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Town of ORO VALLEY, ARIZONA

POPULAR ANNUAL FINANCIAL REPORT

Fiscal Year ending June 30, 2020





OVERVIEW

The Town of Oro Valley is proud to present its ninth 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 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 TOWN COUNCIL



Left to right:

Bill Rodman, Councilmember
Steve Solomon, Councilmember
Rhonda Piña, Councilmember
Joe Winfield, Mayor
Melanie Barrett, Vice Mayor
Josh Nicolson, Councilmember
Joyce Jones-Ivey, 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	45,848 (Arizona Commerce Authority)
# OF HOUSEHOLDS (US Census estimate)	19,522
BACHELOR'S DEGREE OR HIGHER (AGE 25+)	52.4%
MEDIAN INCOME (US Census estimate)	\$83,341
# OF PARKS	7
PARK ACRES MAINTAINED	449
TRAILS AND PATHS	76 miles
PARKS PROGRAMS HELD ANNUALLY	96
2020 BUDGET	\$111 million



MESSAGE *from the* TOWN MANAGER



Mary Jacobs
Town Manager

We are pleased to present the Town of Oro Valley Popular Annual Financial Report (PAFR) for fiscal year 2019/20. This is the ninth 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 eight years with their Popular Annual Financial Reporting Award. The Town is one of only fifteen 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 spite of the onset of COVID-19, the Town demonstrated continued strong financial performance during fiscal year 2019/20. We are pleased to report that in the General Fund, our main operating fund, revenues exceeded expenditures by more than \$1.3 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 rating, including our 'AA+' rating from Standard and Poor's.

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.

We hope that our 2020 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 19/20 ACCOMPLISHMENTS

Received an upgrade by Fitch Ratings of its long-term rating from 'AA-' to 'AA' for Water Revenue Bond obligations

Received the Certificate of Achievement for Excellence in Financial Reporting Award, Distinguished Budget Presentation Award with special recognition for the Town's Capital Improvement Program and Popular Annual Financial Reporting Award from the Government Finance Officers Association

Ended FY 2019/20 with a \$1.3 million increase in the General Fund ending fund balance

Issued a Mayoral Declaration of Emergency and Amendments to help prevent the spread of COVID-19

Implemented remote Town Council meetings that still allowed for the conduct of municipal business and effective public participation while affected by the Governor's stay-at-home order

Approved the placement of a permanent base adjustment ballot initiative on the August 2020 primary election ballot, which was ultimately approved by voters

Approved a plan to continue operating the Town's 36 holes of golf with predictable investments, and implement course improvements on a pay-as-you-go basis

Secured federal CARES Act funding to assist in dealing with COVID-19-related expenditures in the amount of approximately \$5.3 million for use in FY 2020/21

Developed an updated reclaimed water cost allocation model and completed the 2019 reclaimed water cost allocation analysis

Updated and drafted continuity of operations plans across all Town departments

Continued and accelerated La Cholla Blvd. Widening Project with partners from Pima County and the Regional Transportation Authority

Completed La Cañada Drive and Moore Road roundabout construction

Increased employee participation in organizational process improvement as part of the Town's Peak Performance initiative, resulting in 35 implemented improvements and an estimated \$65,000 in savings for FY19/20

Received the Achievement of Excellence in Procurement award from the National Procurement Institute for the 13th consecutive year

ACCOLADES

★ **"Oro Valley named safest city in Arizona"**
Safewise 2019

★ **"Oro Valley is ranked safest city in Arizona"**
Safe Home 2017

★ **"Oro Valley named Arizona's best small city"**
WalletHub 2017

★ **"One of America's 10 Safest Suburbs"**
Movoto Real Estate, 2014

★ **"Best Place in Arizona to Raise Kids"**
Bloomberg Businessweek 2013

★ **Playful City USA**
KaBOOM! 2011 - 2017

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, 2019. 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, 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.



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, 2019

Christopher P. Morrell
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, 2020

	<u>2020</u>	<u>2019</u>
Assets		
Current assets and other assets	\$ 74,827,315	\$ 73,663,286
Capital assets, net	267,764,775	258,548,990
Total assets	342,592,090	332,212,276
Deferred outflows	9,507,349	10,355,143
Liabilities		
Current and other liabilities	10,210,356	12,350,907
Long-term liabilities	90,626,887	94,066,616
Total liabilities	100,837,243	106,417,523
Deferred inflows	\$ 1,802,798	\$ 2,841,551
Net Position	\$ 249,459,398	\$ 233,308,345

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:

- The principal retirement of \$1,042,354 in bonds and \$2,803 in bond premium for governmental activities, and the principal retirement of \$4.3 million in bonds and \$116,678 in bond premium for business-type activities.
- The addition of \$9.5 million and \$3.7 million for governmental activities and business-type activities, respectively, in accumulated depreciation due to depreciation expense.
- The addition of \$19.4 million and \$3.0 million for governmental activities and business-type activities, respectively, in capital assets related to buildings and improvements, infrastructure, and water systems.

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, 2020. 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, 2020

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

	<u>2020</u>	<u>2019</u>
Revenues	\$ 91,398,732	\$ 83,163,924
Expenses	75,247,679	72,038,610
Change in net position	16,151,053	11,125,314
Net position, beginning of year, restated	233,308,345	222,183,031
Net position, end of year	\$ 249,459,398	\$ 233,308,345

The Statement of Activities shows that the Town's total net position has improved over the beginning net position. The increase of \$3.2 million in total expenses is primarily due to an increase in general government costs related to COVID-19 and increased pension expenses. Total revenues increased \$8.2 million, or 9.9 percent, largely due to additional intergovernmental revenues for road construction projects.

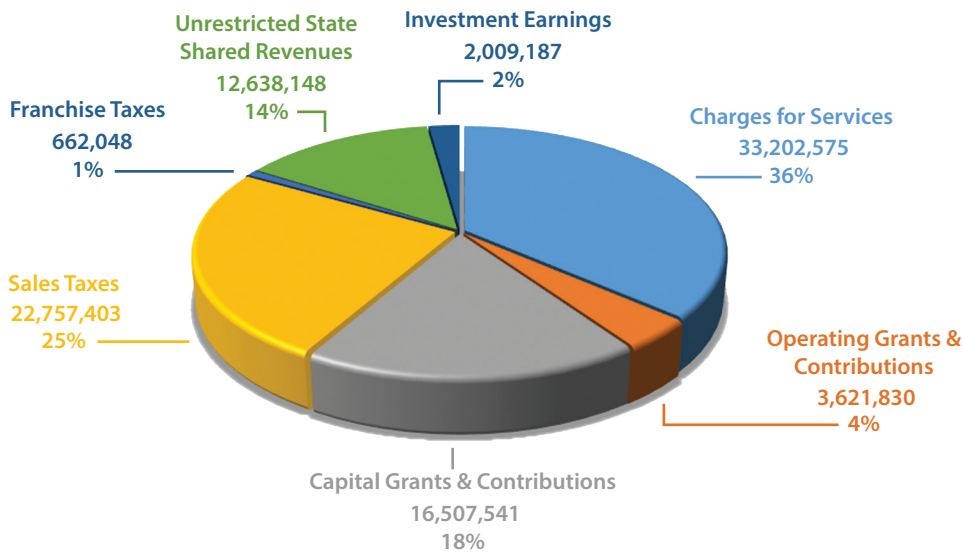


REVENUES

Where the money comes from

Revenues by Source

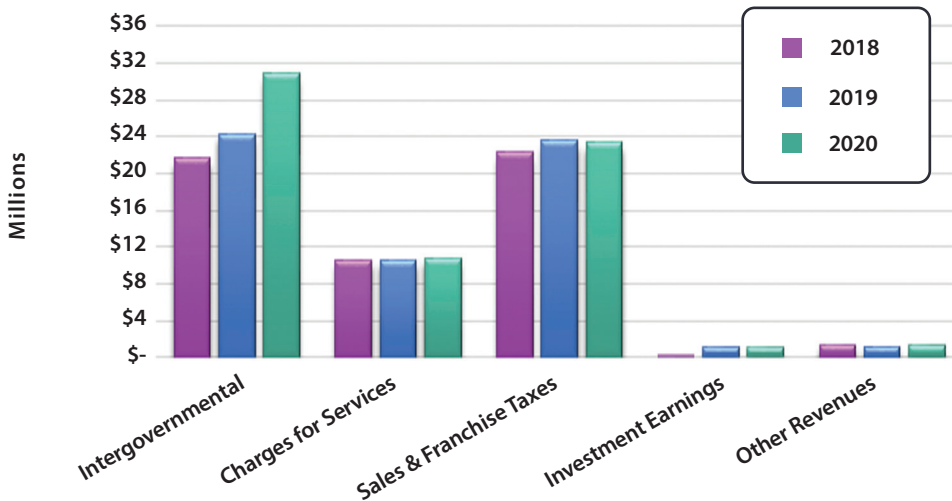
Includes Governmental & Business-Type Activities



This chart illustrates the sources and percentages of the Town's revenues totaling \$91.4 million for FY 2019/20. The Town's primary revenue sources during 2020 include charges for services, sales taxes and state-shared revenues. Together these three categories represented 75% of all revenue collections in FY 2019/20.

Three-Year Historical Comparison - Revenues

Governmental funds only



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.

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.



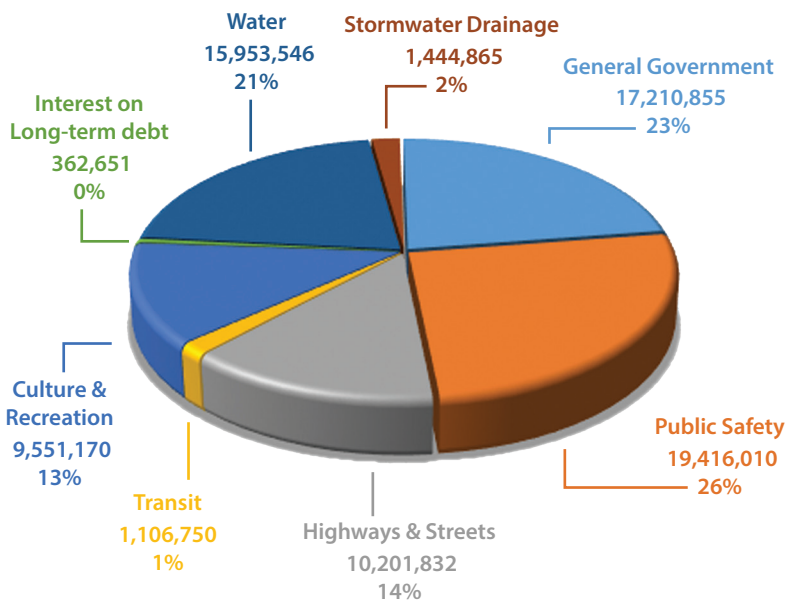
EXPENSES

Where the money goes

This chart illustrates the uses and percentages of the Town's expenses across all funds totaling \$75.2 million for FY 2019/20. 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 (70%) 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 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).

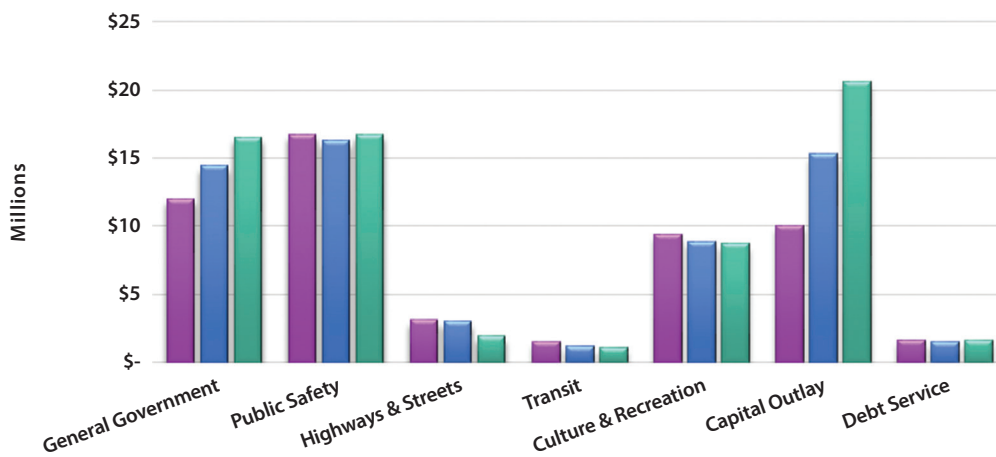
Stormwater Drainage expenses are those related to the design, construction, maintenance and operation of all stormwater drainageways within the town.

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.

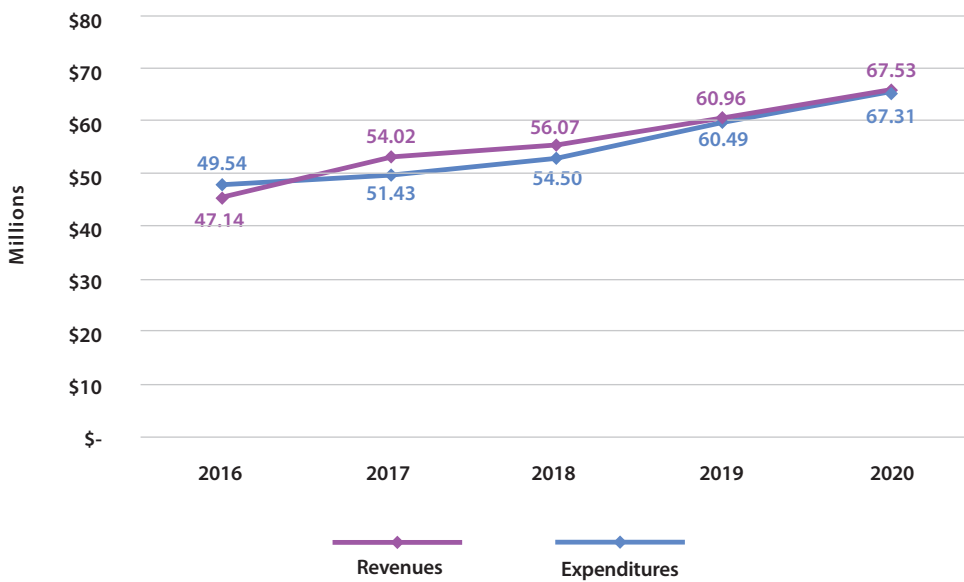




Three-Year Historical Comparison - Expenditures ■ 2018 ■ 2019 ■ 2020
 Governmental Funds Only



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



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.

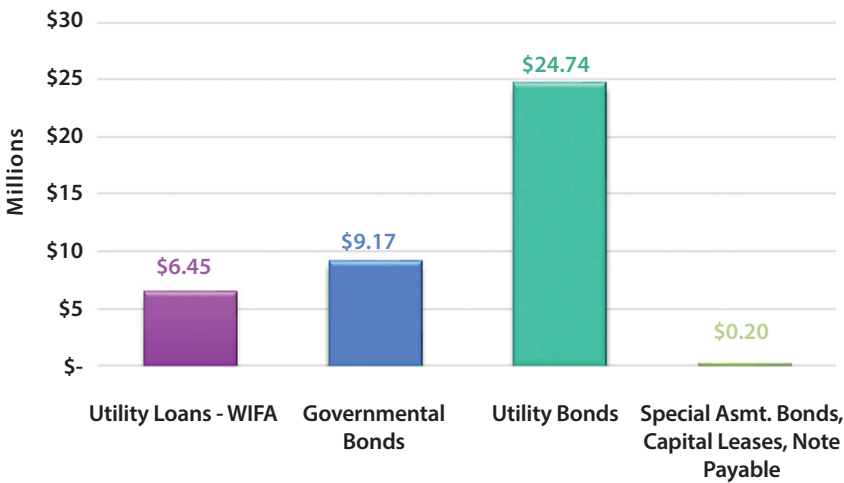
The Five-Year Historical Comparison chart provides a snapshot of the Town's revenue and expenditure growth for the last five fiscal years. Revenue growth through FY 2019/20 reflects increased sales tax collections and state-shared revenues.



DEBT & FINANCIAL RATINGS

As of June 30, 2020, the Town had \$40.6 million in long-term debt outstanding with \$5.3 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, 2020.

Outstanding Debt Obligations as of June 30, 2020



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.

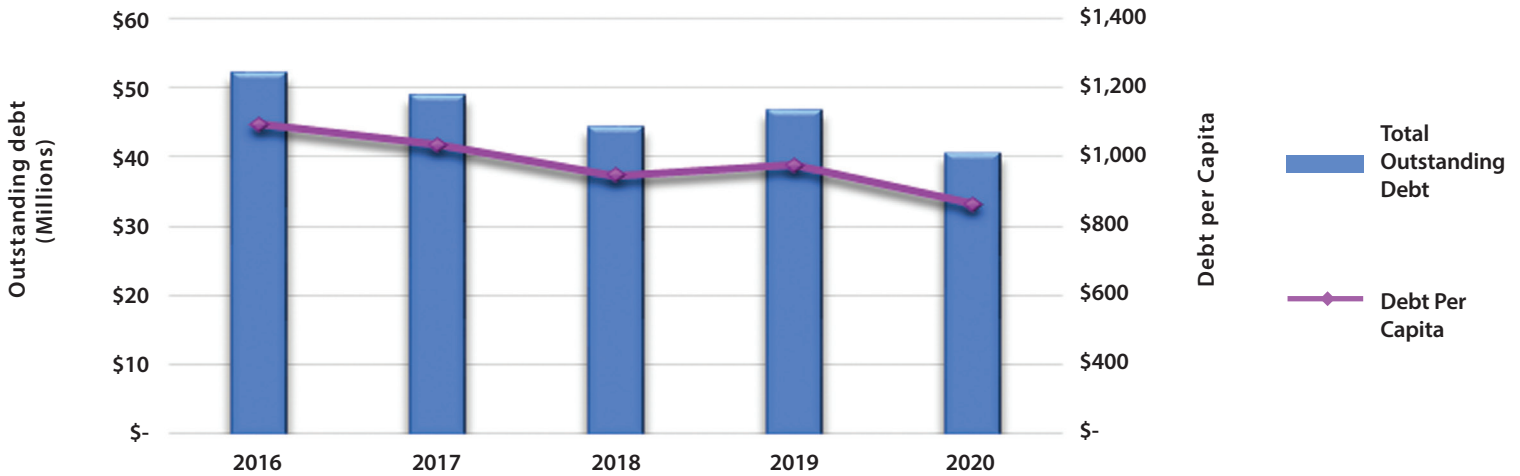
The Town continues to maintain strong investment grade ratings on its outstanding excise tax bonds, which are rated 'AA' by Fitch and 'AA+' by Standard and Poor's. This is largely achieved by the Council's goal of continuing to diversify the Town's revenue base and maintaining strong fund balance reserves in the General Fund, currently at \$20.9 million, or 47% of FY 2020/21 adopted expenditures of \$45 million.

What they're saying...

Fitch Ratings upgraded the Town's Water Utility revenue bonds to 'AA' from 'AA-'

Fitch noted improved performance in the current financial profile over the past several years, including very strong revenue defensibility bolstered by affordable rates and continued growth.

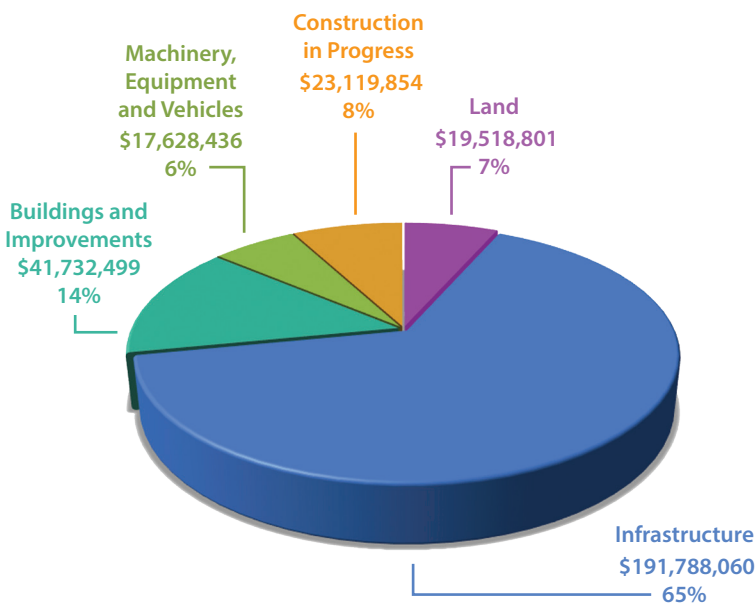
Five Year Historical Comparison Total Outstanding Debt & Debt Per Capita



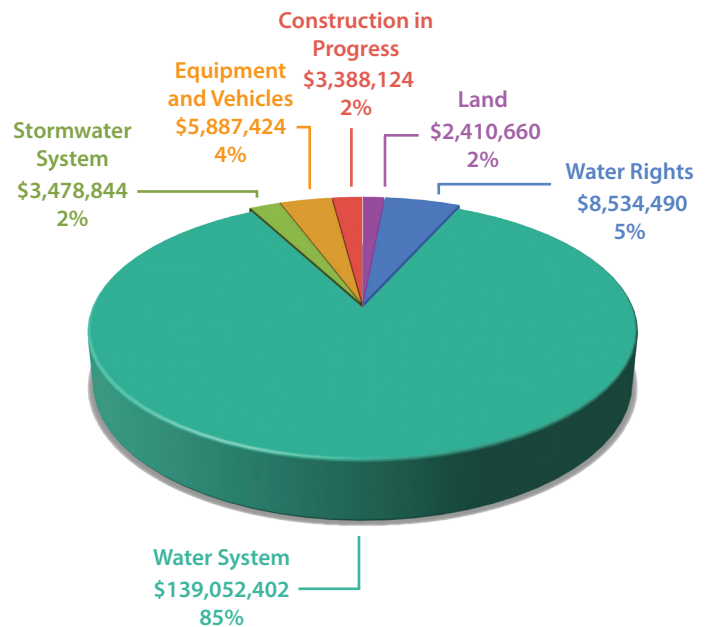
TOWN ASSETS

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. At June 30, 2020, the Town had invested \$267.8 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 OUTLOOK AND FUTURE FOCUS

Healthy economic growth is being observed at both the local and state levels, which has impacted the Town's revenue collections for FY 2019/20, and is expected to continue into FY 2020/21, despite the emergence of COVID-19. The Town continues to provide services and programs without a property tax to fund operations and, therefore, is dependent upon state-shared revenues and local sales tax as major sources of revenue for its operating and capital expenditures. These sources accounted for approximately 86% of total General Fund revenue for FY 2019/20.

Local sales tax collections totaled \$22.7 million for FY 19/20, which represents only a \$518,000 or 2.2% decrease over the last fiscal year. Given the onset of the global COVID-19 pandemic beginning in the fourth quarter of FY 19/20, this reduction was far less than originally anticipated.

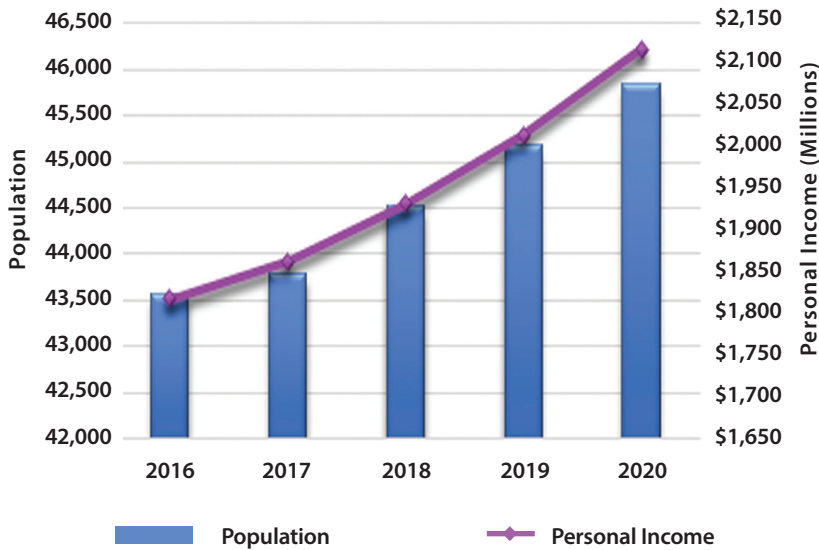
Projected residential development is strong over the next two- to three-year period. In FY 2019/20, the Town estimated that 300 single family residential (SFR) building permits would be issued; a total of 275 were issued by year-end. The FY 2020/21 budget includes the assumption that 225 SFRs will be issued during the year as the COVID-19 pandemic would cause a slowdown of home building in the region.

Critical to the Town's financial success is the preparation of realistic growth assumptions that help guide the Town's revenue projections. There continues to be healthy economic growth in Oro Valley, the Tucson metropolitan region and state-wide. Arizona remains well-positioned to recover and outpace the nation and most states in jobs, income and population. The state and the Tucson Metropolitan Statistical Area (MSA-region) is forecast to return to pre-pandemic employment levels by mid-2021. With Oro Valley's 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.

For FY 2020/21, the Town will focus its efforts on supporting the elements of the Town Council adopted Strategic Leadership Plan all while navigating uncertainty and likely revenue disruptions caused by COVID-19.

These strategies will be fulfilled in a number of different ways, including: dedicated funding towards the Town's Public Safety Retirement System (PSPRS) unfunded liability; continued funding of the Town's Pavement Preservation Program, which maintains the current condition of Town streets; investments in Town facilities and infrastructure including funding for enhancing the overall condition of parks and recreational facilities, a new playground structure for Naranja Park, renovations at the historic Steam Pump Ranch, and investments in the Town's water infrastructure.

Town Demographic & Economic Statistics



Town Employment Statistics

Principal Employers in Oro Valley

	Employees	% of Total Town Employment
Ventana Medical Systems	1,710	8.85%
Oro Valley Hospital	700	3.62%
Amphitheater Public Schools	600	3.11%
Town of Oro Valley	590	3.05%
Wal-Mart Supercenter	390	2.02%
Hilton El Conquistador Resort	340	1.76%
Casa De La Luz Foundation	260	1.35%
Fry's Food & Drug	200	1.04%
Target	180	0.93%
Securaplane Technologies Inc	180	0.93%

