre feet of this new supply, which is sufficient to meet its projected demand for the next 50 years. We will continue to buy water from the City of Portland to serve the Metzger area

and for 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, design and right-of way acquisition to construct a 96" raw water pipeline from Hagg Lake to the JWC treatment plant. This pipeline will also 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 also 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's treatment plant to a total capacity of 135 MGD, and as most of the expanded supply source will service the District, we will be the largest financial participant in the project.

The latest estimate of District's share of the TBWSP and JWC treatment plant expansion is over \$400 million. Beginning in the 2011-13 biennium we will begin issuing a series of revenue bonds ranging from \$51 million to \$221 million to provide the long term financing required for the projects. In this upcoming biennium we continue with project planning with our partners, and internally laying out the financial ground work that will be required to prepare for such significant financial obligations of the District.

Throughout this budget message, and within the adopted 2009-11 operating and capital improvement program budgets the reader will see numerous references to these two critical projects. For example, almost \$22 million is included in the 2009-11 capital improvement program for environmental permitting, title transfer, right of way acquisition, design, and project management services for the TBWSP, and another \$11.3 million for design and engineering of the JWC treatment plant expansion. A senior engineer position in Engineering Services is requested to come on board in the second year of the biennium to provide additional project management, planning, design, and implementation support. Overall these projects meet the District's goal of providing future supply to our customers will occupy the focus of the General Manager and many of the District staff for the next several years.

## **INFORMATION TECHNOLOGY (IT) STRATEGIC PLAN**

In support of the goals to provide an efficient, reliable and secure water system and effective organization performance through enhanced internal operational systems, the District completed its IT Strategic Plan in December 2008, which inventoried current systems that support critical business processes. From this examination, projects were scoped, prioritized and assessed for both budgetary and staffing needs. The IT Strategic Plan was presented to the Board at their January 2009 work session where direction was given to staff to begin immediately on the Financial System Conversion Project (FSCP). Based on their critical support to our business needs the FSCP and two other projects have been included in the Adopted 2009-11 Budget as further described beginning on the next page.

### **Financial System Conversion Project (FSCP)**

The District's current COBOL based legacy financial system has reached the end of its useful life. Formerly supported by Group 4 partnership, which was dissolved in December 2007, the lack of programming support, server hardware, and the functional inability of the system to keep up with District business needs has put this project as the top priority in the IT Strategic Plan. A project team has been established and work has commenced to develop system requirements, and research "off the shelf" software solutions that are widely used by like jurisdictions. The project will implement a full suite of accounting, payroll and human resource applications to serve the District's business needs, as well as reflect industry best practices, support current governmental accounting rules, and use standard industry hardware, operating system and programming database technology. The current timeline for the project call for implementation to begin in the summer of 2009 with a potential "go live" date by early 2010. The Adopted 2009-11 Budget includes resources in the amount of \$500,000 in the capital outlay portion of the Finance and Information Technology department for this project

### **Supervisory Control and Data Acquisition (SCADA)**

The District's water system includes over 750 miles of pipelines, 14,500 mainline valves, 4,600 fire hydrants, 13 pump stations, 24 reservoirs, 24 pressure zones, 15 regulator stations and a hydropower generation station. The SCADA system makes use of sensors (flow, pressure, level, and water quality monitoring), telemetry and multiple computer networks to help staff effectively and efficiently operate the system. This project will replace existing control system computers, update system software, add improved reporting software, and remodel the existing SCADA control room. The Adopted 2009-11 Budget includes resources in the amount of \$550,000 in the capital outlay portion of the Engineering Services for this project. A new SCADA Technician position is also requested in Engineering Services. This position will be responsible for helping to maintain SCADA hardware and software, prepare routine and ad-hoc reports, design and implement updates to operational controls and data screens, and assist in trouble-shooting system performance problems.

### **Geographic Information System (GIS)**

The District currently maintains two mapping systems – a Computer Aided Design (CAD) based system and a GIS-based system. The IT Strategic Plan assessed the current mapping systems and identified a proposed strategy for migration to nearly exclusive use of a GIS-based mapping system. The project includes upgrades to an ArcGIS server, and hardware and software upgrades to enhance application of an enterprise based GIS system across District business processes. Results will include accurate mapping locations of all District assets, maintenance of essential asset records such as age, material, manufacturer, District-wide access to asset records to assist in the planning and design of system improvements, and better tools to respond to customer inquiries and system disruptions or other emergencies. The Adopted 2009-11 Budget includes resources in the amount of \$260,000 in the capital outlay portion of the Engineering Services for this project. A GIS Technician position is also requested in Engineering Services for implementation, ongoing maintenance, quality assurance, and ad-hoc reporting to support to GIS users District-wide.

In addition, for all three SCADA, GIS, and FSCP projects, an Application Support Specialist position is requested in Finance and Information Technology department to provide overall software, hardware and network support, cyber security, and integration assistance with other District applications.

## **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 2009-11 biennium:

### **Sustainability**

Sustainability continues to be a key strategy to provide excellent stewardship over District assets and protect our environment. Through the District's Sustainability Plan and Board-directed initiatives, all District employees are involved at some level in planning and implementing sustainability improvements. Current efforts include the development of a more detailed Greenhouse Gas inventory, following the Environmental Protection Agency (EPA) Climate Leaders protocol. This will give us an even better idea of the greenhouse gases created by District operations and help staff discover additional ways to decrease emissions wherever possible. Staff is also completing a Sustainable Purchasing Guidance Document for employees who purchase items for the District. This document discusses TVWD's expectations that sustainable products be purchased whenever feasible, and details what to look for, provides resources to conduct research, and offers guidance on how to incorporate sustainability and life-cycle costing into purchasing decisions.

Highlighting our goal of promoting beneficial partnerships with other entities, the District will also participate in the newly formed 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 will house the sustainability coordinator hired for the effort. A position is requested in the Office of Community and Intergovernmental Relations. Costs for the position will be reimbursed by PSWCC partners.

### **Asset Management and System Maintenance**

Though the District's infrastructure is fairly new and currently in comparatively good condition, we have created an Asset Management Team to develop tools to ensure the system continues to be managed appropriately. The team established Levels of Service felt to be essential to the proper allocation of District staff resources for infrastructure maintenance. These Levels of Service will later be used to determine how each asset should be handled to maximize its benefit to District stakeholders while minimizing its cost. Progress in Asset Management is another major component of the IT Strategic Plan.

Asset management activities are also found elsewhere in the Adopted 2009-11 Budget. The Water Quality program has been moved from Customer and Support Services to Engineering Services. This transfer provides better synergy with the distribution function of Engineering Services from both a water quality reporting standpoint as well monitoring activities at the Grabhorn ASR and other points in the District distribution system.

The transfer of Water Quality has also provided additional expertise and resources to the District's backflow program. Per the Board's direction, staff has launched a number of programs to meet our backflow regulatory obligations, automate compliance procedures, and assist District customers with their testing requirements. Customers can now subscribe to the District's "Gold"

backflow program, which offers annual testing services and technical assistance from qualified backflow contractors at a competitive price. It is this type of program that helps exemplify the District's commitment to provide quality customer service and safeguard our water supply.

Other system maintenance activities remain a District priority as well. The Customer and Support Services Department continues to add new meters with automated meter reading (AMR) functionality, and is leading a seven year effort to change out all of the District large (3" and larger) meters to improve read accuracy and replace older meters. The Field Operations continues its efforts on fire hydrant replacement and upgrades as well as is deploying staff to other system-wide maintenance efforts.

### **Workforce Planning**

With over 33% of the District's workforce over the age of 50 and with a workforce average age of 44, the District faces the possibility of people in key positions retiring during this decade. To address this challenge and support our goal to be "an employer of choice in the water industry", the 2007 Workforce Planning Study created a knowledge management tool kit. The tool kit identified key institutional knowledge needs, where that knowledge could be found and how to retrieve the information. Through cross training and documentation of District operations critical knowledge gaps continue to be closed. Our Human Resources program continues to work with employees to develop skills and record information essential to smooth transition as staff retires or leaves the District for other reasons. Also included within this goal is the continuation of the District's small summer college intern program. Three intern positions are included in the Adopted 2009-11 Budget in Engineering Services.

### **Conservation**

In the 2005-07 biennium, the District funded a more aggressive conservation program. The program's goal was to reduce the gallons per capita per day by an average of 0.8% per year over a five year period. The Adopted 2009-11 Budget continues to allocate funding for that effort and the various elements of the program (rebates, water assessments, educational programs, and customer outreach) are now fully in place. The adopted budget anticipates offering a mix of incentives, technical assistance and educational information based on historic participation and identifying potential opportunities.

A tracking system has been created to measure the success of the programs. Many of the conservation measures the District promotes are "hardware" type items so the water savings, once achieved, should not disappear over time. Other tasks in this goal area that have been completed included the development of an updated Water Management and Conservation Plan and the rebuilding of the District's Water Efficient Demonstration Garden.

Another important goal of the District's conservation program is to retain the conservation savings already achieved. We have assumed that conservation savings, once achieved, will remain throughout the forecast period – in other words, we have assumed that customers will not gradually increase their usage to former levels.

## **Financial Stability**

Financial Stability is an ongoing goal area for the District, which encompasses a wide variety of efforts all aimed at ensuring a healthy and stable financial condition. A significant milestone was achieved in the current biennium – the District’s revenue bond rating by Standard and Poor’s was upgraded two steps from AA- to AA+. In 2005, Moody’s Investors Service upgraded the District’s rating from A1 to Aa3. These changes reflect our strong financial position and our commitment to comprehensive long-range planning. The upgrades place us in select company nationwide. Very few special districts are rated this high because they lack the economic base and general taxing power of cities and counties. A higher bond rating leads to lower interest costs when issuing debt, so this upgrade will potentially save District ratepayers millions of dollars over the coming years.

A key activity in this for the Adopted 2009-11 Budget is a continuation of planning for a series of revenue bond sales to finance the TBWSP and JWC treatment plant expansion projects. District staff will perform much of the work. In addition, resources for outside debt issuance advisory and bond counsel services are included in the Finance and Information Technology operating budget. We are also requesting a appropriation \$33 million to the Rate Stabilization Account to be used for future debt service requirements as discussed in more detail in the Adopted 2009-11 Biennial Budget Summary section appearing later in this budget message.

## **FINANCIAL POLICIES**

The Board adopted a set of Financial Goals and Policies in April of 2004. These policies supplement our existing investment and accounting policies, but were developed specifically to guide the forecasting and budgeting activities of the District and to recognize the special requirements of a water utility enterprise. The complete text of those policies can be found in Section 3 of this document. 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 impacts of a wide range of factors:

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

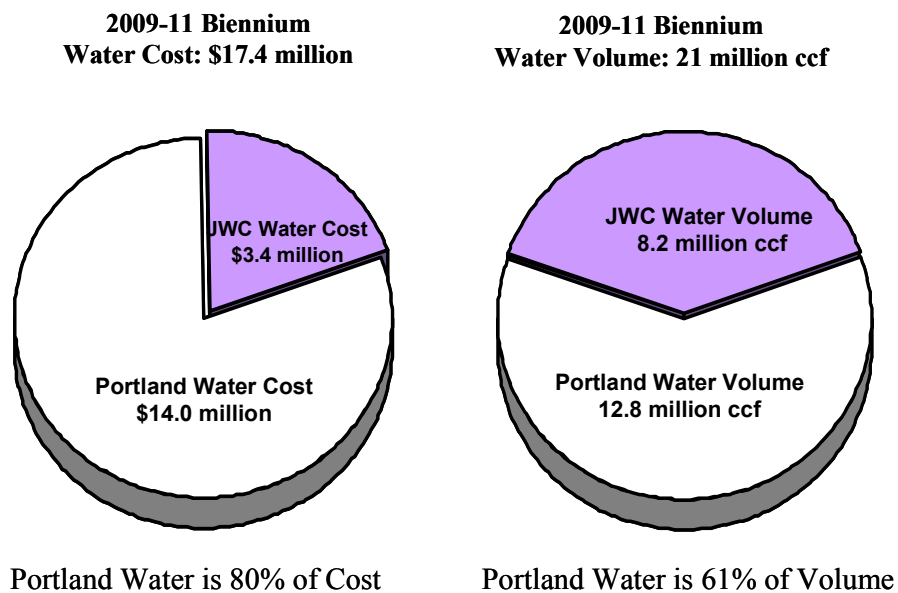
An important goal of the planning effort is to match cash inflows and outflows, thereby smoothing rate changes over time and ensuring that capital expenditures are appropriately funded by cash or spread over time using tax-exempt debt. To meet this goal, a number of our financial policies, practices,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

**Balanced Water Supply Options and Water Purchases**

As an ongoing operating philosophy, the District intends to acquire an ownership position in our primary water source through participation in the TBWSP 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 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 all affected differently by rainfall, snowpack, and temperature.

Because purchased water represents such a large proportion of our operating expenses we seek to manage this cost by balancing purchases between our various sources. Until the TBWSP/JWC project comes 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 at least 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 one-third the cost of Portland water – we try to maximize our purchases from this source while concurrently make our required purchases from Portland.



The District is also able to utilize its Grabhorn ASR well, which became operational in the summer of 2008. The well is capable of storing 300 million gallons of water, and can deliver 3 MGD of needed supply over a 100 day period. Inexpensive “winter interruptible” water can be purchased to fill the well during the winter months. The water can then be pumped from the well to help us meet critical summer demand while keeping our “peak” summer demand purchases from Portland as low as possible to minimize costs. This Adopted 2009-11 Budget includes a capital project to improve the method in which water is recharged in the well by reducing the pumping requirements and creating savings in energy costs.

### **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 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 using in-house water quality to perform compliance monitoring on the ASR well, and achieving savings in workers compensation and other insurances costs through employee safety management programs. These activities returned \$125,000 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 \$2,000,000 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 Adopted 2009-11 Budget we are requesting the Rate Stabilization Account be increased to \$33 million in anticipation of the issuance of revenue bonds for the TBWSP 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. As a result of this study's findings, the budgeted transfer of cash into the renewal and replacement reserve has been increased by \$640,000 for the biennium.

### **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.

As the District moves towards making significant capital investments in the TBWSP and JWC projects, a good example of how planning ahead helps smooth rate impacts can be seen in the District's rate projections for the 2009-11 budget period. Although capital construction costs are up 71% (\$21.9 million) over the last biennium, District staff is projecting 8.9% water rate increase in the first year and a 9.25% in the second year of the biennium. Multi-year rate planning helps provides this level of predictability.

### **Contingencies and Reserves**

The Adopted 2009-11 Budget includes a general operating contingency of \$10.6 million. Contingency funds provide the flexibility to address any water supply needs and/or regulatory issues that may arise and are not already covered elsewhere in operating and capital budgets. 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. The District's policy is to appropriate at least 10% of general fund operating expenditures, rather than 15% of appropriations. (This choice excludes inter-fund transfer appropriations from the calculation.) If there is a previously unforeseen but well-defined need, monies held in contingency will be transferred to the area in need by Board action and a resolution.

The District maintains several reserves that are required to be 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 million

The Working Capital Reserve follows a recommended utility industry practice of maintaining the equivalent of 15% or 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 represent 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 plan or on debt service. The average balance of these restricted revenues varies greatly, depending upon SDC receipts and the pace of construction financed by SDCs. Prior to the current 2007-09 biennium, SDC revenues had averaged \$5-6 million per year. Since that time we have experienced slower population and construction growth, and SDC revenue through the current biennium is estimated at \$3.2 to \$3.5 million per year. The Adopted 2009-11 Budget includes \$3.2 million per year in SDC revenues in recognition of this trend of slower growth.

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, including resources in the Rate Stabilization Account, in the financial forecast 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.

## 2009-11 ADOPTED BIENNIAL BUDGET SUMMARY

The Sources and Uses of Funds Table below presents summary data comparing the key elements of the Adopted 2009-11 Biennial Budget to the current Adopted Budget figures for the 2007-09 biennium. The five funds summarized on this table are of four types: Operating, Construction, Debt Service, and Intergovernmental Agreement. All funds work together to support the water utility and manage our partnerships. Total budgeted positions increase from 114 to 119 FTEs over the biennium.

### *SOURCES & USES OF FUNDS*

	2007-09 Biennial Adopted Budget	2009-11 Biennial Adopted Budget	% Change from Adopted 2007-09 Biennial
<b>SOURCES OF FUNDS</b>			
Operating Revenue			
Water Service Charges and Fees	\$58,440,400	\$67,197,770	15.0%
Miscellaneous Receipts	5,881,800	4,436,525	-24.6%
Non-Operating Revenue			
System Development Charges	6,217,000	6,417,000	3.2%
Contrib. & Assessments	0	200,000	
Interest Earnings	5,051,701	2,370,524	-53.1%
<b>Total Revenues:</b>	<b>\$75,590,901</b>	<b>\$80,621,819</b>	<b>6.7%</b>
Transfers In	\$ 56,029,361	\$ 91,043,260	62.5%
<b>Combined Beginning Fund Balance:</b>	<b>\$ 69,394,636</b>	<b>\$ 78,627,056</b>	<b>13.3%</b>
<b>TOTAL RESOURCES &amp; TRANSFERS</b>	<b>\$ 201,014,898</b>	<b>\$ 250,292,135</b>	<b>24.5%</b>
<b>USES OF FUNDS</b>			
Operating Expenses			
Personal Services	\$21,449,876	\$23,238,332	8.3%
Materials and Services	28,096,950	29,797,444	6.1%
Capital Outlay	1,489,480	2,535,400	70.2%
<b>Total Operating Budget</b>	<b>51,036,306</b>	<b>55,571,176</b>	<b>8.9%</b>
Capital Budget			
Debt Service	\$ 3,891,638	\$ 3,884,775	-0.2%
Construction	65,537,435	106,868,458	63.1%
<b>Total Capital Budget</b>	<b>69,429,072</b>	<b>110,753,233</b>	<b>59.5%</b>
<b>Total Expenditures:</b>	<b>\$ 120,465,378</b>	<b>\$ 166,324,409</b>	<b>38.1%</b>
Contingency	\$ 11,643,774	\$ 10,621,700	-8.8%
Rate Stabilization Account	\$ -	\$ 33,000,000	N/A
<b>Total Exp, Contingency, Rate Stabilization:</b>	<b>\$ 132,109,152</b>	<b>\$ 209,946,109</b>	<b>58.9%</b>
Transfers Out	\$ 21,287,276	\$ 36,682,000	72.3%
<b>Total Budget Appropriations:</b>	<b>\$ 153,396,428</b>	<b>\$ 246,628,109</b>	<b>60.8%</b>
<b>Ending Fund Balance *</b>	<b>\$ 47,618,470</b>	<b>\$ 3,664,026</b>	<b>-92.3%</b>
<b>TOTAL USES, TRANSFERS, CONTING.</b>	<b>\$ 201,014,898</b>	<b>\$ 250,292,135</b>	<b>24.5%</b>
<b>TOTAL FTE's</b>	<b>114.0</b>	<b>119.0</b>	<b>4.4%</b>

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

According to Oregon budget law, total budget appropriations must include inter-fund transfers but must not include ending fund balances. Total appropriations for the 2009-11 biennium are \$246,628,109. By comparison, total appropriations for 2007-09 were \$153,396,428.

**District Resources Excluding Transfers:**

Resources for the Tualatin Valley Water District to carry out our operations come primarily from sales of water to our customers. These revenues are augmented by SDCs, interest earnings, and drawdowns of fund balances. As the graphic below shows, the District intends to draw more heavily on fund balances in the coming biennium, and increase resources for its rate stabilization account to prepare for future debt issuance.



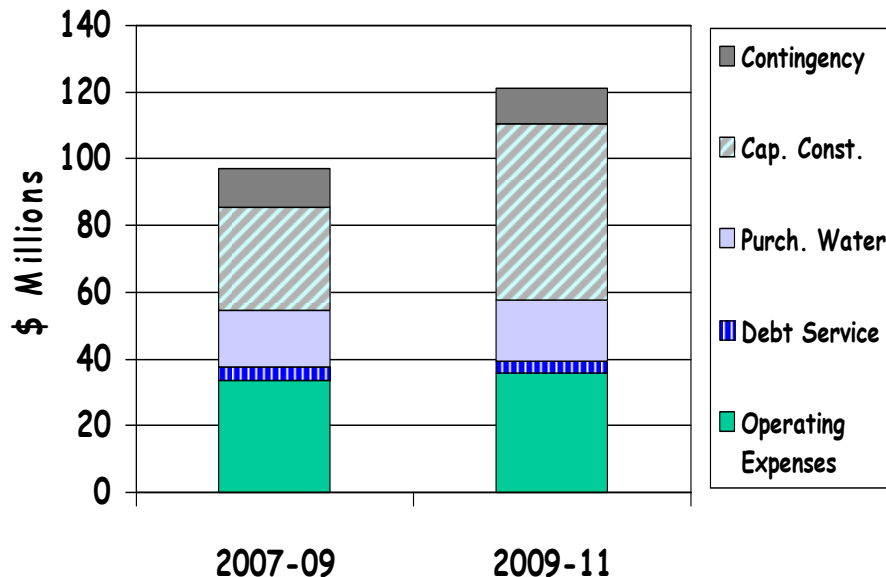
- The combined beginning fund balance includes all five of the District’s operating, construction, debt service and special funds. Approximately \$43.6 million of the total represents restricted cash for the Rate Stabilization Account and Contingency. At \$78.3 million, our projected beginning fund balances for 2009-11 is higher than in past years largely due to the deliberate decision on the part of the Board to build up reserves in anticipation of the major expenditures required for the development of new water supply. The District’s share of the Tualatin Basin Water Supply Project and Joint Water Commission treatment plant expansion is expected to cost over \$400 million over the coming 10 years, and fund balances will be drawn down to help cover a portion of these cost. Long term revenue bonds will be issued to finance the remainder of the projects, with the goal of keeping water rates as smooth as possible.
- Water service revenues and fees are expected to be up 15.0% over the prior period. The increase is driven by anticipated water rate increases of 8.9% in 2009-10 and 9.25% in 2010-11. This higher-than-normal rate increase pattern is being planned to offset slower customer growth rates and to finance the next increment of water supply. The underlying customer growth rate is estimated to be 1.1% per year, which is significantly lower than prior years due to a combination of slower population and economic growth and on-going

District conservation efforts. The lower growth rate does not reduce water enough to justify a delay in the water supply expansion project.

- Water service charge revenues continue to cover all operating expenses and make a significant contribution to ongoing capital repair and replacement costs. Since water sales are sensitive to weather conditions affecting demand we tend to be conservative in our projections to ensure a sufficiency of revenue to cover District operations. Additional water sales revenue beyond projections fall to fund balance for future appropriation.
- SDC revenues have slowed during the current year, again due to the current economic cycle, but overall are expected to be 3.2% higher the new biennium. We began planning for lower SDC revenues at the beginning of the 2007-09 biennium instead of projecting a continuation of the higher levels of revenues experienced during 2005-07. As result, actual SDC collections have stayed on plan.
- Miscellaneous receipts represent about 8.5% of the District’s revenue are also expected to be lower than the prior biennium. This is due to the completion of contracted utility billing and water system maintenance services for the City of Sherwood in July 2009. The District will be only providing plan review services in 2009-11. This revenue reduction is covered by a corresponding reduction in the cost of providing these contract services. Interest earnings are expected to decrease 53% given the sharp drop in investment yields resulting from the Federal Reserve Bank’s efforts to keep interest rates at historic lows to stimulate the economy. Higher fund balances on which we earn interest will help and we anticipate yields to begin to return towards the historic norms in the coming years.

**District Expenditures Excluding Transfers:**

Current expenditures of the Tualatin Valley Water District are dominated on the operating side by personal services (labor and benefits) and purchased water. Capital construction expenditures are always significant as we maintain District infrastructure and respond to the pressure of growth in the service area. More significantly, the Adopted 2009-11 Budget begins the substantial capital expenditures for the TBWSP and JWC projects. The graphic below shows the large increase in capital construction and related operating expense anticipated in the 2009-11 biennium.



- Adopted 2009-11 operating expenses (including personal services, materials & services, and capital outlay) are up 8.9%, or 4.4% per year. In Personal Services five new positions are budgeted. One position is a sustainability coordinator the cost of which will be reimbursed by the Partners for a Sustainable Washington County Community; three positions are included to support the District's implementation and on-going requirements of its IT Strategic Plan; and one position provides engineering support to the TBWSP and JWC treatment plant expansion projects. Key drivers in Materials and Services include increased system maintenance activities and purchased water costs. Continued volatility in fuel costs 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 projects identified in the District's IT Strategic Plan and scheduled fleet replacements.
- 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.
- Purchased water is the single biggest element of materials and services operating costs. The unit cost of water from Portland is expected to rise from \$0.973 per hundred cubic feet (ccf) to \$1.12 cents per ccf over the biennium, resulting in average purchase costs of \$7.0 million per year. For FY 2009-10 alone, we have been informed to expect an 8.6% rate increase in our wholesale water from Portland. This follows a rate increase of 14.2% for current year, FY 2007-08.

The budgeted unit cost of water from the JWC is expected to rise from \$0.33 per ccf to \$0.38 per ccf over the biennium, resulting in average purchase costs of \$1.7 million per year. Because this source is significantly 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.

- Expenditures on capital construction projects are \$21.9 million, or 71%, higher than the prior period. This increase is due to inclusion in the CIP of TBWSP and JWC expansion projects.
- Including the \$33 million appropriated in the Rate Stabilization Account, combined ending fund balances are expected to total \$36.5 million for the 2009-11 biennium, which reflects a planned drawdown from beginning balances of \$42.1 million during the period. The drawdown occurs as earmarked rate reserves, SDC revenues and other year-end surplus amounts are utilized for their intended construction projects.

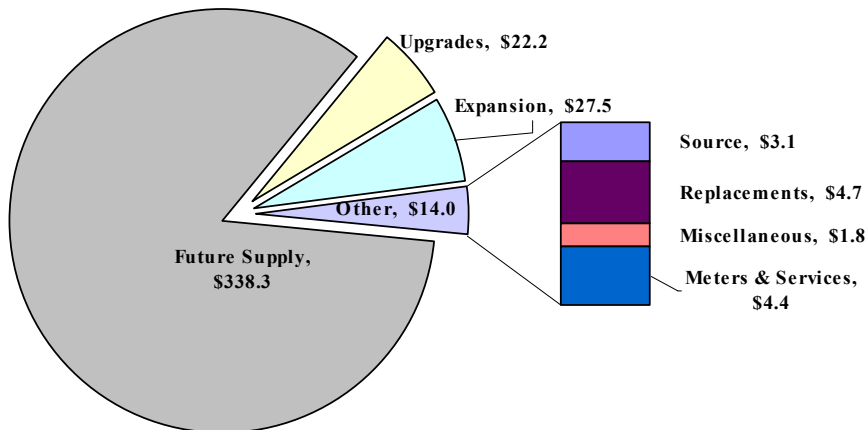
## THE 2009-15 CAPITAL IMPROVEMENT PROGRAM AND ITS RELATIONSHIP TO THE 2009-11 BIENNIUM BUDGET

### 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 projects under construction, are prepared by the Engineering Services Department and presented for review by the General Manager and members Management Team prior to being included in the budget.

Driving the District’s capital program is our share of the development costs for new supply and participation in the Tualatin Basin Water Supply Project and Joint Water Commission treatment plant expansion. As shown in the pie chart below, combined these projects include expenditures in the amount of \$338.3 million and represent 84% of the District’s total six-year CIP. Ongoing investments in the development of this future water supply will drive the capital planning efforts of the District beyond the current six-year CIP planning horizon, and utilize the majority of District financial resources.

**2009-15 Projected CIP**  
**\$401,924,085**



Also impacting this year’s CIP development process is the 2007 update of the District’s Water Master Plan, which included recommendations and timing for the construction of capital projects to serve projected water demands, improve system capacity and efficiency, and upgrade or replace aging assets.

We are 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 with Portland, which without

agreement by both Portland and the District, ends in 2016. However, as its largest wholesale supply customer 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 as required by the Environmental Protection Agency, or seek a variance from these requirements. Costs incurred by Portland to meet those requirements are passed on to us through their 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 impacts, 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 serve to 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 2009-11 Biennium Budget**

Budgetary appropriations for the first two years of the CIP are incorporated in the Adopted 2009-11 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 additional ongoing operating costs. Where applicable, however, the District has included in adjustments to operating costs in the Adopted Budget when new projects come on-line. The most significant of these operating cost impacts will occur when the operations begin on the new water supply project, which is not expected until 2016, and therefore lies well outside of the upcoming biennium and six-year CIP horizon. However, the Engineering Department has requested an additional Senior Engineer position to be hired in the second year of the biennium. This position will provide additional technical assistance and project management support on the supply projects.

The Adopted 2009-11 Budget includes appropriation of \$54,144,260 in CIP expenditures. Key projects for this upcoming biennium include:

1. Source and Future Supply
  - JWC/ Barney Reservoir Projects (existing facilities): \$1.2M
  - JWC 60 MGD Plant Expansion & Design: \$11.3M
  - Tualatin Basin Water Supply Project: \$21.9M
  - Grabhorn Aquifer Storage and Recovery Well Recharge: \$0.2M
  
2. Expansion
  - Springville 10 MG Reservoir: \$5.1M (project started March 09)
  - Sunset/Bethany Reservoir Site Acquisition: \$0.5M
  - Saltzman Rd and Cornell 24" Pipeline: \$1.0M

3. Upgrades

- Hyde Park Reservoir Upgrade: \$3.0M
- Garden Home Tank Seismic Upgrade: \$0.6M

4. Replacements

- Bonny Slope Extension and Tank Removal: \$0.2M

5. Miscellaneous

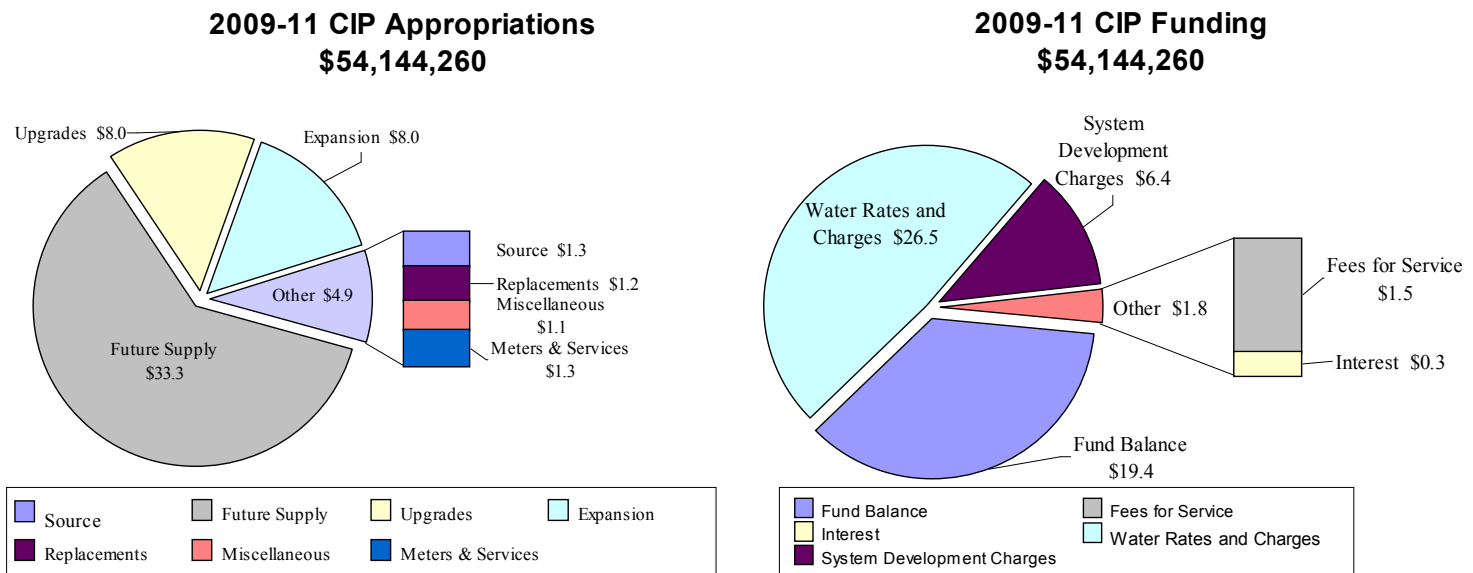
- On-Site Dewatering Facility at the District headquarters: \$0.3M
- Metzger/Portland Emergency Supply: \$0.4M
- Water Distribution System Analysis Study: \$0.15M

6. Meters and Services

- Ongoing program for the installation of water meters for new residential and commercial customers: \$1.3M

Resources for funding the 2009-11 portion of the CIP will come principally 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 late calendar year 2011 to finance its share of the TBWSP and JWC treatment plant expansion projects as the timing and specific cash flow needs for the projects become finalized.

The pie chart below shows the District’s anticipated CIP projects and funding resources over the 2009-11 biennium:



## **FINAL THOUGHTS and FUTURE PLANNING**


Despite projected 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 our long term planning horizon. We present a balanced Adopted 2009-11 Budget that reflects the direction provided by the Board of Commissioners, aligns with District goals and financial policies, and implements key plans such as the 2007 Water Master Plan, and the Information & Technology Strategic Plan. Sustainability and conservation remain as an important focus with programmatic efforts in these areas included throughout the individual departmental budgets.

The upgrades to the underlying ratings of our revenue bonds by Moody's, and, more recently, Standard and Poor's to Aa3, and AA+, respectively, have the potential to save millions in debt service costs and are a recognition by the rating agencies 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.

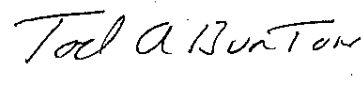
## **ACKNOWLEDGEMENTS and SUBMISSION**

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 2009-11 Biennium.

  
Gregory E. DiLoreto  
General Manager

  
Bernice Bagnall  
Chief Financial Officer

  
Tod A. Burton  
Budget Officer