



# Town of Oro Valley, Arizona

## POPULAR ANNUAL FINANCIAL REPORT

### Fiscal Year ending June 30, 2013

## OVERVIEW

We are proud to present the second annual Popular Annual Financial Report (PAFR) for the Town of Oro Valley. The purpose of the PAFR is to provide a user-friendly summary of the financial position of the Town of Oro Valley, and other information for citizens who are interested in better understanding 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 unqualified (or clean) audit opinion, which is the best audit opinion that the CAFR 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 CAFR available on the Town's website at [www.orovalleyaz.gov](http://www.orovalleyaz.gov), or contact the Finance Department at 11000 N. La Cañada Drive, Oro Valley, AZ 85737, or by phone at 520-229-4700.

## INSIDE

- 1 Overview
- 2 Message from the Town Manager
- 2 Oro Valley Fast Facts
- 3 Accomplishments & Accolades
- 4 Net Position
- 4 Activities
- 5 Revenues
- 6 Expenses
- 7 Debt & Financial Ratings
- 8 Employee Salaries & Benefits
- 8 Employment Statistics



# WELCOME *from the* TOWN MANAGER



**Greg Caton**

We are pleased to present the Town of Oro Valley Popular Annual Financial Report (PAFR) for fiscal year 2012/13.

We have produced this report for the past two years as another avenue to communicate the Town's financial position in an easy to understand, summary format. This report provides an overview of various financial aspects of the Town, including sources of revenues and expenditures, financial trends, assets and liabilities and debt obligations of the Town.

During fiscal year 2012/13, Oro Valley experienced continued economic progress and recovery, ending the year positively with a \$1.7 million surplus in the

General Fund, our main operating fund. These resources will allow the Town to continue to invest in the very elements of our operation that provide the highest return on investment for our future – our employees, our infrastructure and assets, economic development opportunities and quality-of-life programs and services for the community.

A few significant projects were completed during FY 2012/13 which represent investments in our future. The Town completed a \$5 million renovation and expansion of the Oro Valley Aquatic Center at James D. Krieh Park. Opened in March of 2013, this facility has already attracted several local, state and national swimming competitions, with future events already on the calendar. Our commitment to maintaining our roadways is paramount. As such, we invested more than \$1 million in our Pavement Preservation Program during FY 2012/13 and remain a model community in the region for the superior condition of our roads and streets. Finally, we completed the \$10 million Lambert Lane Road-Widening Project with significant regional funding from the Pima Association of Governments.

In the coming year, the Town plans to invest in its park and recreation facilities with the construction of two multi-purpose fields and a dog park at Naranja Park. The Water Utility plans to continue with its replacement of aging water meters Town-wide under the Meter Replacement Program and Advanced Metering Infrastructure Project.

We hope that our 2013 Popular Annual Financial Report fulfills its purpose as an understandable, informative means of providing assurance that every effort is made to manage the community's resources wisely for the benefit of all.

Respectfully,  
**Greg Caton, Town Manager**



## ORO VALLEY COUNCIL



Bill Garner, Councilmember  
Mike Zinkin, Councilmember  
Brendan Burns, Councilmember

Dr. Satish I. Hiremath, Mayor  
Lou Waters, Vice Mayor

Mary Snider, Councilmember  
Joe Hornat, Councilmember

## ORO VALLEY FAST FACTS

<b>INCORPORATED</b>	1974
<b>SERVICES</b>	Police, Parks and Recreation, Water Utility, Stormwater Utility, Public Transit, Development Services, Public Works
<b>FORM OF GOV'T</b>	Council/Manager
<b>GOVERNING BODY</b>	Mayor elected at large to four-year term; Six councilmembers elected at large to four-year terms
<b>POPULATION</b>	41,011 (2010 census)
<b># HOUSEHOLDS</b>	17,804
<b>MEDIAN AGE</b>	49.8
<b>MEDIAN INCOME</b>	\$71,628 per household
<b># PARKS</b>	6
<b>PARK ACRES MAINTAINED</b>	440
<b>TRAILS &amp; PATHS</b>	78 miles
<b>LANE MILES</b>	684 total
<b>LOCAL SALES TAX</b>	2%
<b>2013 BUDGET</b>	\$95.4 million
<b># EMPLOYEES</b>	343.79 full-time equivalents



The Town of Oro Valley is located in Pima County, 6 miles north of Tucson.

8 miles east of Interstate 10

20 miles from the Tucson International Airport

15 miles from the University of Arizona



## HISTORY

The area of Oro Valley has been inhabited intermittently for nearly two thousand years by various groups, including the Native American Hohokam tribe around 500 AD and the Apache in the early 16th century. In the 19th century, Americans increasingly settled in the Arizona Territory, and George Pusch, a German immigrant, settled in the area of Oro Valley in 1874, establishing a cattle ranch with one of only two steam pumps in the Territory. In the early 1950s, the Oro Valley Country Club opened at the base of Pusch Ridge, affirming the area's future as an affluent community.

As the community continued to grow, area residents desired local control of the land and sought incorporation. After a few hurdles and some litigation in the late 1960's, the Town of Oro Valley was successfully incorporated in 1974. What began as a town of 2.4 square miles and only 1,200 residents has grown to a vibrant community of approximately 32 square miles and more than 41,000 residents.



## FY 2013 ACCOMPLISHMENTS

Completed the issuance of Town of Oro Valley Excise Tax Refunding Obligations, Series 2013, resulting in net present value savings of nearly \$460,000

Continued partnership with the Regional Transportation Authority (RTA) for the Sun Shuttle Dial-a-Ride service and recorded record ridership

Completed the construction of the Lambert Lane Widening Project

Delivered 418 million gallons of Central Arizona Project (CAP) water in partnership with the City of Tucson, reducing our reliance on groundwater and preserving our aquifer

Replaced 2,498 aging water meters to improve efficiency and accuracy of Water Utility billing

Citizen Volunteer Assistants Program (CVAP) volunteers contributed 14,455 volunteer hours, valued in excess of \$320,000

Opened the \$5 million, competition-level Oro Valley Aquatic Center, attracting several state-wide swimming events and the 2014 National Synchronized Swimming Championships

Ended the year with a \$1.7 million surplus in the General Fund, to be used for future capital improvement projects.

Developed and installed an archery range at Naranja Park and partnered with local Eagle Scouts for trail work on the archery range walking course

Completed improvements at the Steam Pump Ranch historic property, including new restroom facilities, north main gate entrance, and roof repair on Leiber House

Completed the transition of the Library to Pima County, resulting in savings of approximately \$600,000 per year

Achieved financial sustainability through vacancy savings of approximately \$1.8 million over two years

Successfully annexed 107 acres in the Oracle/Ina area

Debuted the new Town tagline and marketing campaign, "It's in our nature," in our award-winning marketing brochure aimed at recruiting new businesses, residents and visitors

Approved the Economic Expansion Zone for Innovation Park to attract bio-science and hi-tech companies that contribute to the community's economic and social vitality



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, 2012. This award 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, whose contents 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.

## ACCOLADES

- ★ National "Award of Excellence in Graphic Design" for the Town's 2013 marketing brochure, City-County Communications and Marketing Association (3CMA)
- ★ 2013 Best place in Arizona to Raise Kids, Bloomberg Businessweek
- ★ 2013 Playful City USA, KaBoom!
- ★ Certificate of Achievement for Financial Reporting Excellence for FY2011/12 from the Government Finance Officers Association (GFOA) for the 19th consecutive year
- ★ First-ever Popular Annual Financial Report (PAFR) award from the GFOA for the Town's FY2011/12 PAFR
- ★ Distinguished Budget Presentation Award from the GFOA for the 5th consecutive year
- ★ Achievement of Excellence in Procurement Award from the National Procurement Institute (NPI) for the 5th consecutive year
- ★ The Town's pavement preservation program has been identified as a regional model by Pima Association of Governments. Annual investment of \$1.2 million saves the town \$64 million in improvements over 5 years.



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, 2012**

*Jeffrey R. Egan*  
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 may serve as a useful overall indicator of the Town's financial position and trends over the last two years.

The totals below combine results from both the governmental and business-type activities of the Town. 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 ending June 30, 2013

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

	<u>2013 Total</u>	<u>2012 Total</u>
<b>Assets</b>		
Current assets and other assets	\$ 50,405,835	\$ 51,722,145
Capital assets, net	<u>244,014,573</u>	<u>242,449,051</u>
<b>Total assets</b>	<b>\$ 294,420,408</b>	<b>\$ 294,171,196</b>
<b>Liabilities</b>		
Current and other liabilities	\$ 6,280,142	\$ 5,888,225
Long-term liabilities	<u>62,692,805</u>	<u>65,945,855</u>
<b>Total liabilities</b>	<b>\$ 68,972,947</b>	<b>\$ 71,834,080</b>
<b>Net Position</b>	<b>\$ 225,447,461</b>	<b>\$ 222,337,116</b>

### *What it means*

#### Current Assets & Other Assets

Assets that one can reasonably expect to convert to cash, sell, or consume within one year.

#### Capital Assets, Net

The Town's land, buildings, equipment, improvements, infrastructure, and construction in progress, net of accumulated depreciation.

#### Liabilities

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

#### Net Position

The difference between assets and liabilities, which may or may not be available for future spending.

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 have had an impact on the Statement of Net Position:

\$6.9 million in business-type capital assets were added through existing water system improvements.

\$11.7 million in governmental capital assets were added from street improvements and construction of the new state-of-the-art Aquatic Center.

Business-type long-term debt was decreased by \$2.8 million through issuing refunding bonds and making \$2.9 million in debt service payments.

The transfer of the Oro Valley Public Library to the Pima County Library District resulted in an initial loss of \$2.6 million in capital assets, but it will save \$600,000 a year in operating costs and has resulted in expanded service to the community.

## STATEMENT OF ACTIVITIES

The Statement of Activities, often referred to as the Town's income statement, reflects all the financial activity for the Town during the fiscal year ending June 30, 2013. This statement presents information to show how the Town's net position changed during the year as a result of the financial activity (i.e., 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 more detailed statement of activities found in the Town's Comprehensive Annual Financial Report.

The Statement of Activities shows that our total net position has improved over the prior year. Recent revenue trends reflect increases in sales tax from construction and utility taxes, and increased construction-related revenues, such as building permit fees. The increase in expenses was primarily due to Central Arizona Project (CAP) water delivery charges, water purchased for resale, and increased operational costs in the water and stormwater utilities.

### Statement of Activities for the year ending June 30, 2013

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

	<u>2013</u>	<u>2012</u>
<b>Revenues</b>	<b>\$ 54,941,406</b>	<b>\$ 54,521,840</b>
<b>Expenses</b>	<b>49,224,257</b>	<b>48,154,338</b>
<b>Transfer of library to Pima County</b>	<b><u>(2,606,804)</u></b>	<b><u>-</u></b>
<b>Change in net position</b>	<b>3,110,345</b>	<b>6,367,502</b>
<b>Net position, beginning of year</b>	<b><u>222,337,116</u></b>	<b><u>215,969,614</u></b>
<b>Net position, end of year</b>	<b>\$ 225,447,461</b>	<b>\$ 222,337,116</b>



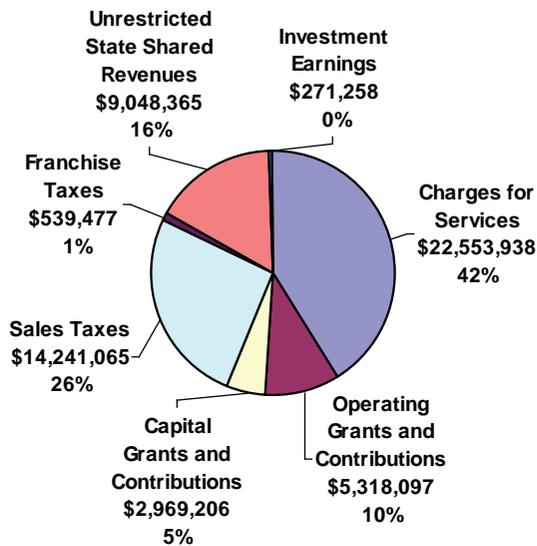
## REVENUES

### Where the money comes from

This chart illustrates the sources of the Town's total revenue stream. The Town's primary revenue sources during 2013 include charges for services, sales taxes and state-shared revenues. Together these three categories represented 84% of all revenue collections in fiscal year 2013.

### Revenues by Category

Includes Governmental and Business-Type Activities



## What it means

The largest source of operating revenue for the Town is **Charges for Services**, which are revenues collected for services rendered to the public. Water sales make up the majority of these revenues.

**Sales Taxes** are the second-largest source of revenue for the Town. The Town levies a 2% tax on retail sales and a 4% tax on utilities and construction activity. An additional 6% tax is levied on lodging.

**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 monies shared with incorporated cities, towns, and counties.

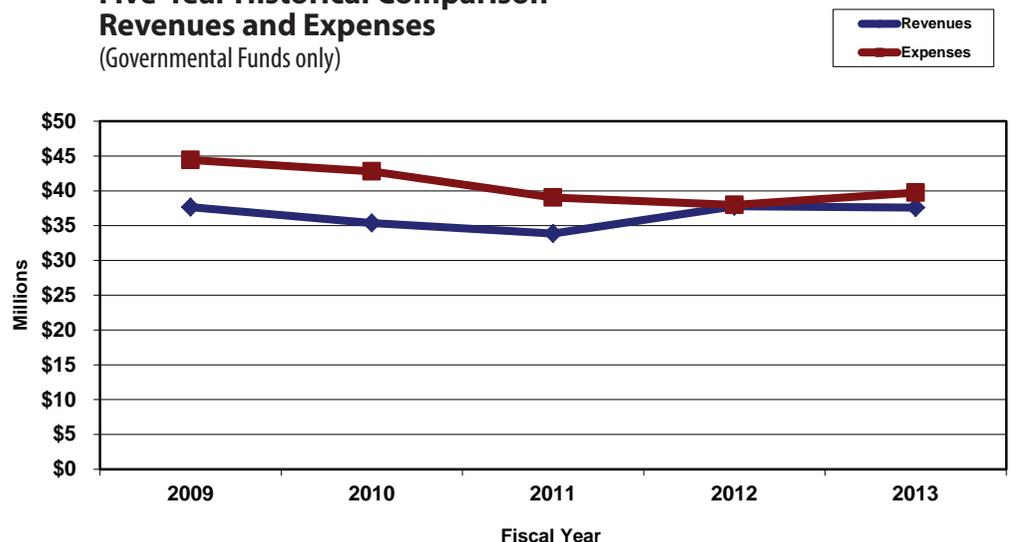
**Capital Grants and Contributions** are monies received by the Town that are dedicated to specific capital expenditures and purposes, such as highways and streets.

**Operating Grants and Contributions** are monies received by the Town that are dedicated to specific operating expenditures and purposes, such as employee salaries and ongoing maintenance costs for highways and streets, public safety, and culture and recreation.

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

### Five-Year Historical Comparison Revenues and Expenses

(Governmental Funds only)





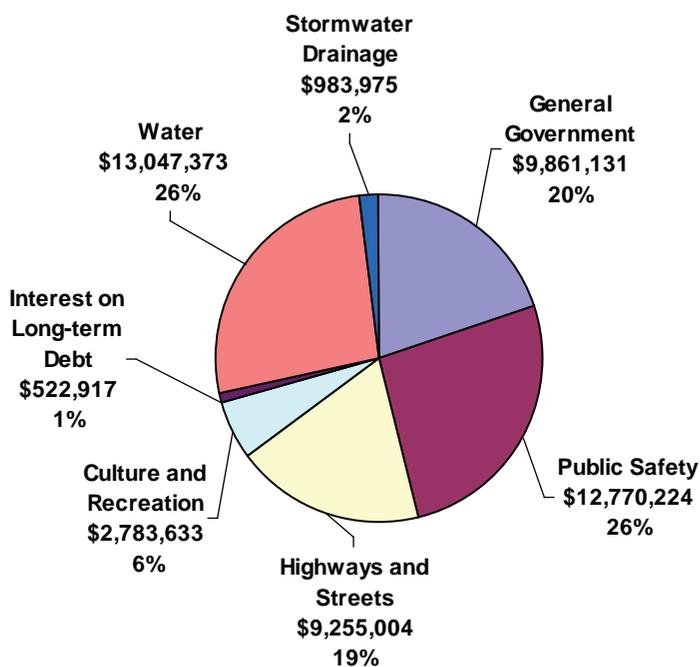
## EXPENSES

### Where the money goes

This chart illustrates the uses of the Town's expenses across all funds. The majority of expenses relate to Water Utility operations and Public Safety (police). Over half of the Town's total expenses (52%) are from these two departments.

### Expenses by Category

Includes Governmental and Business-type Activities



## What it means

**General Government** expenses reflect those incurred by the Town's administrative offices and departments, such as Mayor and Town Council, Town Manager, Town Attorney, Finance, Town Clerk, Human Resources, Magistrate Court, and other non-departmental costs.

**Highways and Streets** expenses are those 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.

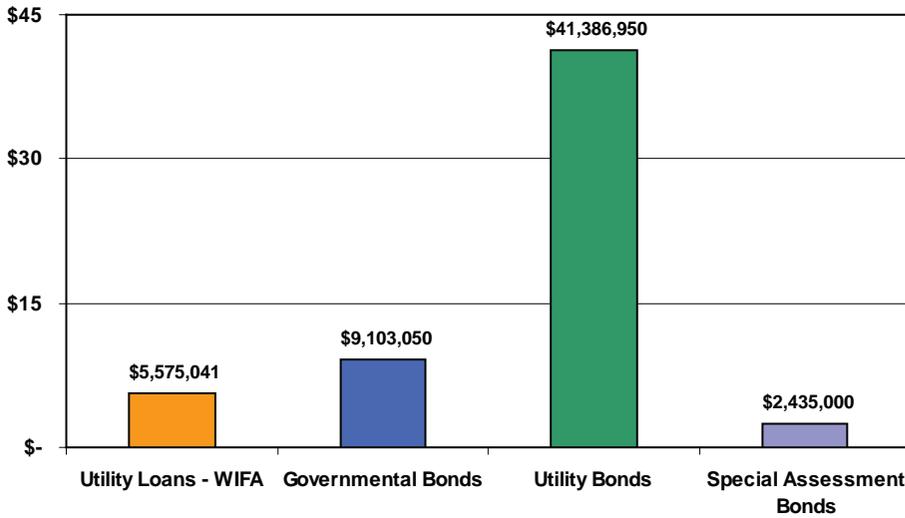
**Stormwater Drainage** expenses are those related to the design, construction, maintenance and operation of all stormwater drainage ways within the town.

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

# DEBT & FINANCIAL RATINGS

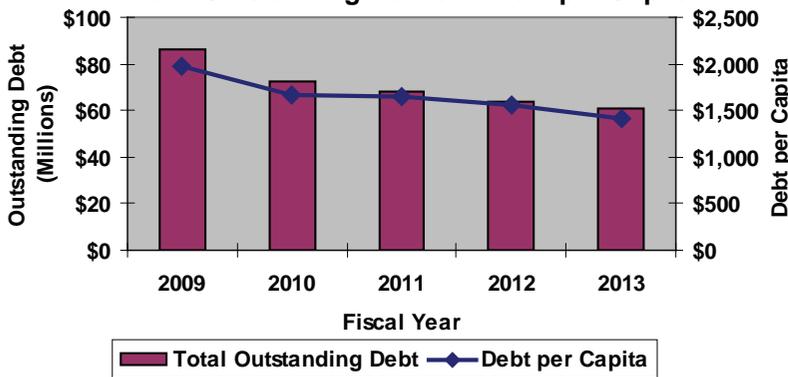
As of June 30, 2013, the Town had \$58.5 million in long-term debt outstanding, of which \$3.4 million was due within one year. The majority of the outstanding debt relates to the Water Utility capital improvement revenue bonds. The chart below depicts the Town's outstanding debt for the fiscal year ended June 30, 2013.

**Outstanding Debt Obligations as of June 30, 2013**



In 2013, the Town issued \$6.4 million in refunding bonds at an interest rate of 1.4% to refund outstanding Municipal Property Corporation (MPC) Excise Tax Revenue Refunding bonds Series 2003 with an average interest rate of 4%. Refunding bonds is similar to refinancing a loan to take advantage of a lower interest rate. The refunding resulted in an economic gain to the Town of \$458,679. Town staff continually evaluates opportunities to refund and pay off outstanding debt.

**Five-Year Historical Comparison  
Total Outstanding Debt and Debt per Capita**



## What it means

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

**Governmental Bonds** are used to finance long-lived capital improvements, such as land acquisitions and the construction, expansion or improvement of Town buildings and 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 Ratings has affirmed the Town of Oro Valley's excise tax revenue bonds at an excellent investment grade of 'AA-' with a stable outlook. According to Fitch Ratings, "Management maintains a solid financial cushion despite recent draws on the fund balance. Fitch views sizable reserves as a key offset to a portion of the risk associated with operating revenues derived largely from economically sensitive revenue streams. Spending cuts and use of reserve levels above policy have allowed the Town to withstand the recession and subsequent revenue declines... and signs of a modestly strengthening economy are evident."*

## EMPLOYEE SALARIES & BENEFITS

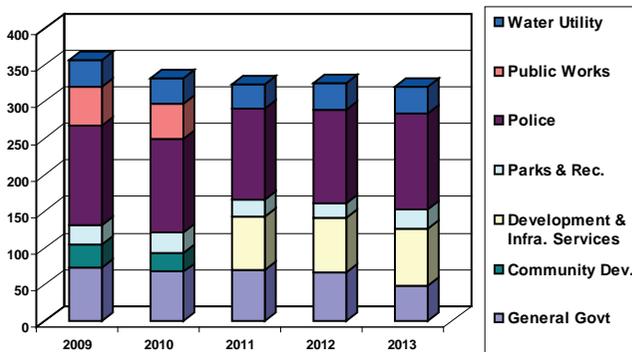
Personnel service comprised 50% of the total operating budget for FY 2012/13. Town management continues to seek ways to minimize rising personnel costs. Many positions were left unfilled or eliminated as vacancies occurred. As a result, the FY12/13 personnel budget was \$1.3 million less than its peak in FY08/09, with nearly 46 fewer full-time equivalent (FTE) positions. Additionally, the Town successfully transitioned to a self-funded model for medical insurance coverage in FY2012/13, resulting in estimated annual savings of more than \$300,000. Health care premiums remained flat to the 2011/12 fiscal year, while dental premiums increased 3%. The Town covers employee-only premiums at 100% and contributes more than 75% toward premiums for employee dependents.

For the first time in four years, the Town's FY2012/13 budget included funding for pay increases in the form of a 2.5% cost-of-living adjustment.

The number of Town employees per capita has declined slightly from its peak in FY2007/08 as a result of vacancies, economic and financial conditions, and a slowdown in population and development growth.

### Number of Full-Time Equivalent (FTE) Employees by Function

Note: Community Dev. & Public Works became Development & Infrastructure Services (DIS) in FY 2011.



### What they're saying...

"This Arizona burg isn't just for snowbirds escaping the cold North—it's become a major base for biotech firms, fueled by research at nearby Tucson's University of Arizona and the Town's own Innovation Park."

*Bloomberg Businessweek* December 2012

## TOWN EMPLOYMENT STATISTICS

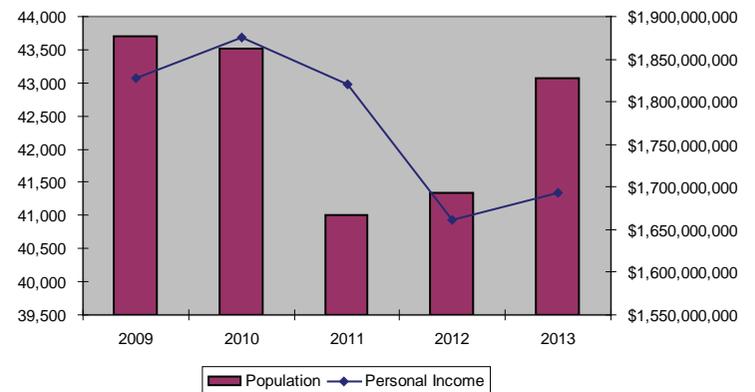
### Principal Employers in Oro Valley

Employer	Employees	% of Total Town Employment
Ventana Medical Systems	1500	8.38%
Oro Valley Hospital	616	3.44%
Hilton El Conquistador Golf and Tennis Resort	460	2.57%
Amphitheater Public Schools	424	2.37%
Town of Oro Valley	321	1.79%
Walmart Supercenter	249	1.39%
Fry's Food and Drug Store	246	1.37%
Splendido at Rancho Vistoso	176	0.98%
Kohls	125	0.70%
Target	120	0.67%

The Town continues to work to attract bio-science and hi-tech innovators to provide high-quality jobs that contribute to the Town's economic vitality. The Town's two top employers, Ventana Medical Systems (a member of the Roche Group) and the Oro Valley Hospital, anchor the master planned business park known as Innovation Park, which the Town recently approved as an Economic Expansion Zone. In December 2013, Avionics supplier Securaplane moved into a 55,000-square-foot plant in Innovation Park. Securaplane is the first business to benefit from streamlined review and permitting processes developed for the Economic Expansion Zone.

### Town Demographic and Economic Statistics

Note: The 2011 population figure is per the 2010 US Census. Other years reflect estimates provided by Pima Association of Governments (PAG).



According to 2010 US Census data and American Community Survey data, the median household income is \$71,628. Unemployment held steady at 6.4% in FY13, well below the state rate of 8.4%. One of the Town's strategic goals is to make Oro Valley stand out as a business-friendly community, supporting the creation and retention of primary jobs.

### Town of Oro Valley

11000 N. La Cañada Drive | Oro Valley, AZ 85737

[www.orovalleyaz.gov](http://www.orovalleyaz.gov) | (520) 229-4700