



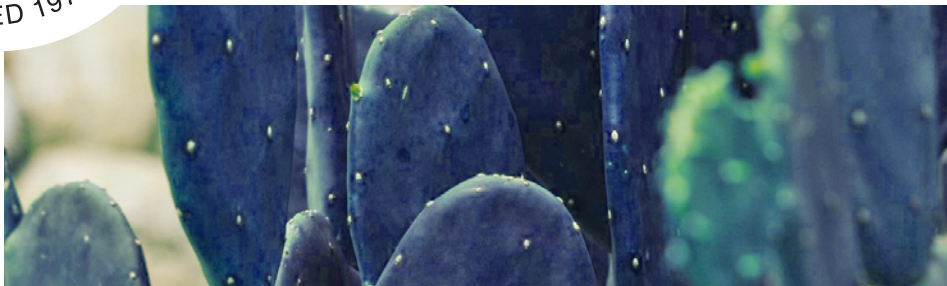
Photo credit: Paul Livingston, "Whispy"

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Town of **ORO VALLEY, ARIZONA**
POPULAR ANNUAL FINANCIAL REPORT
 Fiscal Year ended June 30, 2022





OVERVIEW

The Town of Oro Valley is proud to present its eleventh annual Popular Annual Financial Report (PAFR) prepared by the Finance Department. 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 Annual Comprehensive Financial Report (ACFR). The ACFR 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 Baker Tilly, LLP, a certified public accounting firm. 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 ACFR 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.

[CLICK HERE TO VIEW ACFR](#)

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ORO VALLEY TOWN COUNCIL



Left to right:

- Josh Nicolson, Councilmember
- Harry “Mo” Greene, II, Councilmember
- Joyce Jones-Ivey, Councilmember
- Joe Winfield, Mayor
- Melanie Barrett, Vice Mayor
- Steve Solomon, Councilmember
- Tim Bohem, 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	48,222 (Arizona Commerce Authority)
# OF HOUSEHOLDS (US CENSUS ESTIMATE)	20,971
BACHELOR'S DEGREE OR HIGHER (AGE 25+)	55.4%
MEDIAN INCOME (US CENSUS ESTIMATE)	\$86,863
# OF PARKS	7
PARK ACRES MAINTAINED	449
TRAILS AND PATHS	56 miles
PUBLIC STREET LANE MILES MAINTAINED	430 miles
2022 BUDGET	\$161.96 million



MESSAGE *from the* INTERIM TOWN MANAGER



Chris Cornelison
Interim Town Manager

We are pleased to present the Town of Oro Valley Popular Annual Financial Report (PAFR) for fiscal year 2021/22. This is the eleventh 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 ten years with their Popular Annual Financial Reporting Award. The Town is one of only sixteen 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.

The Town demonstrated strong financial performance during fiscal year 2021/22. In the General Fund, our main operating fund, revenues exceeded budget by nearly \$8.5 million. Through a combination of strong revenue growth and expenditure savings, the Town reduced its use of fund balance in the General Fund from a budget of \$17.2 million to just over \$2 million. General Fund reserves total \$30.4 million, or 63% of budgeted expenditures for the coming fiscal year.

The Town's disciplined approach to budgeting, adherence to strong financial management principles and policies, and a track record of prudent financial decision-making help 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.

We hope that our 2022 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,

Chris Cornelison, Interim Town Manager



FY 21/22 ACCOMPLISHMENTS

ACCOLADES

Through a combination of \$10 million in cash reserves and the issuance of pension obligation bonds, deposited \$27.6 million into the Public Safety Pension Retirement System to apply towards the Town's outstanding pension liability.

Received the Certificate of Achievement for Excellence in Financial Reporting Award, Distinguished Budget Presentation Award and Popular Annual Financial Reporting Award from the Government Finance Officers Association.

Issued excise tax bonds at an 'AA+' Standard & Poor's rating to provide \$25 million in funding for various parks and recreation amenities and improvements, including Naranja Park improvements, Community Center and golf course irrigation improvements, and multi-use paths.

Ended FY 2021/22 with a \$30.4 million fund balance in the General Fund, exceeding budget expectations by \$13.2 million.

Revised and updated comprehensive Town Financial and Budgetary Policies.

Recorded the second tranche of the Town's \$15.4 million federal American Rescue Plan Act funding.

Staff is finalizing the details of an incentive Agreement with Leonardo Electronics US Inc. to build a new state-of-the-art semiconductor laser manufacturing facility in Oro Valley's Innovation Park. This effort would bring new jobs to the Town and lead to millions of dollars in capital investment and economic impact.

★ **Oro Valley Among Safest Places to live in Arizona**
Elie Personal Finance 2022

★ **BASIS Oro Valley recognized as one of the "Best High Schools in Pima County"**
Niche.com

★ **OV Police Chief Kara Riley named Top Community Leader**
Tucson Local Media 2021

★ **Naranja Park voted Best Community Park**
Tucson Local Media 2021

★ **Chuck Huckleberry Loop voted Best Recreational Trail**
USA Today 2021

★ **Safest Cities in Arizona**
Safewise 2021

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, 2021. 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, 2021

Christopher P. Morrill
Executive Director/CEO

STATEMENT OF NET POSITION

This Statement of Net Position is presented in much more detail in the Town’s Annual Comprehensive 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, 2022

	<u>2022</u>	<u>2021</u>
Assets		
Current assets and other assets	\$ 114,318,253	\$ 91,167,953
Capital assets, net	306,544,971	303,359,591
Total assets	420,863,224	394,527,544
Deferred outflows	36,546,659	12,557,173
Liabilities		
Current and other liabilities	23,644,172	21,046,106
Long-term liabilities	103,976,358	83,270,594
Total liabilities	127,620,530	104,316,700
Deferred inflows	12,633,621	914,101
Net Position	\$ 317,155,733	\$ 301,853,916

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 addition of \$24.6 million in current assets for governmental activities, largely attributable to \$21.1 million in parks and recreation bonds issued in November 2021.
- The addition of \$10.3 million and \$3.9 million for governmental activities and business-type activities, respectively, in accumulated depreciation due to depreciation expense.
- The addition of \$12.8 million and \$3.6 million for governmental activities and business-type activities, respectively, in capital assets related to buildings and improvements, infrastructure and water systems.

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.

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

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

Net Position is the difference between assets plus deferred outflows and liabilities plus deferred inflows, 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 its financial activity for the Town during the fiscal year ended June 30, 2022. 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 Annual Comprehensive Financial Report.

Statement of Activities for the year ended June 30, 2022

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

	<u>2022</u>	<u>2021</u>
Revenues	\$ 91,793,200	\$ 112,999,569
Expenses	76,510,383	77,707,416
Change in net position	15,282,817	35,292,153
Net position, beginning of year, restated	301,872,916	266,561,763
Net position, end of year	\$ 317,155,733	\$ 301,853,916

The Statement of Activities shows that the Town’s total net position has improved over the beginning net position. The decrease of \$1.2 million in total expenses is primarily due to a reduction in the Town’s pension expenses. Total revenues decreased \$21.2 million primarily due to the prior year recording a property donation and a decrease in federal stimulus funding.



Photo credit: Steve Prull, "Costa's Hummingbird"

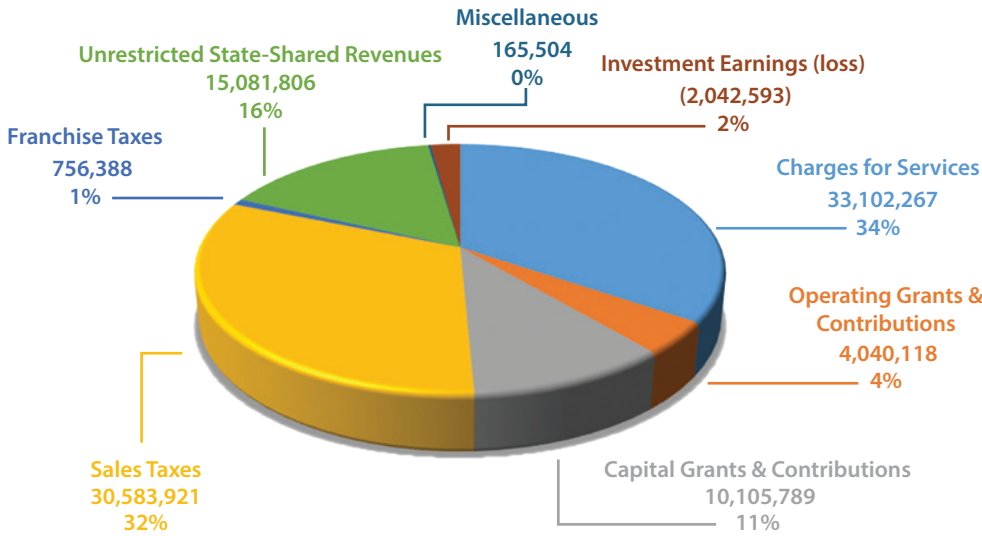


REVENUES

Where the money comes from

Revenues by Source

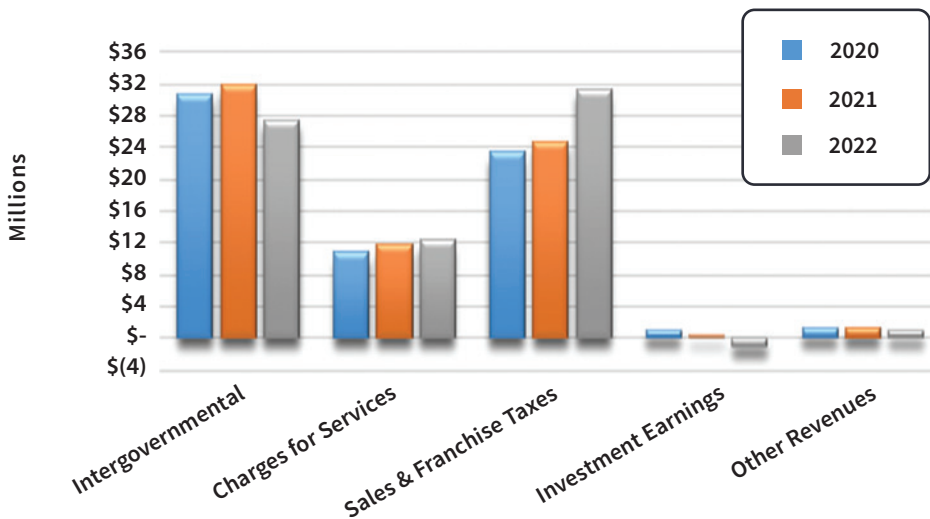
Includes Governmental & Business-Type Activities



This chart illustrates the sources and percentages of the Town’s revenues totaling \$91.8 million for FY 2021/22. The Town’s primary revenue sources during 2022 include charges for services, sales taxes and unrestricted state shared revenues. Together these three categories represented 86% of all revenue collections in FY 2021/22.

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, as well as unrealized increases or decreases in the fair value of investments.



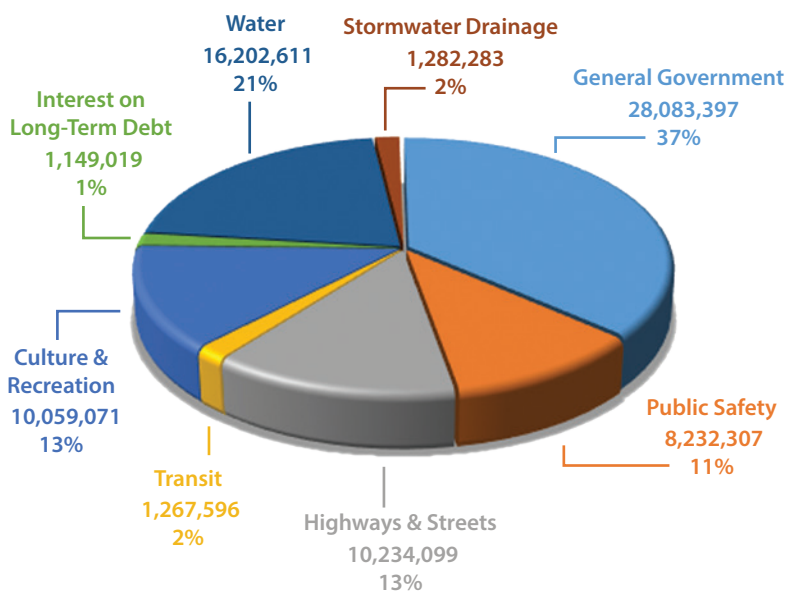
EXPENSES

Where the money goes

This chart illustrates the uses and percentages of the Town's expenses across all funds totaling \$76.5 million for FY 2021/22. The majority of expenses relate to general government operations, Water Utility operations, and highways and streets. More than two-thirds of the Town's total expenses (71%) are from these three areas. Total expenses decreased by \$1.2 million primarily due to a reduction in the Town's pension expenses.

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.

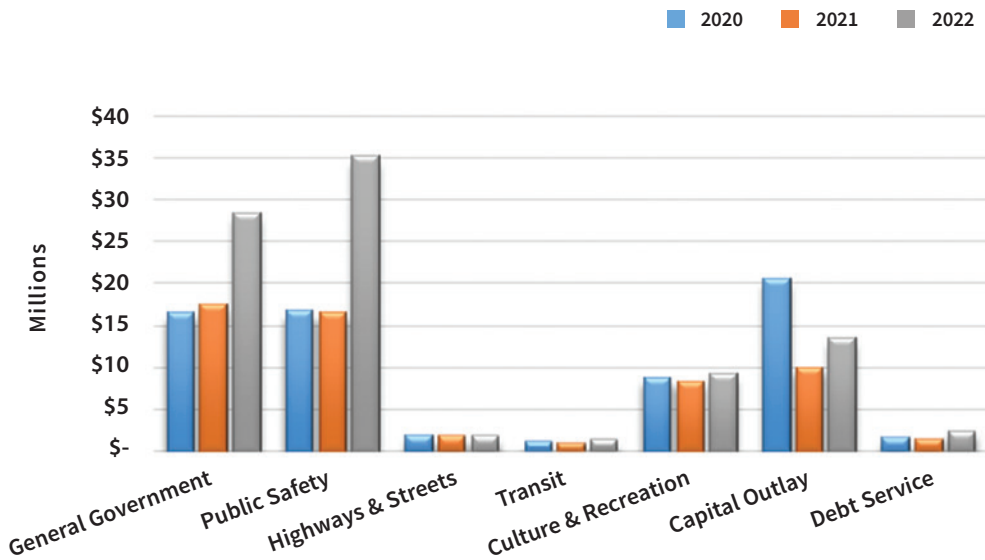
Transit expenses are those related to the operation of the Sun Shuttle Dial-a-Ride service funded through a partnership with the Regional Transportation Authority (RTA).

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 leases. This does not include any interest costs on water-related debt.

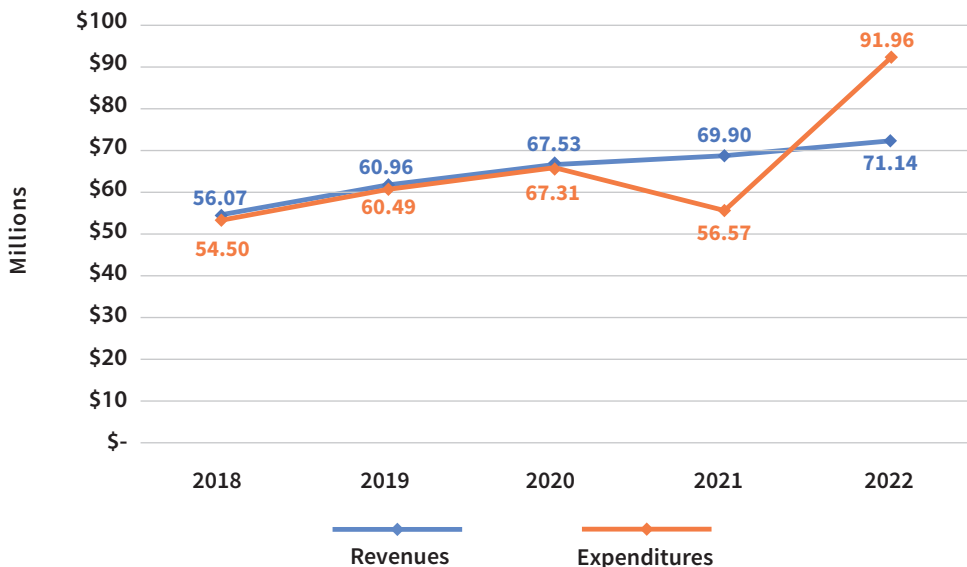


Three-Year Historical Comparison - Expenditures Governmental Funds Only



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.

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

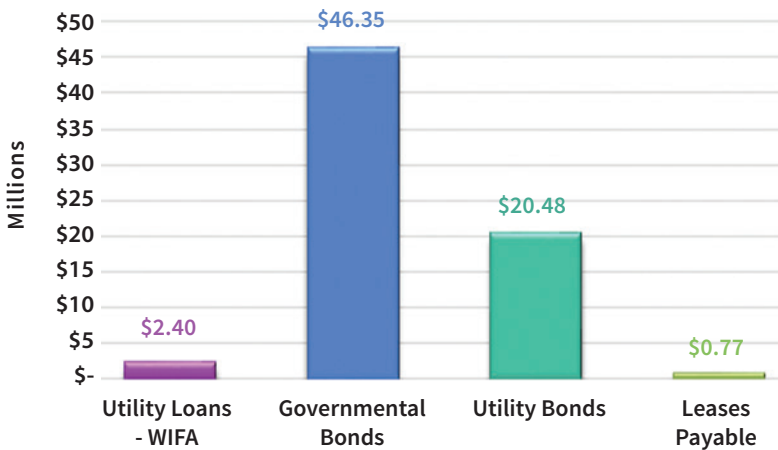


The Five-Year Historical Comparison chart provides a snapshot of the Town's revenue and expenditure growth for the last five fiscal years. Revenue growth through FY 2021/22 reflects increased sales tax collections, state-shared revenues and permit fees. The expenditure increase for FY 2021/22 was due primarily to increased general government and public safety expenditures.

DEBT & FINANCIAL RATINGS

As of June 30, 2022, the Town had \$70.0 million in long-term debt outstanding with \$7.7 million due within one year. Long-term debt increased by \$33.7 million due to \$5.4 million in maturities and redemptions, offset with \$39.1 million issued during the fiscal year. The chart below depicts the Town's outstanding debt for the fiscal year ended June 30, 2022.

Outstanding Debt Obligations as of June 30, 2022



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. These ratings indicate high quality investments with very strong capacity for payment of financial commitments. Similar to a personal credit score, the higher the debt rating, the lower the cost of borrowing, saving the Town and its residents money on debt issuances. 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 \$30.4 million, or 63% of FY 2022/23 adopted expenditures of \$48.1 million.

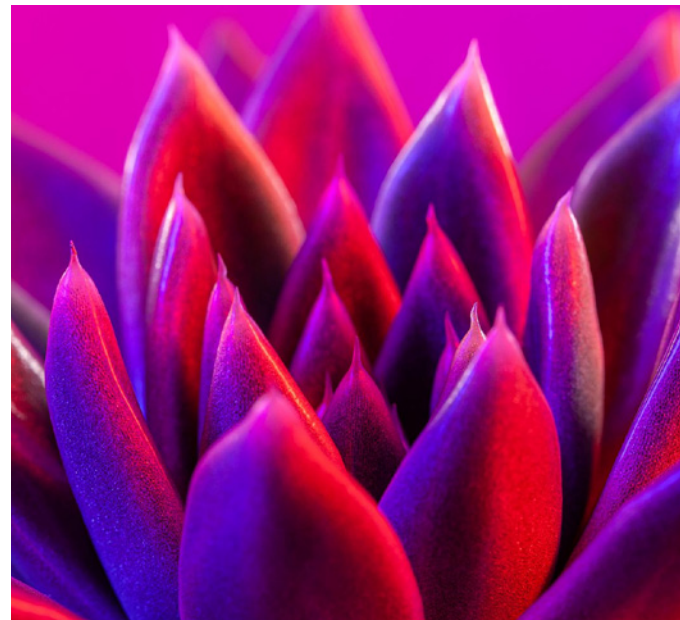
WHAT IT MEANS

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.

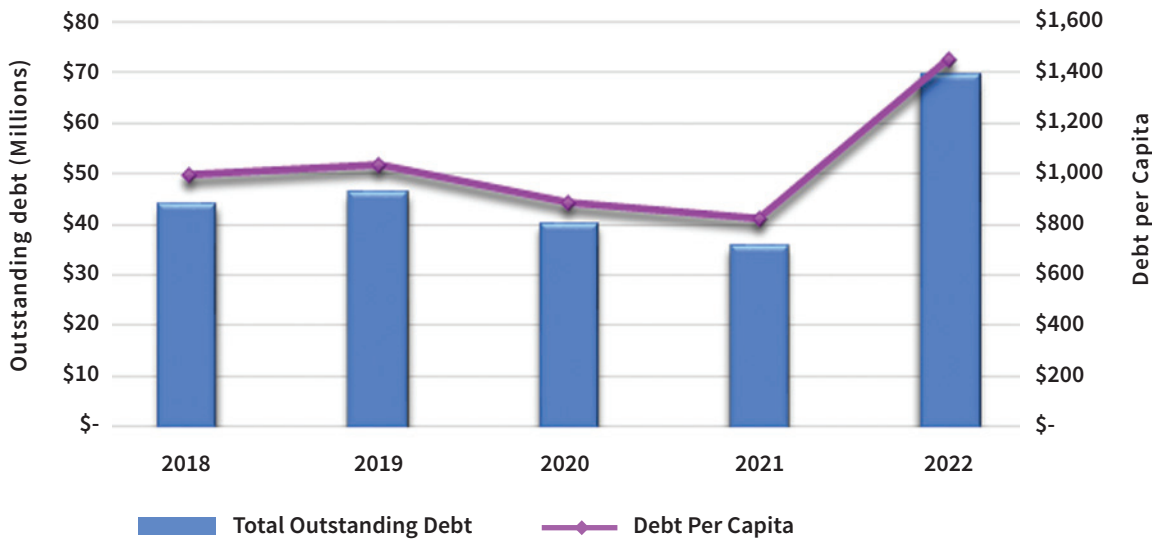
Governmental Bonds are used to finance long-lived capital improvements, including land acquisition and construction or improvement of Town facilities. The Town's excise taxes are pledged as repayment of the debt.

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.

Leases Payable reflects future payments due on equipment leases entered into by the Town.



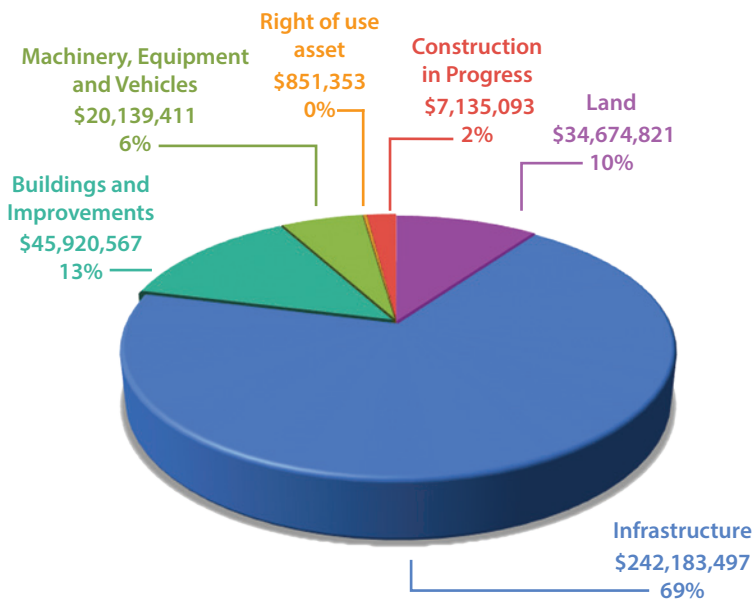
Five Year Historical Comparison
Total Outstanding Debt & Debt Per Capita



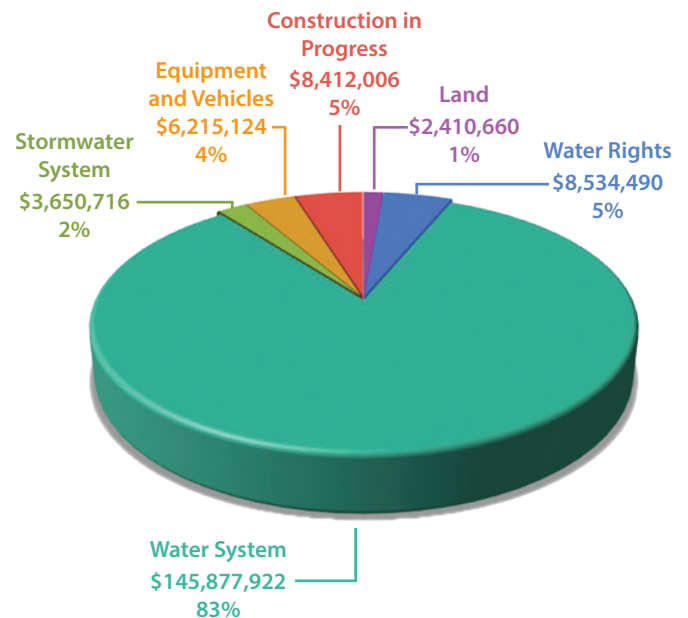
TOWN ASSETS

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 result in or make 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, 2022, the Town had invested \$306.5 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 OUTLOOK AND FUTURE FOCUS

Healthy economic growth continued through FY 2021/22. Recovery from the COVID-19 pandemic, strong construction activity, and inflation resulted in a 27% year-over-year increase in local sales tax collections. Collections totaled \$30.6 million for FY 2021/22, which represents a \$6.5 million increase over the last fiscal year. This increase was far greater than anticipated and a nice surprise. The Town continues to provide services and programs without a property tax to fund operations and, therefore, is dependent upon local sales tax and state-shared revenues as major sources of revenue for its operating and capital expenditures. These sources accounted for approximately 76% of total General Fund revenue for FY 2021/22.

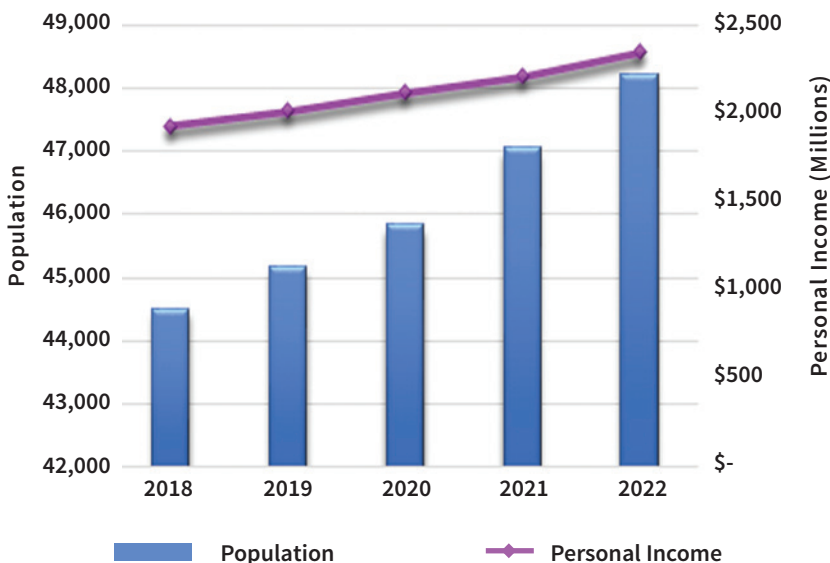
Critical to the Town’s financial success is the preparation of realistic growth assumptions that help guide the Town’s revenue projections. Despite inflation, interest rate hikes and potential recession, there continues to be healthy economic growth in Oro Valley, the Tucson metropolitan region and state wide. Arizona continues to do well in national economic rankings and remains the fourth-fastest growing state in population growth. Last year, personal income growth in Arizona was the highest in the nation. 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.

Future population and economic growth of the Town depend largely on continued available land for development; therefore, strategic annexation efforts and discussions are ongoing as a means to address the potential for future buildout within existing Town boundaries. While strong state population growth continues to increase shared revenues, legislative changes made at the state level have a far greater potential for impacts to this major revenue source for the Town. Statutory income tax rate reductions and a cap of 2.5% will limit growth in shared income tax revenues to about 2% per year.

In the near term, projected commercial and residential development should be steady over the next two to three-year period. Residential activity has returned to a more normal historical pattern, after a 15-plus year high in FY 2020/21. In FY 2021/22, the Town estimated that 275 single family residential (SFR) building permits would be issued; a total of 198 were issued by year-end. Despite this variance, revenues exceeded budget due to higher construction valuations and greater residential improvement activity. The FY 2022/23 budget assumes 171 SFRs will be issued during the year.

For FY 22/23, the Town will focus its efforts on supporting elements of the Town Council adopted Strategic Leadership Plan while navigating any potential economic slowdown that may occur. These strategies will be fulfilled in a number of ways, including: investments in Naranja Park, Community Center improvements and multi-use paths; continued funding of the Town’s Pavement Preservation Program, which maintains the current condition of Town streets; and investments in the Town’s water system, ensuring that we continue to provide a safe, reliable and sustainable water supply to meet community needs.

Town Demographic & Economic Statistics



Town Employment Statistics

Principal Employers in Oro Valley

	Employees
Roche Tissue Diagnostics	1,800
Amphitheater Public Schools	584
Simpleview	450
Town of Oro Valley	442
Oro Valley Hospital	421
El Conquistador Tucson, A Hilton Resort	270
Fry's Food and Drugstore	270
Walmart	194
Splendido at Rancho Vistoso	190
Casa de la Luz Hospice	160