Abstract: Rising development costs and growing concerns over environmental impacts have led many communities to explore more diversified water management strategies. These ‘portfolio’-style approaches integrate existing supply infrastructure with other ‘assets’ such as conservation measures or water transfers. Diversified water supply portfolios have been shown to reduce the capacity and costs required to meet demand, while also providing greater adaptability to changing hydrologic conditions. However, this additional flexibility can also cause unexpected reductions in revenue (from conservation) or increased costs (from transfers). The resulting financial instability can act as a substantial disincentive to utilities seeking to implement more innovative water management techniques. We look to design portfolios that employ financial tools (e.g. contingency funds, index insurance) to reduce fluctuations in revenues and costs, allowing these strategies to achieve improved performance without sacrificing financial stability. This analysis is applied to the development of coordinated regional supply portfolios in the ‘Research Triangle’ region of North Carolina, an area comprising four rapidly growing municipalities. Diversified strategies introduce significant tradeoffs between achieving reliability goals and introducing burdensome variability in annual revenues and/or costs. Financial mitigation tools can mitigate the impacts of this variability, allowing for an alternative suite of improved solutions. This analysis provides a general template for utilities seeking to navigate the tradeoffs associated with more flexible, portfolio-style management approaches.