

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

June 27, 2006

Budget Committee Members and Citizens
Tualatin Valley Fire and Rescue
Washington, Clackamas, and Multnomah Counties, Oregon

Dear Budget Committee Members and Citizens:

Introduction

In compliance with the state of Oregon Local Budget Law and District policies as authorized in Section 3 of the Board Policy Manual, the annual budget for Tualatin Valley Fire and Rescue for the fiscal year 2006-07, beginning July 1, 2006, and ending June 30, 2007, is submitted for your approval. As prepared and submitted, the annual budget is intended to serve as:

- A financial plan for the next fiscal year, outlining the forecasted expenditure requirements and the proposed means for financing these requirements.
- An operational plan for the use and deployment of personnel, materials and services, and other resources during the 2006-07 fiscal year.
- An operations guide to program and department goals and objectives.

Budgetary Accounting Basis

The budgetary and accounting policies contained in the proposed budget conform to generally accepted accounting principles as established by the Governmental Accounting Standards Board. The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate budgetary and accounting entity.

Within the annual budget, the District's various funds are grouped into the fund types and account groups indicated below:

- **Governmental funds**, which include the General Fund (a major fund), the *special revenue fund types*; Apparatus Fund, Capital Improvements Fund, Emergency Management Fund, the Grants Fund, the Debt Service Fund, and the *capital projects fund types*; Property and Building Fund and Capital Projects Fund.
- **Proprietary fund**, which includes the internal *service fund type*, the Insurance Fund.
- **Fiduciary funds**, which include *trust and agency funds*, cover the Retiree Medical Insurance Stipend Fund, Pension Trust Fund, and Volunteer LOSAP Fund.

As previously noted, the proposed budget is prepared on the generally accepted accounting principles basis, with all governmental funds accounted for using the modified accrual basis of accounting, with revenues being recorded when measurable and available and expenditures being recorded when the goods or services are received. The District's internal service funds and trust and agency funds are maintained on the accrual basis of accounting.

For pension trust funds, the measurement focus is on the determination of net income and capital maintenance. All fund assets and liabilities, current and non-current, are accounted for within the fund.

These models provide the foundation for communication of our overall budgetary goals to department managers. Department managers develop the budget after preparation and identification of key performance objectives for each department and program.

Overall guidance and philosophy are outlined by the Fire Chief and executive staff. The District prepares a budget for all funds that are subject to the budget requirements of state law, including the legal requirement for a balanced budget, meaning that total beginning fund balance, revenues and other financing sources are equal to the total of expenditures, other financing uses, contingency, and ending fund balance. The budgeting process includes citizen input through various stages of preparation, public hearings, and approval of the original budget by the Board of Directors.

Budget Summary for Expenditures

Expenditures	2005-06 Revised Budget	2006-07 Adopted Budget	Increase (Decrease)
Personnel Costs	\$50,506,289	\$54,032,977	\$3,526,688
Materials and Services	8,711,281	9,179,587	468,306
Capital Outlay	9,626,277	9,601,731	(24,546)
Debt Service	1,898,881	1,933,631	34,750
Transfers	4,160,723	2,872,009	(1,288,714)
Contingencies	3,872,791	6,359,728	2,486,937
Ending Fund Balance	14,460,925	14,893,298	432,373
Total Expenditures	\$93,237,167	\$98,872,961	\$5,635,794

The proposed budget requirements for fiscal year 2006-07 for all funds totals \$98,872,961, which is \$5,635,794 higher than the \$93,237,167 in the current year. Comparative data on individual funds may be obtained by reviewing financial summaries presented within individual funds.

2006-07 Significant Changes:

Personnel Services

Personnel expenditures increased by \$3,526,688 or 6.53% across all funds. The General Fund’s personnel services increased \$3,485,869 or 6.59%. The labor contract for the year beginning July 1, 2006, calls for a union range increase of 3.28% and is included in the budget. A commensurate range increase has been included for non-union personnel. The District generally hires its nonunion employees at mid-range or below and allows merit increases within the range based upon performance.

In addition to budget range increases, the District’s budget has been increased to reflect three new positions to support emergency operations and as well, full year staffing of positions approved in the prior year final labor contract and budget. The union contract also allowed for a significant increase in both union medical/dental and life insurance benefits as well as an increase from \$34 a month to \$50 a month in post employment healthcare contributions.

Materials and Services

Materials and Services increased \$468,306 or 5.10%. The General Fund reflects an overall increase of \$488,679, which is offset in part by the Grant Fund with a decrease of \$136,475.

Within the General Fund, Special Department Supplies, account 5301, increased by \$72,753 due to an increase in the Civil Service Commission department budget for supplies needed to test approximately 2,000 firefighter applicants to develop a hiring list for the next few years, initial supply set-up costs for the new electronics technician, and emergency preparedness supplies, among other areas. The UPS and Postage account increase reflects the expected postage costs of a second mailer to our citizens to provide safety messaging. Our paramedic firefighters and Chief Officers are required to be recertified every two years and account 5202 reflects this biannual schedule. Election costs of \$125,000 are budgeted, reflecting both the March 2007 Board of Director election costs and the anticipated November 2006 general obligation bond election. The District must pay its allocated share of election costs as allocated from each of the three counties we serve. The Grant Fund reflects specific reimbursement grant projects that have been or are anticipated to be awarded.

Capital Outlay

Capital Outlay decreased \$24,546 or approximately 0.26% to a total of \$9,601,731. The Property and Building Fund decreased \$2,789,954 for a total of \$2,457,500, reflecting reduced funding for this fund due to the anticipated sale of general obligation bonds after the November 2006 election and the accounting for both the resources and projects through the Capital Projects Fund. Amounts in this fund are dedicated toward fire station projects. The Capital Projects Fund was resurrected with funding of \$3,560,000 to provide for seismic reconstruction of the City of West Linn Station 58 as well as land purchases for future fire station sites, emergency response apparatus, and other projects. The Grant Fund increased from \$615,288 to \$1,549,810 due to anticipated grant funding of self-contained breathing apparatus. In addition, we continued our planned local option levy funded response aids program in the Capital Improvements Fund.

Debt Service

Total budgeted debt service expenditures increased \$34,750 or 1.83% in the 2006-07 fiscal year. The general obligation bond in the Debt Service Fund has scheduled debt service in the amount of \$1,450,200 on two bond issues outstanding. We have budgeted debt service in the General Fund in anticipation of the potential for interim debt financing of site construction projects.

Transfers

Transfers are decreased by \$1,288,714, reflecting anticipated general obligation bond proceeds for capital projects and the District's need for additional staffing. The proposed budget transfer reflects the planned level of transfers, in addition to local option levy transfers. The Capital Improvements Fund receives \$2,482,500 of transfers from the General Fund.

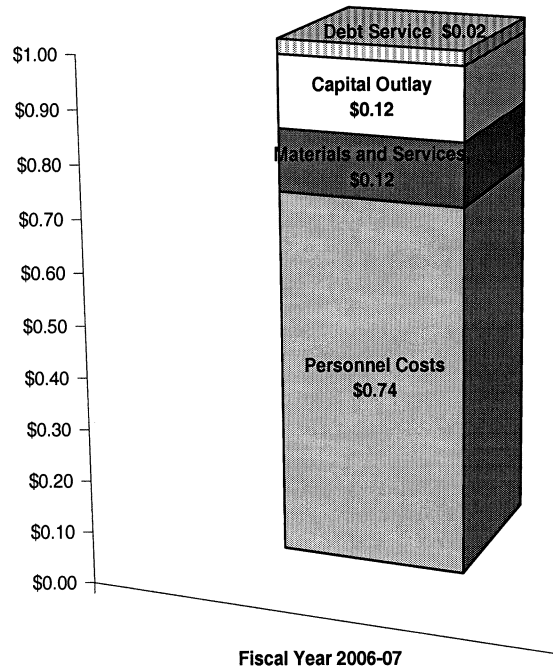
Contingencies

Contingencies across all funds are budgeted at \$6,359,728 for 2006-07, up \$2,486,937 from the prior year. The Capital Projects Fund, budgeted for 2006-07 to receive the proceeds of a general obligation bond, comprises \$1,290,000 of the change. The General Fund's contingency was increased by \$648,280. Under Oregon law, ending fund balance may not be appropriated for use during the year, so the contingency appropriation provides for flexibility in operations should an unexpected major natural disaster occur, a major apparatus fail, or other such event occur that cannot be anticipated. Accordingly, the District is attempting to increase the contingency budget each year.

Ending Fund Balance

The majority of amounts for Ending Fund Balance are related to the General Fund, \$11,543,633; the Bonded Debt Service Fund, \$804,675; and the Pension Trust Fund, \$1,285,260. The District seeks a stable General Fund balance and conservatively forecasts the actual ending fund balance to be approximately \$20 million dollars, similar to the Beginning Fund Balance.

How Your Tax Dollar is Spent



Debt Administration

Debt outstanding consists of 1999 General Obligation Bonds in the remaining amount of \$1,905,000, and a remaining balance of \$2,225,000 of Series 2000 General Obligation Bonds. The bonds will be paid in full during the 2008-09 fiscal year. The District's equipment financing by loan was paid in full in 2004-05. In anticipation of further financing, the General Fund budget provides for similar debt service payments in the 2006-07 budget year.

The District's legal debt limit is approximately \$533,000,000. Until the 1997 passage of Measure 50, a property tax limitation measure that severely reduced 1997-98 tax revenues and generally restricted future property tax growth to 3% a year, the District's general philosophy had been to set aside reserves for capital replacement of its ongoing capital needs as much as possible and avoid debt issuances. However, we have concluded we must continue to periodically supplement our capital funding through general obligation debt issues. We received overwhelming voter support in the November 1998 election for issuance

of up to \$10,000,000 in two phases to construct fire stations and purchase fire apparatus. We anticipate asking our voters for additional general obligation bond approval in the November 2006 general election to fund continued seismic station enhancement, station additions, and emergency response apparatus replacement. We utilize capital planning in conjunction with financial forecasting to determine what level of capital funding we can continue to make while managing our resources under our legal tax base.

Our largest future variables will be the siting and possible relocation of several stations. Because station siting and relocation planning are dependent upon factors such as road construction by the State Highway Department, other neighboring jurisdictions' station siting, and population and development growth, we are continuing to work extensively on a regional basis to ensure the best service to our citizens. The District has spent considerable staff hours developing and finalizing station location studies, considering neighboring city stations, changing demographics, forecasted population densities, and future traffic and roads. Our goal is to locate stations for the most effective emergency response and allow continued alternative staffing configurations depending on the region's call types and run volumes.

Budget Summary for Revenues

Total revenues for all funds for the current budget year and the ensuing fiscal year are shown below:

Revenues	2005-06 Revised Budget	2006-07 Budget	Increase (Decrease)
Beginning Fund Balance	\$29,940,183	\$27,982,066	\$ (1,958,117)
Property Tax, Current Year	55,463,539	58,272,116	2,808,577
Property Tax, Prior Year	1,446,172	1,286,197	(159,975)
Other Taxes and Interest on Tax	41,833	47,728	5,895
Interest on Investments	710,057	1,160,267	450,210
Service Contracts	127,395	232,323	104,928
Accounting Service Fees	66,180	68,000	1,820
Program Revenue	169,050	127,700	(41,350)
Sale of Surplus Property	15,000	247,210	232,210
Donations and Grants	793,975	1,253,935	459,960
Proceeds from Debt Issuance		5,000,000	5,000,000
Transfers from Other Funds	4,160,723	2,872,009	(1,288,714)
Rental Income	75,700	79,150	3,450
Regional Hazardous Response	5,500	5,500	
Training Center Revenues	78,860	76,760	(2,100)
Other Revenues	143,000	162,000	19,000
Total Revenues	\$93,237,167	\$98,872,961	\$ (5,635,794)

Beginning Fund Balance

Beginning Fund Balance has decreased almost 7.0% to \$27,982,066 for all funds. The General Fund's budgeted beginning fund balance was increased by \$256,274, reflecting that we had been able to balance expenditures with revenues after we began collection of the local option levy. Our General Fund has a targeted goal to provide at least five months of operating funds before we receive our tax collections. The beginning fund balance in the Apparatus Fund decreased by \$492,901, as we had significant apparatus purchases in 2006. In the Capital Improvements Fund, a budgeted decrease in the beginning fund balance of \$773,342 reflects the result of 2005-06 expenditures for response aid program expenditures, public safety and staff vehicles, computer server and network equipment, as well as a telephone voicemail system. The Property and Building Fund budgeted beginning fund balance decrease of \$877,807 reflects the usage of prior reserves to fund future fire station land site purchases in 2005-06.

Local Option Levy

Our local option levy was renewed at the November 2004 election, and we are continuing to fine tune our next levy and general obligation bond request, which likely will first go before our voters in November 2006.

Property Taxes - Current Year

How does TVF&R get their money?

Permanent tax rate of \$1.5252/\$1,000 AV.

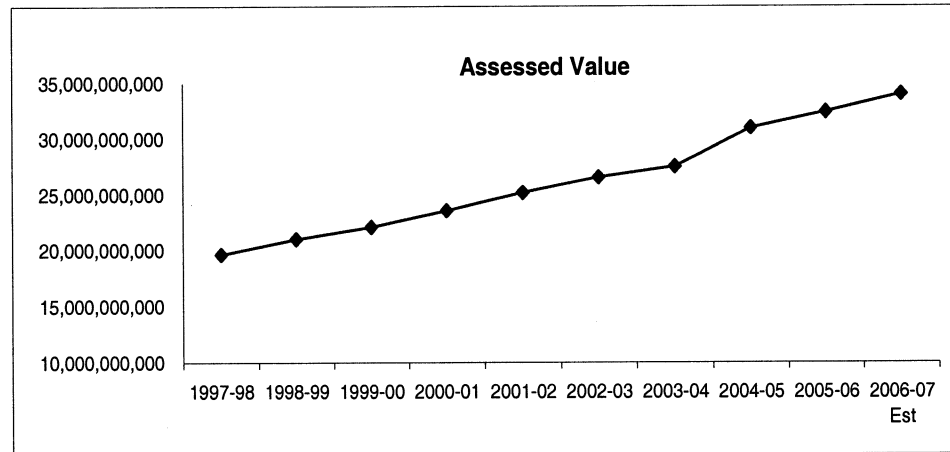
Voter optional Local Option Levy of \$.25/\$1,000 AV.

GO Bond Repayment Levy of \$.04/\$1,000 AV.

General operating property taxes are based upon the District's assigned "permanent tax rate" of \$1.5252, multiplied by the assessed valuation within the District and supplemented by a local option levy. The local option levy was renewed by voters in November 2004, and will be levied annually through 2010, at the approved rate of \$0.25 per \$1,000 of assessed valuation. Under current law, assessed value is generally significantly less than market value and is based upon the relationship of other similar properties as well. For 2005-06, the Washington County Assessor estimated the Average Maximum Assessed Value was 69.7% of Average Real Market Value for residential property¹. For purposes of our budget, we assumed a 4.27% assessed valuation increase for property in our service area based on data from Washington County as well as our own analysis of the high-tech industry and local economy, and the impact on assessed value. A collection rate of 94.1% was assumed. Tax levies for general obligation bonds

¹ "Projected Assessed Values by Tax District for Fiscal Year 2006-07," April 17, 2006, Department of Assessment and Taxation, Washington County, Oregon.

are exempt from the property tax limitation measures and accordingly, the District levies the total dollar amount necessary for payment of the general obligation bonds.



Taxes levied at \$1.5252 for general operations against an estimated \$34.0 billion in assessed valuation are expected to provide approximately \$48,838,014 in collections. The local option levy of \$.25 per thousand dollars of assessed valuation is expected to provide collections of \$8,005,182. We will also levy \$1,518,512 for our general obligation bonds. This bond levy is expected to result in a levy rate of 4.5 cents per thousand dollars of assessed valuation and approximately \$1,428,920 in collections.

Property Tax-Prior Year

Total taxes outstanding totaled \$1,829,053 at the fiscal year ended June 30, 2005. At the beginning of the previous fiscal year that amount totaled \$1,983,519. Of the June 30, 2005 amount, \$1,285,406 was for taxes levied during that fiscal year, while \$543,647 was related to prior years' tax levies. Delinquent tax collections are estimated on an average collection rate based upon the forecasted June 30, 2006 receivables.

Interest on Investments

Interest on short-term investments has been budgeted to reflect short-term interest rates projected at an estimated 4.0%. The governmental fund types and capital funds are largely invested in the Oregon Local Government Investment Pool and short-term United States Government Agency securities. Investments are regulated by Board of Director Policy, and permitted investment products include the Oregon Local Government Investment Pool, which is a diversified portfolio, commercial paper, bankers' acceptances, and United States

Government Treasury and Agency securities, among others. Certain funds are designated for longer term investing by the Board of Directors and may be invested for terms up to 18 months. Oregon law does not allow leveraged investing and the Oregon Local Government Investment Pool does not use derivative securities. The Pension Trust Fund and Volunteer LOSAP Fund are managed as separate trust funds and each has its own investment policy, including the above investments and additional permissible investments in equity investments appropriate for long-term pension funding. Their investments are actuarially expected to earn between 7 and 8% annually by investment policy. However, due to the turbulent equity market, short term investment projections for 2007 are lower than the actuarial projections.

Transfers into and out of pool accounts are made by telephone prior to 11:00 a.m. on a one day ahead basis. This provides a flexible mode for keeping surplus cash invested and is reinforced by a cash management program with our designated banking institution.

Service Contracts

The Occupational Health Services program is scheduled for \$186,423 in contract revenues with other agencies and the EMS Division is scheduled to receive \$45,900 of contract fees related to ambulance franchise collaborative agreements.

Accounting Service Fees

Tualatin Valley Fire and Rescue performs accounting services for another entity, the Washington County Consolidated Communications Agency (WCCCA).

Program Revenue

These revenues are primarily from apparatus maintenance (\$62,000) and the Occupational Health Services program (\$60,000). Fees are collected from several governmental agencies for providing preventive and corrective maintenance to firefighting apparatus and automobiles. The Occupational Health Services program for District employees also contracts with other governmental agencies to provide occupational health services, which serves to reduce the District's costs of providing these required services to our own employees.

Sale of Surplus Property

The Grants Fund reflects the anticipated recoverable value of existing breathing apparatus units should the District be successful in obtaining grant funding for standardized self-contained breathing apparatus units.

Donations and Grants

The District has been awarded and applied for several grants in 2005 and 2006 in the areas of public education, communications, and other areas. The District also has managed two grants on behalf of other agencies, WCCCA and a state communications committee. The District intends to continue to actively pursue increased grant funding in future years and further develop this new source of revenue. The 2007 budget reflects our goal of receiving grant funding for SCBAs in the amount of \$1,000,000, as well as the grant awarded in the amount of \$98,935 for the apartment manager education program.

Transfers

A major revenue source for five funds is correspondingly, also a major requirement for another fund. In the Non-Organizational category section in the General Fund, transfers are listed as a requirement. Monies are transferred from this fund to five funds where they are listed as a resource. These transfers provide operating resources to the Capital Improvements Fund, the Emergency Management Fund, the Grants Fund, the Retiree Medical Insurance Stipend Fund, and the Volunteer LOSAP Fund.

Training Center Revenues

Training Center revenues reflect an anticipated reduction in external training for cost shared programs in hazardous materials training.

Rental Income

Leases for surplus space are reflected in the revenue in rental income, as well as new leases made on our microwave towers to cellular phone companies for tower leases.

Other

Revenues include receipts from miscellaneous sources, including Insurance Funds (\$95,000) and application fees (\$24,000) from our firefighter hiring list applicants.

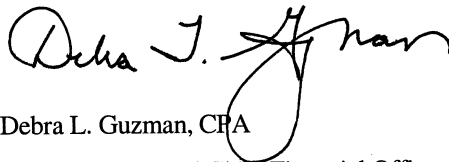
Summary

The proposed budget for fiscal year 2006-07 continues to afford the District a high level of service to our community, while continuing to meet our long-term performance statements. The year 2006-07 promises to be a year of many challenges to the organization with the goal of achieving approval for long term capital funding through a general obligation bond at the November 2006 election, planning for future financial levies, and continuing to constantly focus on the most effective emergency response service to our citizens.

Recognition is given to all staff members, division heads, and worksite managers who have effectively devoted their time and energy toward the development of the annual budget. Please be assured that the same degree of effort will be devoted to the effective administration of the 2006-07 budget.

Sincerely,

Tualatin Valley Fire and Rescue

A handwritten signature in black ink, appearing to read "Debra L. Guzman". The signature is fluid and cursive, with a large loop at the end.

Debra L. Guzman, CPA
Budget Officer and Chief Financial Officer