



Town of Oro Valley, Arizona

POPULAR ANNUAL FINANCIAL REPORT

Fiscal Year ending June 30, 2012

OVERVIEW

The purpose of the Popular Annual Financial Report (PAFR) is to provide a summary of the financial position of the Town of Oro Valley, as reported in the Town's Comprehensive Annual Financial Report (CAFR), along with other information of interest. The CAFR outlines the Town's financial position and operating activities each 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 (clean) audit opinion that the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town.

While the numbers in the PAFR come from an audited source, they are presented in a summarized, unaudited, non-GAAP format. Unlike the CAFR, the PAFR does not include detailed information by individual fund or other disclosures required by GAAP. 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 online at www.orovalleyaz.gov, or by contacting the Finance Department at 11000 N. La Canada Drive, Oro Valley, AZ 85737, phone (520)229-4700.

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WELCOME *from the* TOWN MANAGER



Greg Caton

Thank you for taking the time to read the first-ever Town of Oro Valley Popular Annual Financial Report (PAFR). Oro Valley is one of only a few local communities in our state to produce this report which concisely and transparently explains the financial position of our Town. In this report, we share with you an overview of various financial aspects of the Town, including sources of revenues and expenditures, assets and liabilities and debt obligations of the Town.

Although Oro Valley has faced many challenges in recent years during the recession, through sound financial

management, we ended FY 2011/12 in a positive manner and have put ourselves in a strong position to move forward.

A few significant accomplishments during FY 2011/12 enabled the Town to generate positive returns to our bottom line. We realized vacancy savings of approximately \$900,000 town-wide due to systematic evaluation of vacant positions to determine whether positions needed to be refilled at full-time, part-time, outsourced or not at all. Our continued focus on reducing the Town's debt with a partial payoff of Water Utility bonds and the remaining balance refunded at historically-low interest rates resulted in net present value savings of approximately \$3.4 million. Additionally, our commitment to engage in regional partnerships by transferring the operations of the Oro Valley Library to the Pima County Public Library District resulted in savings of \$600,000 to the Town and increased library services to our residents.

The Town's financial management policies and fiscally-conservative leadership by the Mayor and Council have enabled us to continue providing a high level of service to our residents. We hope that our 2012 Popular Annual Financial Report fulfills its purpose as an understandable, informative means of providing assurance that every effort is being 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

INCORPORATED	1974
SERVICES	Police, Parks and Recreation, Water Utility, Stormwater Utility, Public Transit, Development Services, Public Works
FORM OF GOV'T	Council/Manager
GOVERNING BODY	Mayor elected at large to four-year term; Six councilmembers elected at large to four-year terms
POPULATION	41,011 (2010 census)
# HOUSEHOLDS	17,804
MEDIAN AGE	49.8
MEDIAN INCOME	\$71,628 per household
# PARKS	4
PARK ACRES MAINTAINED	376
TRAILS & PATHS	78 miles
LANE MILES	680 total
LOCAL SALES TAX	2%
2012 BUDGET	\$94.2 million
# EMPLOYEES	325.1 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 2012 ACCOMPLISHMENTS

Initiated Community Budget Forum and Employee Budget Forum sessions to solicit input on FY 2012/13 annual budget

Collaborated with various partners for the provision of parks, recreation and cultural events, including Southern Arizona Arts and Cultural Alliance, the Town of Marana, Catalina State Park and Pusch Ridge Christian Academy

Town Council approved transition of the Oro Valley Public Library from an affiliate status to a branch status within the Pima County Public Library District, resulting in savings of approximately \$600,000 per year to the Town's General Fund

Implemented self-funded medical insurance program and optional Health Savings Accounts for employees

Town realized approximately \$900,000 savings from position vacancies during FY 2011/12

Completed a refunding of the Town's Water Utility debt resulting in net present value savings of approximately \$3.4 million

Launched OV Dollars program to enhance the existing Shop Oro Valley campaign

Completed the issuance of \$2.55 million in excise tax revenue obligations to fund the Aquatic Center Facility expansion project and created full funding strategy for entire \$5 million project

Maintained investment grade 'AA-' bond rating on Town excise tax obligations and received upgraded bond rating to 'AA' on Town Water Utility revenue obligations

Began delivery and distribution of approximately 1,500 acre feet of Central Arizona Project (CAP) water in partnership with Tucson Water, reducing our reliance on groundwater and preserving our aquifer

Initiated Sun Shuttle Dial-A-Ride service in partnership with the Regional Transportation Authority (RTA)

Renovated Green Field at James D. Kriegh Park through a partnership with the Dodgers Dream Foundation and the Arizona Diamondbacks

Completed construction of an accessible playground at James D. Kriegh Park funded by a grant from the Keg Steakhouse

The Citizen Volunteer Assistants Program (CVAP) volunteers donated 13,867 hours and conducted 8,650 dark house checks

Water Utility completed construction of the 3 million gallon North La Canada reservoir and the La Canada 24-inch water main

Water Utility replaced 2,747 water meters under the meter replacement program



ACCOLADES

- ★ Among the Best Places to live in Arizona
Yahoo, January 2011
- ★ 10 Best Towns for Families
Family Circle Magazine, August 2008
- ★ 100 Best Places in America to Live and Launch a Small Business
Fortune Small Business Mag., April 2008
- ★ 2011 Playful City Community USA
- ★ Certificate of Achievement for Financial Reporting Excellence for FY 2010/2011 from the Government Finance Officers Association (GFOA) for the 18th consecutive year
- ★ Distinguished Budget Presentation Award from the GFOA for the 4th consecutive year
- ★ Achievement of Excellence in Procurement Award for the 4th consecutive year
- ★ Received the Outstanding Achievement in Local Government Innovation from the Alliance for Innovation
- ★ Recognized for Employer Process and Progress Leadership in Worksite Health Promotion by the Wellness Council of Arizona, September 2011

STATEMENT OF NET ASSETS

The Statement of Net Assets is a very high-level summary that captures totals and compares them to previous years. This may serve as a useful overall indicator of the Town's financial position and trends over the last two years. A much more detailed analysis can be found in the Town's Comprehensive Annual Financial Report.

Statement of Net Assets for the year ending June 30, 2012

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

	<u>2012</u>	<u>2011</u>
Assets		
Current assets and other assets	\$ 51,722,145	\$ 53,091,715
Capital assets, net	<u>242,449,051</u>	<u>240,821,703</u>
Total assets	\$ 294,171,196	\$ 293,913,418
Liabilities		
Current and other liabilities	\$ 5,888,225	\$ 7,358,635
Long-term liabilities	<u>65,945,855</u>	<u>70,585,169</u>
Total liabilities	\$ 71,834,080	\$ 77,943,804
Net assets	\$ 222,337,116	\$ 215,969,614

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

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

Net Assets

Resources that are either (a) unrestricted, or accessible to the Town to provide services to town residents if there were no additional revenues or resources available, or (b) restricted, or whose use is subject to externally imposed restrictions. The Town has resources set aside for capital projects, highways and streets, debt service, and public safety.

The largest portion of the Town's net assets reflects its investment in capital assets (e.g. land, buildings and improvements, improvements other than buildings, infrastructure, vehicles, machinery and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending.

Significant transactions that have had an impact on the Statement of Net Assets include:

Addition of \$8.9 million in business-type activities capital assets through existing water system improvements

Addition of \$7.2 million in governmental activities capital assets, mostly consisting of street improvements

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 ended June 30, 2012. This statement presents information to show how the Town's net assets changed during the year as a result of the financial activity (i.e., revenues and expenses). Over time, increases or decreases in net assets 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 net assets have increased each of the last two years. Recent revenue trends reflect slight increases in sales tax as we recover from the most recent recession. Additionally, the Town has seen increases in utility tax collections as a result of increasing the tax rate from 2 to 4%. The decreases in expenditures stem primarily from vacancy savings.

Statement of Activities for the year ending June 30, 2012

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

	<u>2012</u>	<u>2011</u>
Revenues	\$ 54,521,840	\$ 55,122,131
Expenses	<u>48,154,338</u>	<u>48,212,419</u>
Increase in net assets	6,367,502	6,909,712
Net assets, beginning of year	<u>215,969,614</u>	<u>209,059,902</u>
Net assets	\$ 222,337,116	\$ 215,969,614

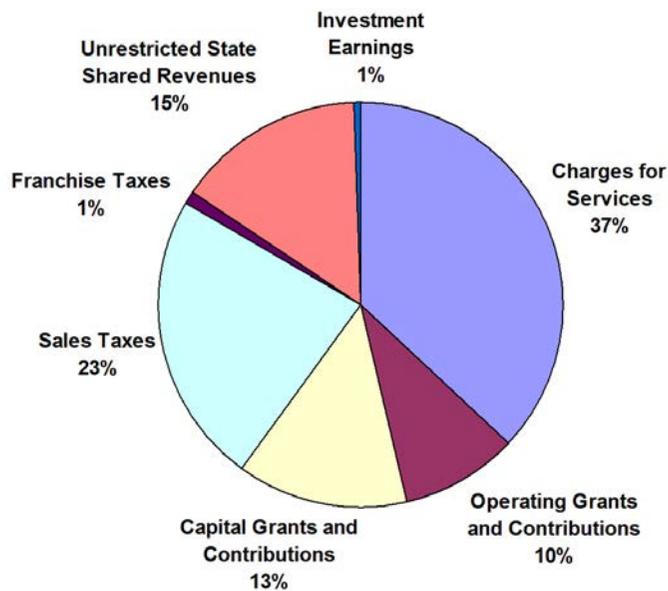


REVENUES

Where the money comes from

This chart illustrates the sources of the Town's total revenue stream. The Town's primary revenue sources during 2012 include charges for services, sales taxes and state-shared revenues. Together, these three categories represent 76% of all revenue collections in fiscal year 2012.

Revenues by category



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 revenue from a local cable provider.

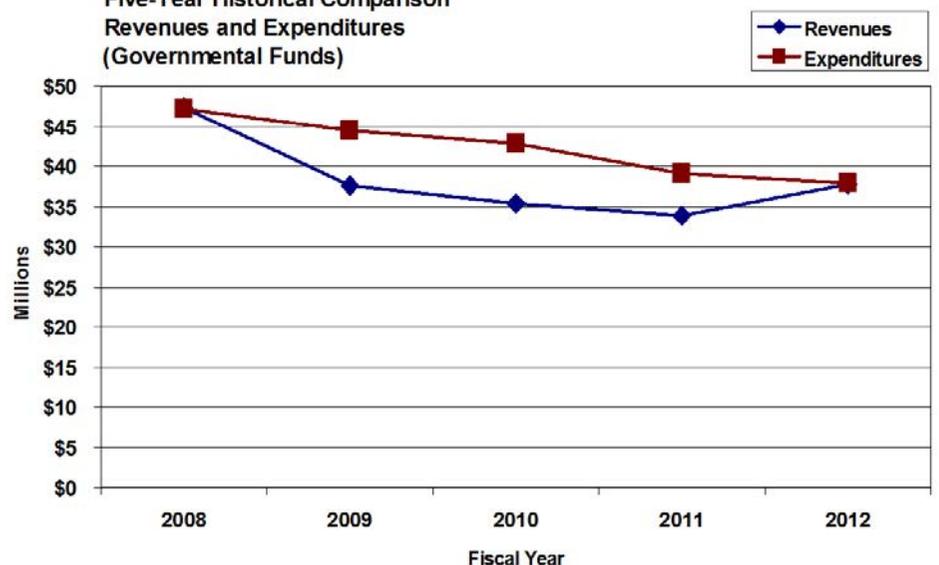
Unrestricted State-Shared Revenues consist of the Town's portion of Arizona state income tax, sales tax and vehicle license tax monies shared with incorporated cities, towns and counties.

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

Operating Grants and Contributions are monies received by the Town that are dedicated towards 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 Expenditures
(Governmental Funds)



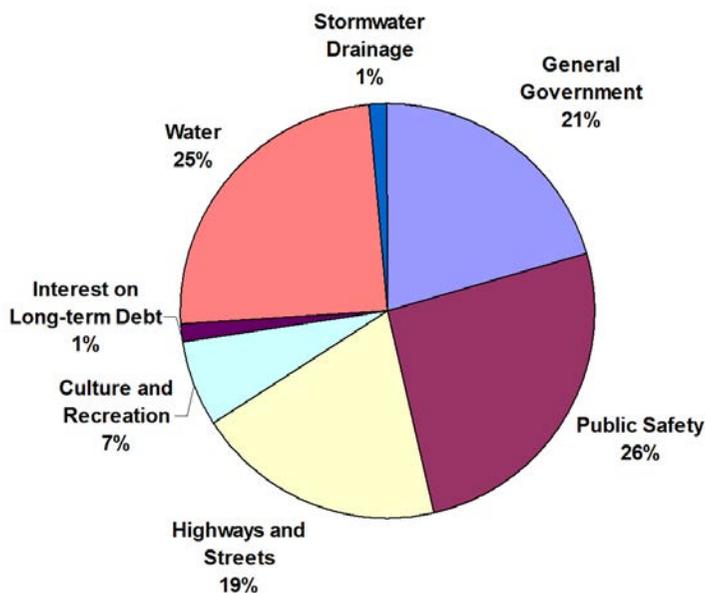


EXPENDITURES

Where the money goes

This chart illustrates the uses and percentages of the Town's expenditures across all funds. The majority of expenditures relate to Water Utility operations and Public Safety. More than half of the Town's total expenditures (51%) are from these two departments.

Expenditures by category



What it means

General Government expenditures 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 expenditures are those related to the design, construction, maintenance and operation of all roadways, sidewalks and related infrastructure within the town.

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

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

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

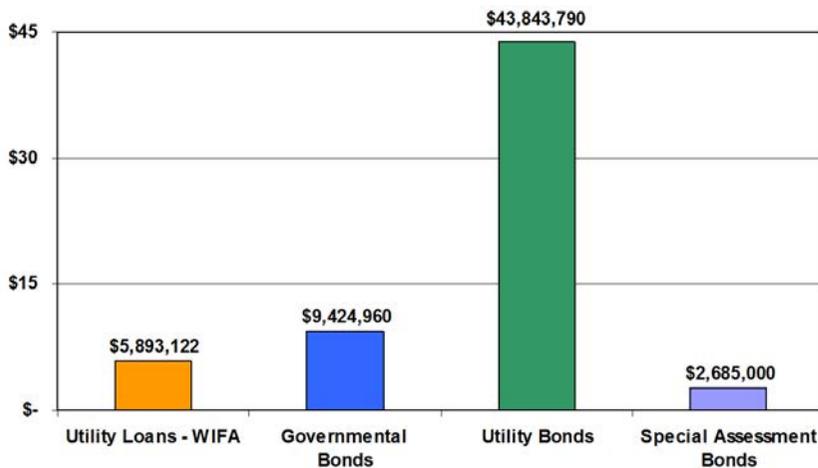
Stormwater Drainage expenditures are those related to the design, construction, maintenance and operation of all stormwater drainage ways within the Town.

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

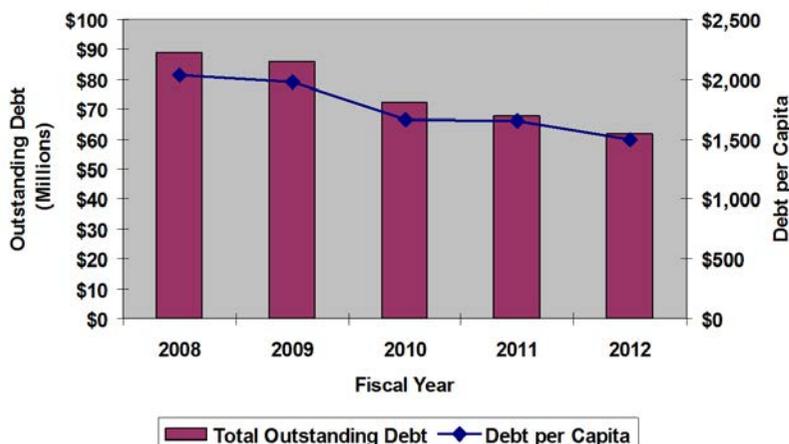
As of June 30, 2012, the Town had \$61.8 million in long-term debt outstanding; \$3.4 million is due within one year. The majority of the outstanding debt relates to the Oro Valley Water Utility capital improvement revenue bonds. The chart below depicts the Town's outstanding debt for the fiscal year ended June 30, 2012.

Outstanding Debt Obligations as of June 30, 2012



In 2012, the Town issued \$16.5 million in refunding bonds to refund \$20.1 million of outstanding Senior Lien Water Project Revenue Bonds. The Town used fund balance cash reserves to completely pay off \$3.5 million of the bonds, while the \$16.5 refunded the balance. The advanced refunding was undertaken to reduce total debt service payments over the next 17 years by \$5.5 million and resulted in an economic gain of \$3.4 million. Town staff continually evaluates opportunities to refund and pay off current obligations.

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 which was used for roadway improvements.

What they're saying...

Standard & Poor's Ratings Services raised its long-term and underlying ratings (SPUR) to 'AA' from 'AA-' on the Town's senior-lien water project revenue obligations outstanding. At the same time, S&P assigned its 'AA' long-term rating to the Town's series 2012 senior-lien water project revenue refunding obligations. According to S&P, "The raised rating reflects our view of the water system's history of strong senior-lien debt service coverage, very strong liquidity position, and progress toward receiving surface water to relieve pressure on groundwater supplies. Further supporting the rating is the water system's history of nearly annual rate increases, which have led to increasing operating revenues.

S&P's Ratings Services
April 2012

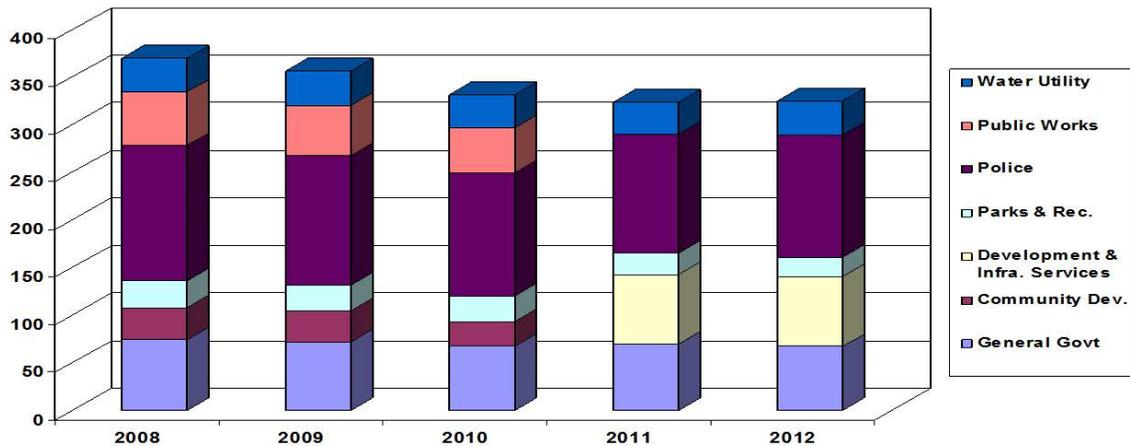
EMPLOYEE SALARIES & BENEFITS

Personnel service comprised 52.2% of the total operating budget for FY 2011/12. As it is a significant portion of the budget, employee compensation is heavily scrutinized by Town leadership. For the third year in a row, the Town did not fund employee merits, step increases or cost-of-living adjustments. Health care and dental premiums remained flat to the 2010/11 fiscal year and did not see any increases in 2012. The Town covers employee-only premiums at 100% and contributes 75% of the health care premiums for employees electing dependent-care coverage.

Since 2008, the number of full-time equivalent (FTE) employees has decreased 13%, from 370 in 2008 to 325 in 2012. This reduction in staffing occurred primarily through attrition across the organization and elimination of vacant positions in an effort to reduce expenditures to meet declining revenues experienced during the recession. As a result, some program areas were consolidated in Development and Infrastructure Services (DIS) and Parks and Recreation.

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

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



Town of Oro Valley

11000 N. La Cañada Drive | Oro Valley, AZ 85737
www.orovalleyaz.gov | (520) 229-4700

