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Town of ORO VALLEY, ARIZONA

POPULAR ANNUAL FINANCIAL REPORT

Fiscal Year ending June 30, 2018



OVERVIEW

The Town of Oro Valley is proud to present its seventh annual Popular Annual Financial Report (PAFR). The purpose of the PAFR is to provide a user-friendly summary of the financial position of the Town of Oro Valley and other interesting information for citizens who want a better understanding of the Town's finances. The financial information in the PAFR is taken from the Town's Comprehensive Annual Financial Report (CAFR). The CAFR outlines the Town's financial position and operating activities each fiscal year presented in conformity with generally accepted accounting principles (GAAP) and includes financial statements audited by Heinfeld Meech & Co., P.C., certified public accountants. The Town received an unmodified (or clean) audit opinion, which is the best audit opinion that the financial statements could receive.

While the numbers in the PAFR come from an audited source, they are presented in a summarized, unaudited, non-GAAP format that is more accessible to the public. Additionally, some of the information in the PAFR is from the Town's Annual Budget. Citizens who wish to review the audited, GAAP-based, full disclosure financial statements can refer to the Town's Comprehensive Annual Financial Report (CAFR) available on the Town's website at www.orovalleyaz.gov, or contact the Finance Department by phone at 520-229-4700 or in person at 11000 N. La Cañada Drive, Oro Valley, AZ 85737.

Connect with us! Visit www.orovalleyaz.gov.



ORO VALLEY COUNCIL



Left to right:

Rhonda Piña, Councilmember

Bill Rodman, Councilmember

Joe Hornat, Councilmember

Dr. Satish I. Hiremath, Mayor

Mary Snider, Councilmember

Lou Waters, Vice Mayor

Steve Solomon, Councilmember

HISTORY

After World War II, the Tucson area experienced dramatic population growth. In the early 1950s, the Oro Valley Country Club opened at the base of Pusch Ridge, and land owners began building residential homes. As the community continued to grow, area residents increasingly desired local control of the land in the area. In the late 1960s, a petition to incorporate began to circulate in Oro Valley, and Oro Valley was successfully incorporated in 1974. What began as a Town with only 2.4 square miles and 1,200 residents has grown into a vibrant community and tourist destination featuring world-class amenities and outdoor attractions, excellent schools, and a diverse business environment.



ORO VALLEY FAST FACTS

INCORPORATED	1974
SERVICES	Police, Parks and Recreation, Water Utility, Stormwater Utility, Public Transit, Community Development and Public Works
FORM OF GOVERNMENT	Council/Manager
GOVERNING BODY	Mayor elected at large to four-year term; 6 councilmembers elected at large to four-year terms
POPULATION (2016 census estimate)	45,184
# OF HOUSEHOLDS (2016 census data)	18,691
BACHELOR'S DEGREE OR HIGHER (AGE 25+)	50.7%
MEDIAN INCOME (2016 census data)	\$75,966
# OF PARKS	7
PARK ACRES MAINTAINED	772
TRAILS AND PATHS	76 miles
PARKS PROGRAMS HELD ANNUALLY	33
2018 BUDGET	\$128.6 million



MESSAGE *from the* TOWN MANAGER



Mary Jacobs
Town Manager

We are honored to present the Town of Oro Valley Popular Annual Financial Report (PAFR) for fiscal year 2017/18. This is the seventh consecutive year that we have produced this summarized overview of various financial aspects of the Town, including sources of revenues and expenditures, financial trends, assets and liabilities and debt obligations. We are humbled to

have earned recognition from the Government Finance Officers Association (GFOA) for the past six years with their Popular Annual Financial Reporting Award. The Town is only one of only fourteen (14) government agencies in Arizona to prepare a PAFR, representing the Town's ongoing commitment to transparency, accountability and communicating the financial position of the Town in this easy-to-understand format.

The Town's audited financial statements once again received an unmodified or "clean" audit opinion by our outside, independent auditors, which is the highest form of audit opinion given.

In addition, the Town demonstrated continued strong financial performance during fiscal year 2017/18. We are pleased to report that in the General Fund, our main operating fund, revenues exceeded expenditures by nearly \$2.6 million. These surplus funds will be allocated toward future capital project funding and reducing the Town's Public Safety Personnel Retirement System (PSPRS) unfunded liability.

The Town's disciplined approach to budgeting, adherence to strong financial management principles and policies and a track record of prudent financial decision-making helps to ensure both near and long-term fiscal health and sustainability. This is evidenced by the Town's strong credit ratings, including our 'AA' rating from Standard and Poor's and 'AA-' rating from Fitch Ratings.

In the coming year, we look forward to making investments in our facilities that provide maximum benefit to our community and managing your taxpayer dollars in the most efficient and effective manner to ensure long-term financial sustainability in our operations.

We hope that our 2018 Popular Annual Financial Report fulfills its purpose as an understandable, informative publication, and thank you for your interest in the Town of Oro Valley government functions and finances.

Respectfully,
Mary Jacobs, Town Manager



FY 17/18 ACCOMPLISHMENTS

Simpleview relocated their headquarters from Pima County to Oro Valley, bringing 184 employees

Successfully integrated Community Development and Economic Development divisions into new Community and Economic Development Department

Collected over \$2 million in plan review and permit fees representing more than \$223 million in work valuation for new private construction

Issued a total of 2,357 permits and performed approximately 28,000 building inspections

Received the Achievement of Excellence in Procurement Award from the National Procurement Institute

Ended FY 2017-18 with a nearly \$2.6 million increase in the General Fund ending fund balance

Expanded and improved the Economic Expansion Zone to help attract primary employers

Honored with Safety Leadership Award by American Society of Safety Engineers Southern Arizona Chapter specific to the hands-free driving ordinance adoption

Installed two additional multi-sport lighted fields at Naranja Park

Achieved full deployment of the Axon body-worn camera program in Patrol Division of Police Department

Completed the Lambert Lane Phase II roadway widening

Installed new traffic signal at the entrance to the Oro Valley Community Center

Installed new multi-use path for pedestrian access into Naranja Park

Delivered a combined total of 3.18 billion gallons of water to Oro Valley Water Utility customers

ACCOLADES

- ★ Oro Valley ranked as the 2017 Safest City in Arizona by Safe Home
- ★ Police Chief named Chair for International Association of Chiefs of Police Highway Safety Committee
- ★ Mayor selected for League of Arizona Cities and Towns Executive Committee
- ★ Certificate of Achievement for Financial Reporting Excellence for FY 2016/17 from the Government Finance Officers Association (GFOA) for the 24th consecutive year
- ★ Popular Annual Financial Report (PAFR) award for FY 2016/17 from the GFOA for the sixth consecutive year
- ★ Distinguished Budget Presentation Award from the GFOA for the tenth consecutive year
- ★ Achievement of Excellence in Procurement Award from the National Procurement Institute for the tenth consecutive year

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Town of Oro Valley for its Popular Annual Financial Report for the fiscal year ended June 30, 2017. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive this award, a government unit must publish a Popular Annual Financial Report, the contents of which conform to program standards of creativity, presentation, understandability and reader appeal.

The award is valid for a period of one year only. We believe our current report continues to conform to program requirements, and we are submitting it to GFOA to determine eligibility for another award.



Government Finance Officers Association

Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting

Presented to

**Town of Oro Valley
Arizona**

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill
Executive Director/CEO

STATEMENT OF NET POSITION



This Statement of Net Position is presented in much more detail in the Town's Comprehensive Annual Financial Report. This is a very high-level summary that captures total assets and liabilities and compares them to prior years. This Statement of Net Position may serve as a useful overall indicator of the Town's financial position and trends over the last two years.

The Town's activities are presented in two categories. Governmental activities include most of the Town's core services, such as public safety, parks and recreation, and street maintenance. Sales taxes, state-shared revenues and grants finance most of these activities. Business-type activities are the Water and Stormwater utilities, which are primarily financed through user fees and charges.

Statement of Net Position for the year ended June 30, 2018

	<u>2018</u>	<u>2017</u>
Assets		
Current assets and other assets	\$ 62,576,122	\$ 56,329,387
Capital assets, net	250,529,464	248,212,756
Total assets	313,105,586	304,542,143
Deferred outflows	11,223,394	13,861,078
Liabilities		
Current and other liabilities	17,912,402	10,378,158
Long-term liabilities	83,904,682	95,343,446
Total liabilities	101,817,084	105,721,604
Deferred inflows	1,926,082	3,181,413
Net Position	\$ 220,585,814	\$ 209,500,204

The largest portion of the Town's net position reflects its investment in capital assets such as land, buildings and improvements, vehicles, machinery and equipment, and construction, less any outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending.

The following are significant transactions that impacted the Statement of Net Position:

- An increase of \$3.4 million of governmental activities current assets primarily due to an increase in cash and investments from construction sales tax collections and license and permit revenue collections.
- The addition of \$2.7 million in business-type activities capital assets through improvements to the existing water system.
- The addition of \$12.5 million in governmental activities capital assets, mostly consisting of streets infrastructure, park improvements, and energy efficiency upgrades.
- The decrease of \$3.3 million in business-type activities long-term liabilities, primarily due to annual debt service payments.

i WHAT IT MEANS

Current Assets and Other Assets are assets that one can reasonably expect to convert to cash, sell, or consume within one year.

Capital Assets, Net are the Town's land, buildings, equipment, improvements, infrastructure, and construction in progress, net of accumulated depreciation.

Deferred Outflows are outflows of resources that have already occurred but are applicable to future periods.

Deferred Inflows are inflows of resources that have already occurred but are applicable to future periods.

Liabilities are payments due to vendors and employees, lease payments due, and other long term debt of the Town.

Net Position is the difference between assets plus deferred outflows and liabilities plus deferred inflows, of which may or may not be available for future spending.

STATEMENT OF ACTIVITIES

The Statement of Activities, often referred to as the Town's income statement, reflects all of the financial activity for the Town during the fiscal year ended June 30, 2018. This statement presents information to show how the Town's net position changed during the year as a result of the financial activity (e.g., revenues and expenses). Over time, increases or decreases in net position may serve as a useful indicator of whether the Town's financial position is improving or deteriorating. Below is a summarized version of the detailed statement of activities found in the Town's Comprehensive Annual Financial Report.

Statement of Activities for the year ended June 30, 2018

Note: The totals below reflect both the governmental and business-type activities of the Town.

	<u>2018</u>	<u>2017</u>
Revenues	\$ 77,640,925	\$ 74,461,144
Expenses	66,555,315	71,917,484
Change in net position	11,085,610	2,543,660
Net position, beginning of year	<u>209,500,204</u>	<u>206,956,544</u>
Net position, end of year	\$ 220,585,814	\$ 209,500,204

The Statement of Activities shows that the Town's total net position has improved over the beginning net position. The decrease of \$5.4 million in total expenses was largely due to a decrease in public safety pension expenses, as well as a decrease in highways and street expenses due to improvements provided and performed by Pima County. Total revenues increased \$3.2 million, or 4 percent, largely due to an increase in sales tax collections.

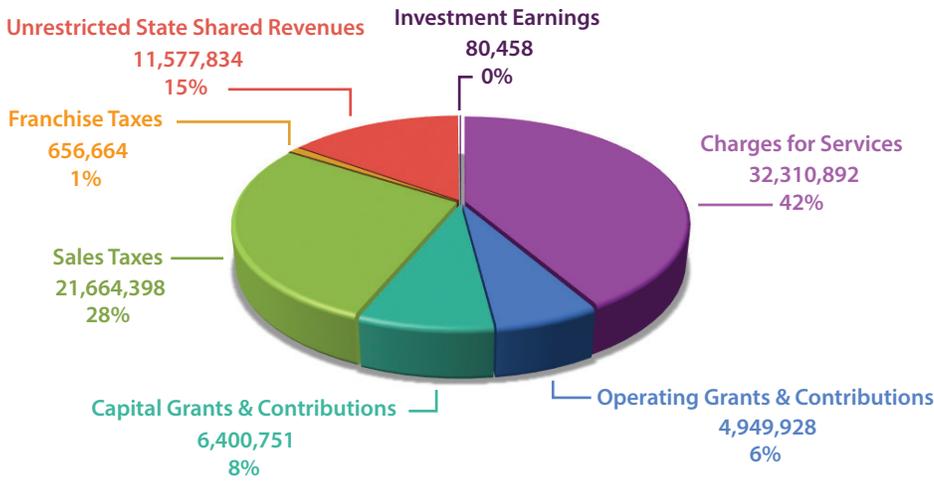


REVENUES

Where the money comes from

Revenues by Source

Includes Governmental & Business-Type Activities



This chart illustrates the sources and percentages of the Town's revenues totaling \$77.6 million for FY 2017/18. The Town's primary revenue sources during 2018 include charges for services, sales taxes and state-shared revenues. Together these three categories represented 85% of all revenue collections in FY 2017/18.

Three-Year Historical Comparison - Revenues

Governmental funds only



WHAT IT MEANS

Charges for Services are revenues collected for services rendered to the public. Water sales make up the majority of these revenues.

Sales Taxes are levied on retail sales at 2.5%, utilities and construction activity at 4%, and lodging at 6%.

Franchise Taxes are negotiated fee revenues from a local cable provider.

Unrestricted State Shared Revenues consist of the Town's portion of Arizona state income tax, sales tax, and vehicle license tax revenue shared with incorporated cities, towns, and counties.

Capital Grants and Contributions are dedicated towards specific capital expenditures and purposes, such as highways and streets.

Operating Grants and Contributions are dedicated towards specific operating expenditures and purposes, such as employee salaries and ongoing maintenance costs for roadways, public safety, and culture and recreation.

Investment Earnings consist of interest income earned on the Town's invested funds.

The Town Council and management are focused on efforts to maintain long-term financial health through diversified revenue sources while strategically investing in community initiatives. These decisions range from increasing efficiencies to using valuable intergovernmental partnerships to enhance and expand services.



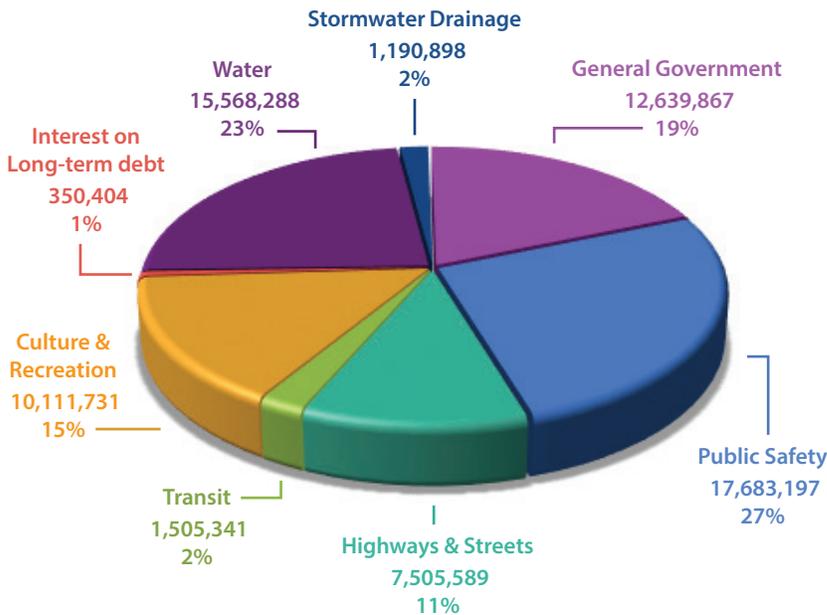
EXPENSES

Where the money goes

This chart illustrates the uses and percentages of the Town's expenses across all funds totaling \$66.6 million for FY 2017/18. The majority of expenses relate to public safety (police), general government operations and Water Utility operations. More than two-thirds of the Town's total expenses (69%) are from these three areas.

Expenses by Category

Includes Governmental & Business-Type Activities



WHAT IT MEANS

General Government expenses are incurred by the Town's administrative departments, including Mayor and Town Council, Town Manager, Legal Services, Finance, Town Clerk, Human Resources, Magistrate Court, and include other non-departmental costs.

Highways and Streets expenses are related to the design, construction, maintenance and operation of all roadways, sidewalks and related infrastructure within the town.

Culture and Recreation expenses are those incurred by the Town to enrich the quality of life in Oro Valley through parks, recreational and cultural activities.

Public Safety expenses are those incurred by the Town to provide police services to the public.

Water expenses are those incurred by the Town to provide water to the public.

Transit expenses are those related to the operation of the Sun Shuttle Dial-a-Ride service funded through a partnership with the Regional Transportation Authority (RTA).

Stormwater Drainage expenses are those related to the design, construction, maintenance and operation of all stormwater drainageways within the town.

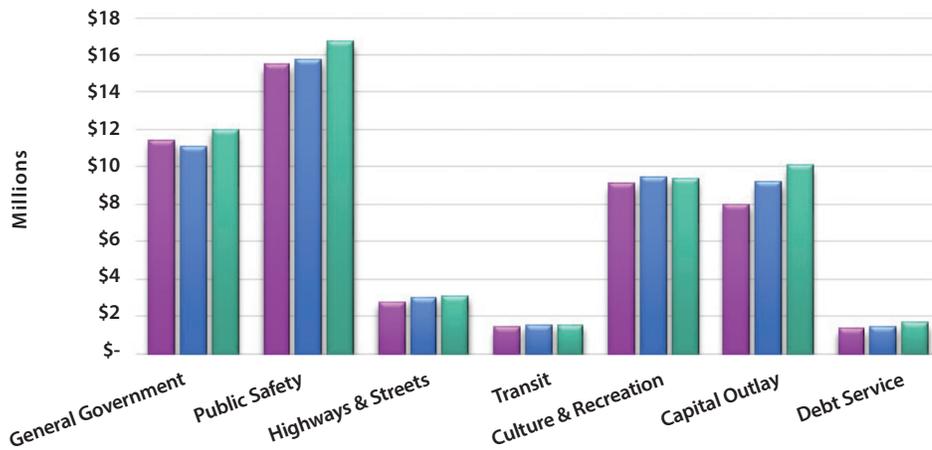
Interest on Long-Term Debt reflects the interest costs for long-term debt, such as bonds and loans. This does not include any interest costs on water-related debt.





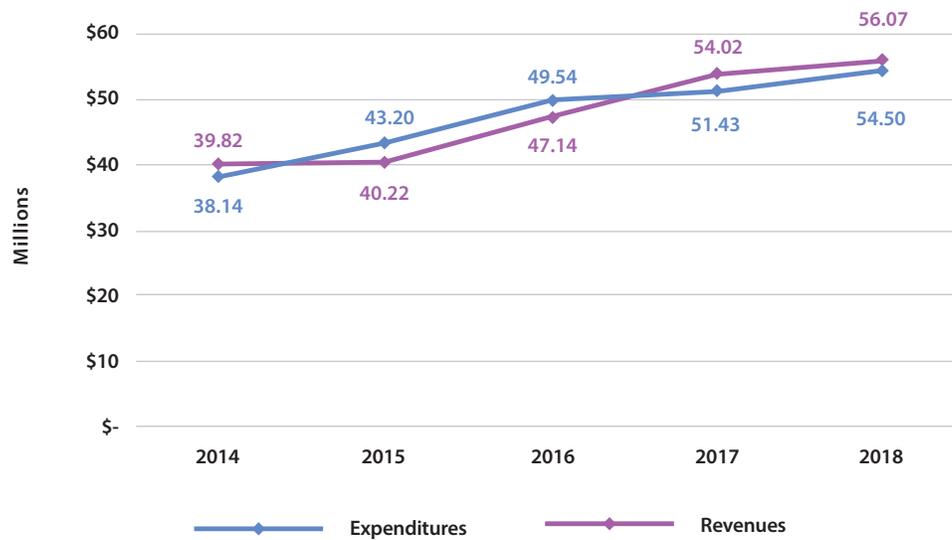
Three-Year Historical Comparison - Expenditures Governmental Funds Only

2016 2017 2018



The charts on this page reflect information for the Town's governmental funds only. These funds account for most of the Town's basic services, such as general government, public safety, highways and streets, and culture and recreation. Sales taxes, state-shared revenues and charges for services finance most of these activities. As such, the business-type activities related to Water and Stormwater operations are excluded.

Five-Year Historical Comparison - Revenues & Expenditures Governmental Funds Only

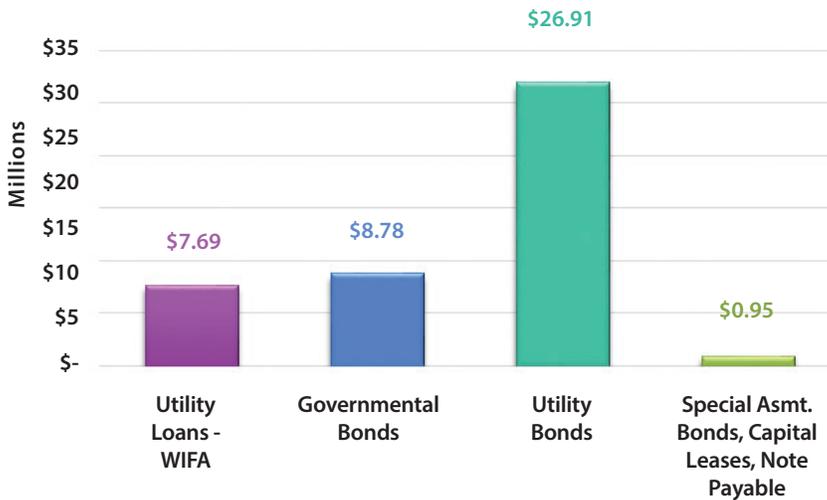


The Five-Year Historical Comparison chart provides a snapshot of the Town's revenue and expenditure growth for the last five fiscal years. The revenue and expenditure increase shown for FY 2015/16 mainly represents full-year operations of the Oro Valley Community Center. Revenue growth through FY 2017/18 reflects continued economic recovery with increased sales tax collections and state-shared revenues.

DEBT & FINANCIAL RATINGS

As of June 30, 2018, the Town had \$44.3 million in long-term debt outstanding with \$5.7 million due within one year. The majority of the outstanding debt relates to the Water Utility capital improvement revenue bonds. The chart below depicts the Town's outstanding debt for the fiscal year ended June 30, 2018.

Outstanding Debt Obligations as of June 30, 2018



The Town continues to maintain strong investment grade ratings on its outstanding excise tax bonds, rated "AA-" by both Standard & Poor's and Fitch Ratings, and on its water revenue bonds, rated "AA" by Standard & Poor's. This is largely achieved by the Council's goal of continuing to diversify the Town's revenue base and maintaining strong fund balance reserves in the General Fund, currently at \$16 million, or 38% of FY 2018-19 adopted expenditures of \$42 million.

WHAT IT MEANS

WIFA Utility Loans are low-interest loans from the Water Infrastructure Finance Authority of Arizona (WIFA). They finance the construction and improvement of drinking water, wastewater, wastewater reclamation, and other water quality projects.

Governmental Bonds are used to finance long-lived capital improvements, including land acquisition and construction or improvement of Town facilities. The Town's excise taxes are pledged as repayment of the debt.

Utility Bonds are issued to finance long-lived utility capital improvements for the Town's Water Utility. This debt is repaid with Water Utility revenues.

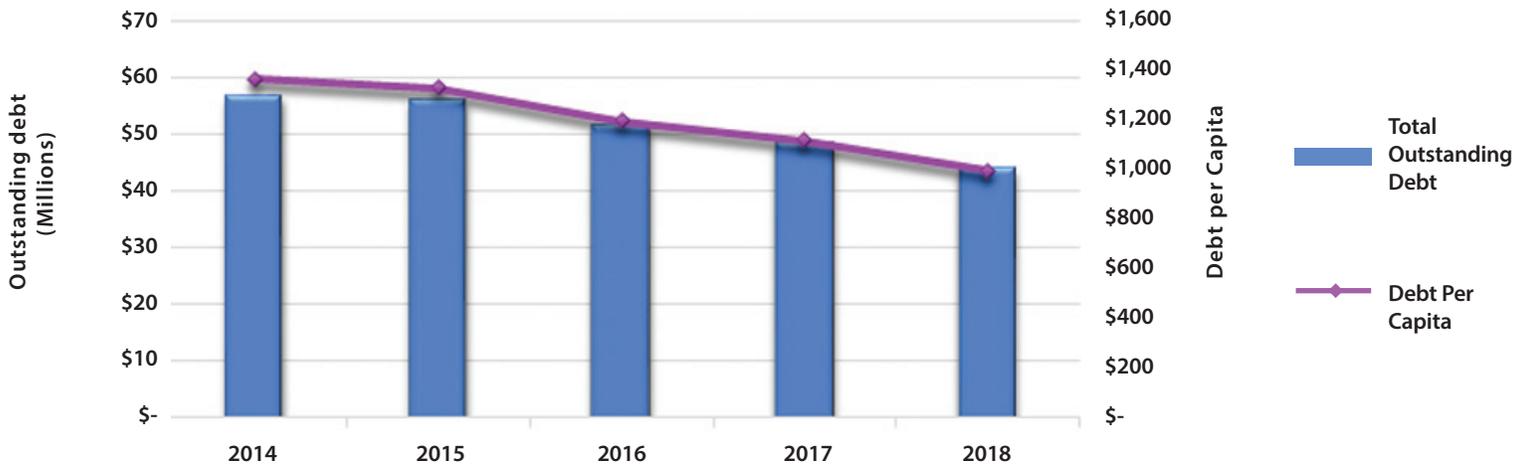
Special Assessment Bonds are used to finance specific infrastructure or improvement projects. A district is formed and the debt is repaid with assessments on properties within the district. The Town currently has one outstanding special assessment bond issue, which was used for roadway improvements.

What they're saying...

FITCH AFFIRMS ORO VALLEY, AZ'S WATER REVS AT AA-, OUTLOOK STABLE

Fitch has reaffirmed Oro Valley's 2012 Senior Lien Water Project revenues as AA- based on factors such as robust liquidity, ample water supply, a manageable capital plan and strong economic base.

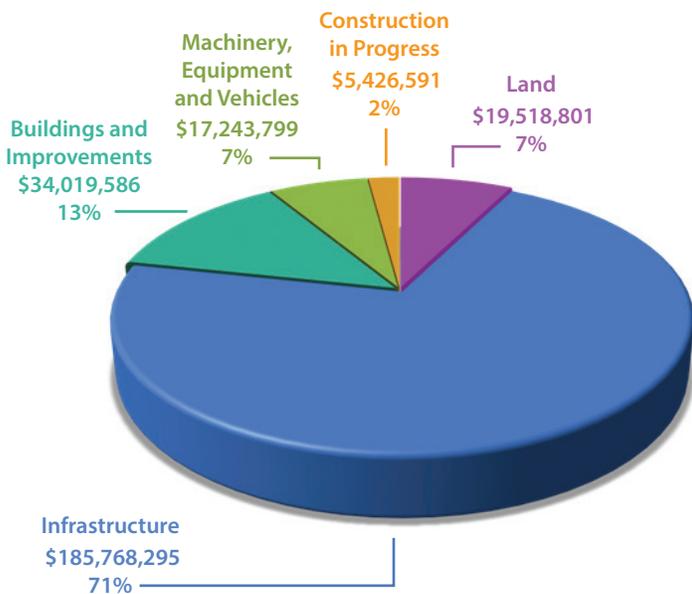
Five Year Historical Comparison Total Outstanding Debt & Debt Per Capita



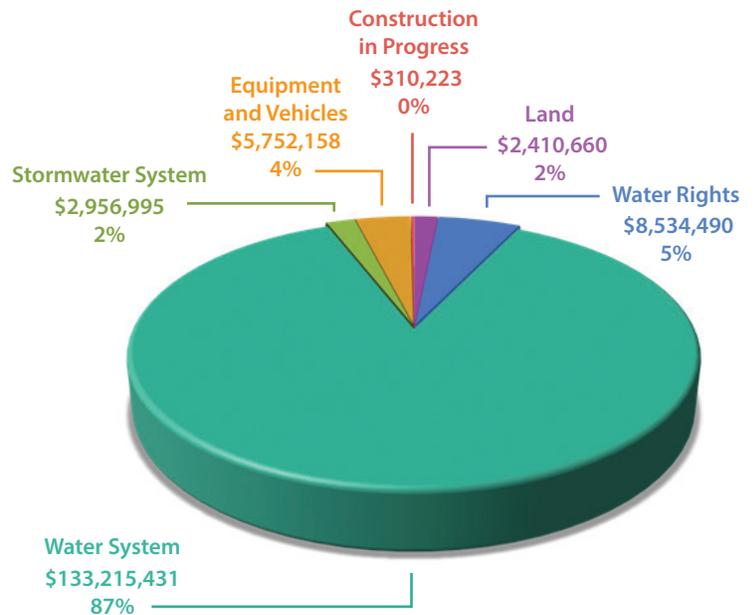
TOWN ASSETS

The Town develops a ten-year Capital Improvement Program (CIP) to systematically identify, plan, schedule, finance, track and monitor capital projects and acquisitions necessary to support service delivery to the community. Capital improvement projects are defined as infrastructure, equipment and vehicle purchases or construction which results in or makes improvements to a capitalized asset costing more than \$50,000 and having a useful life of five or more years. These capital projects and acquisitions comprise the capital assets of the Town. As of June 30, 2018, the Town had invested \$250.5 million in capital assets (net of accumulated depreciation), including buildings, facilities, vehicles, computers, equipment and infrastructure assets.

Capital Assets Governmental Activities*



Capital Assets Business-Type Activities*



*Totals do not include accumulated depreciation

ECONOMIC DEVELOPMENT

The Town Council and management are focused on creating long-term economic sustainability, fostering a robust local economy and job market that provide opportunities for quality employment, and sustaining a strong sector of targeted industries, including bioscience, aerospace, and high tech that provide opportunities for synergy and growth. The Town's continued investment in the business sector through recruitment, retention and attraction has paid dividends in creating a vibrant, thriving community in Oro Valley. Partnerships with Visit Tucson and the Greater Oro Valley Chamber of Commerce focus heavily on tourism efforts as an additional economic development tool. At Town facilities, numerous special events are held throughout the year, as well as a number of regional and state sporting events. In FY 2017/18, the Town issued a total of 325 single family residential permits, closely mirroring the number of permits issued the prior year. There continues to be healthy economic growth in Oro Valley, the Tucson metropolitan region and state-wide. Arizona remains well-positioned to outpace the nation and most states in job, income and population growth. The Tucson Metropolitan Statistical Area (MSA-region) is on pace for its fastest growth since 2006. According to the University of Arizona's Eller College, it is projected that the Tucson region will see 19,000 net new jobs over the next two years. With Oro Valley's close proximity to the Tucson metro region, it is likely that the Town's local economy will continue to benefit with increased housing sales, retail and tourism growth, and overall personal income growth.

Town Employment Statistics

Principal Employers in Oro Valley

	<u>Employees</u>	<u>% of Total Town Employment</u>
Roche Tissue Diagnostics	1,306	7.26%
Oro Valley Hospital	571	3.17%
Town of Oro Valley	311	1.73%
Amphitheater Public Schools	535	2.97%
Hilton El Conquistador Golf & Tennis Resort	235	1.31%
Casa de la luz Hospice	215	1.19%
Splendido at Rancho Vistoso	156	0.87%
Securaplane	164	0.91%
Simpleview	184	1.02%
Walmart Supercenter	119	0.66%

Town Demographic & Economic Statistics

