

Memo of Interest

To: Honorable Mayor and Council
From: Scott McCarty, Finance Director
Through: Bruce Gardner, Town Manager
Date: 10/24/2024
Re: Operating Budget Financial Report – FY 2023-24 Year-to-Date Results

Attached for your review are the preliminary FY 2023-24 results for the Operating Budget through June 2024. The Operating Budget includes activity in the General Fund, the Streets Fund (Highway User Revenue Fund), the Emergency Management Services Fund (EMS), and the Horseshoe Park and Equestrian Center Fund (HPEC). This report will also be available on the Town's website on the Finance Department Reports and Documents page.

Final results for the Operating Budget FY 2023-24 will be available once the audit is complete in December.

We welcome your feedback on the report format and content. For more information, please contact Dan Olsen at dan.olsen@queencreekaz.gov.



TOWN OF
QUEEN CREEK
ARIZONA

FY 23-24

Financial Report

Operating Budget to Actual Performance

Fiscal Year to Date through June 2024

PRELIMINARY

(Unaudited)

Issued October 24, 2024

The information herein is provided for reference only, is not intended to contain information material to a decision to purchase or sell obligations, and does not, and is not intended to, indicate future or continuing trends of the financial condition or other affairs of the Town. No representation is made as to the materiality of such information. Any budgeted information, unaudited information, forecasts, projections, opinions, assumptions or estimates contained herein are "forward looking statements" that must be read with an abundance of caution and may not be realized or may not occur in the future.

Executive Summary

The Town's budget-to-actual performance for FY 23-24 reported favorable variances for both revenues and expenses. Actual revenues performed well, with receipts exceeding expectations by \$10.6M (7%). This is mainly the result of Construction Sales Tax and Building Permit revenues performing better than expected due to continued residential and commercial growth in the Town and a strong local economy. Operating Budget revenues through June were \$29.7M (22%) higher than the same period last fiscal year.

The FY 23-24 revised budget included an estimate of 1,282 new single-family permits and 738 multi-family units, for a total of 2,020 residential units. Through June 2024, the Town issued 1,681 single-family building permits and 599 multi-family units, for a total of 2,280 residential units, or 113% of the annual total. Because we estimate that the same number of people live in both types of homes, the Town's population growth is expected to be in line with our estimates once those units are complete. This growth continues to drive higher revenues, especially sales tax and state-shared revenues.

Total expenses this year were \$14.0M (10%) below budget. This favorable variance comes from a combination of vacancy savings in personnel costs and savings in several expenditure categories including contracted IT services, plan review contract services, vehicle maintenance and fuel, small tools & equipment, uniforms, training/travel, and contracts for consulting and legal services. In November 2023, the Town was able to reduce \$1.7M from departments' operating budgets to better align with historical trends and current needs, which lowered the year-end expense variance.

The Revised Operating Budget anticipated that total revenues would exceed total expenses (before transfers) by \$20.8M. However, actual results were better than expected with revenues coming in \$45.2M above expenses, an improvement of \$24.4M (117%).

The Operating Budget is projected to end the fiscal year with a record-high fund balance of \$153.3M broken down as follows:

- \$38.4M in the 25% Operating Reserves
- \$47.5M in PSPRS and ASRS pension reserves
- \$12.8M in the PAYGO Infrastructure Reserve (New Policy)
- \$3.0M in the newly created Road Replacement reserve
- \$0.8M restricted for road maintenance projects funded by HURF revenues
- \$6.9M reserved for carry-forward encumbrances
- \$43.9M unreserved fund balance

While the national media focus on geopolitical events, Federal Reserve policies, the stock market, and national elections, the Arizona economy remains diversified with strong fundamentals and low unemployment. Still, inflation and fluctuating interest rates are impacting the local and regional housing markets in ways not seen in years. New single-family housing starts remain robust in Queen Creek, but higher mortgage interest rates have kept many would-be homebuyers on the sidelines. Multi-family developments continue to add a significant number of new units to the Town's housing stock.

Total population growth will continue to drive new commercial development and maintain the Town's steady revenue growth. Pages 10-12 of this report contain economic indicators and housing market data that staff is following closely.

Operating Budget

The Operating Budget includes activity in the General, Streets (HURF), Emergency Services, and Horseshoe Park Equestrian Center (HPEC) funds. The schedule below is a summary of the FY 23-24 Operating Budget results for the fiscal year through June. Actual revenues exceeded the year above expenses (before transfers) by \$45.2M due to strong revenue growth and expense savings. This compares favorably to the revised budget that estimated revenues would exceed expenses by \$20.8M.

The expense budget reflects \$7.4M that was carried forward from the previous fiscal year to provide spending authority for various projects and equipment needs, including \$6.7M for vehicles and equipment that vendors were unable to deliver before the end of last fiscal year. It also includes \$1.7M of reductions to departments' operating budgets based on an analysis of historical spending trends and a \$3.4M reduction to debt service transfers based on updated debt service costs.

The Town's total Operating fund balance increased by \$15.7M and ended the fiscal year at \$153.3M. Of this total, \$47.5M is reserved for pension funding and \$38.4M is reserved for operations based on the Town's 25% Reserve Policy. Notably, both pension reserves are fully funded, representing 100% of the Town's estimated unfunded pension liabilities for the Operating Budget as of June 30, 2023.

Other restrictions on fund balance include \$3.0M for the Road Replacement reserve, \$0.8M for future HURF projects, and \$12.8M for the new PAYGO Infrastructure Reserve. The PAYGO Reserve represents the amount of General Fund Construction Sales Tax in excess of \$10 million, which is a new policy reserve approved by the Town Council during the FY 24-25 budget development process. After an allowance of \$6.9M for carry-forward purchase orders, the remaining fund balance of \$43.9M is available to fund future policy objectives at the direction of the Town Council.

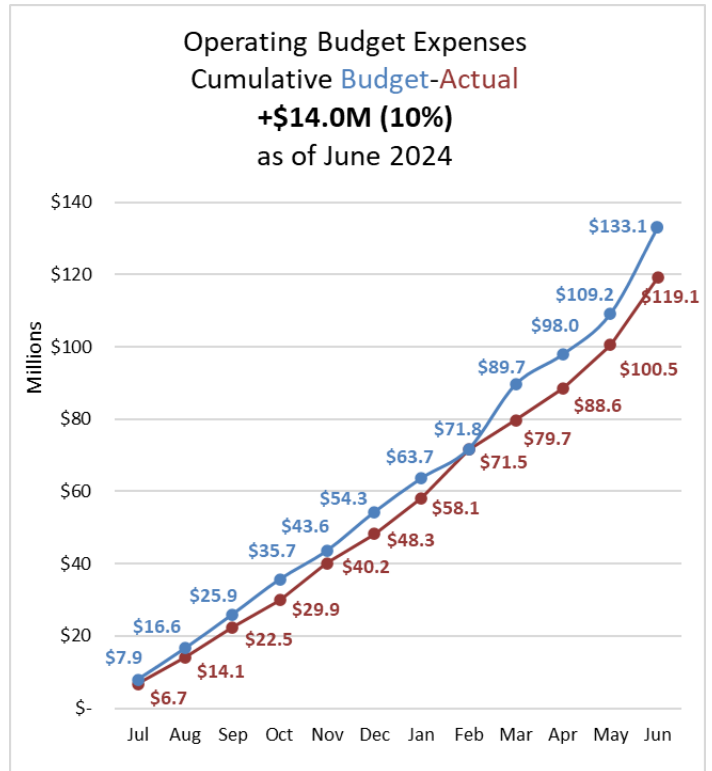
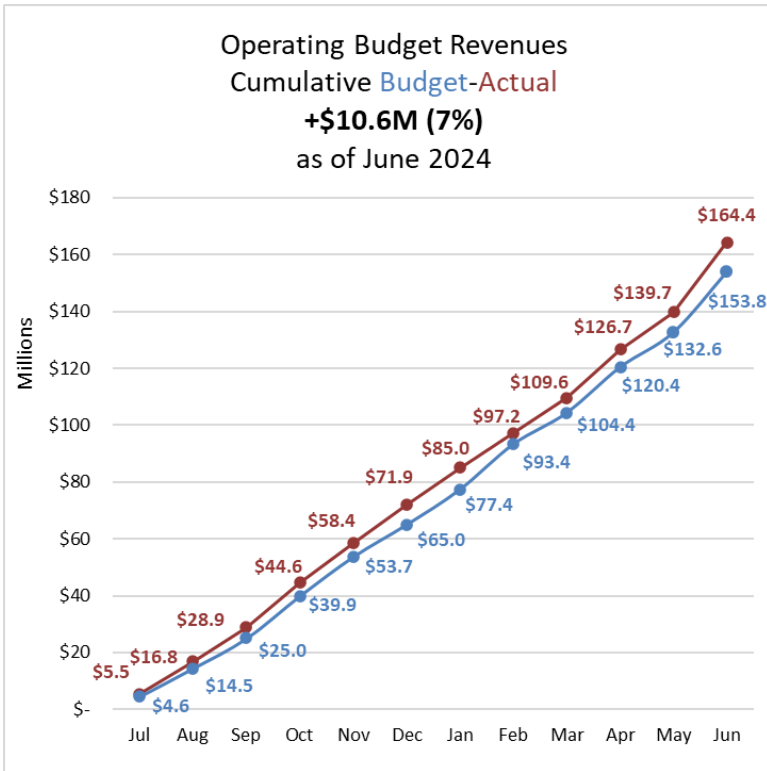
Summary FY 23-24 Operating Budget - June 2024

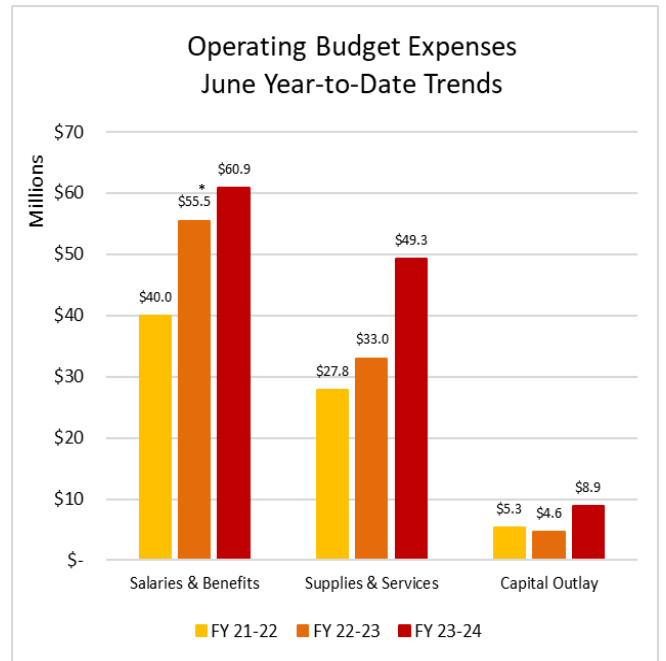
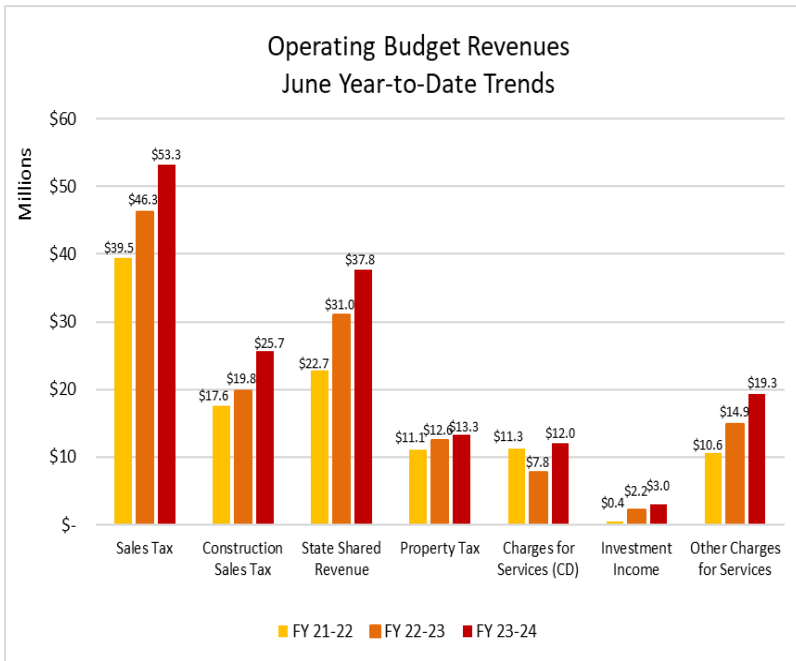
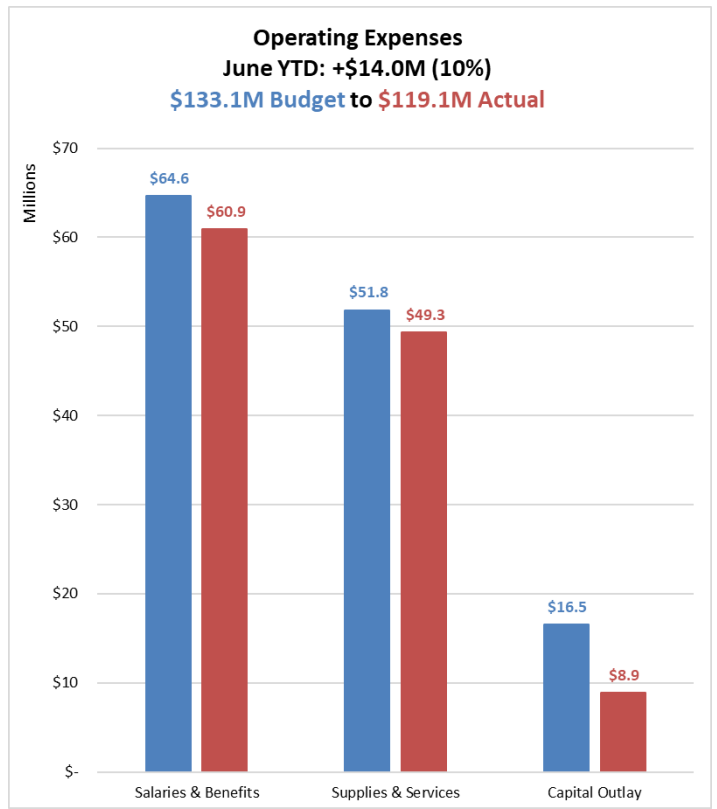
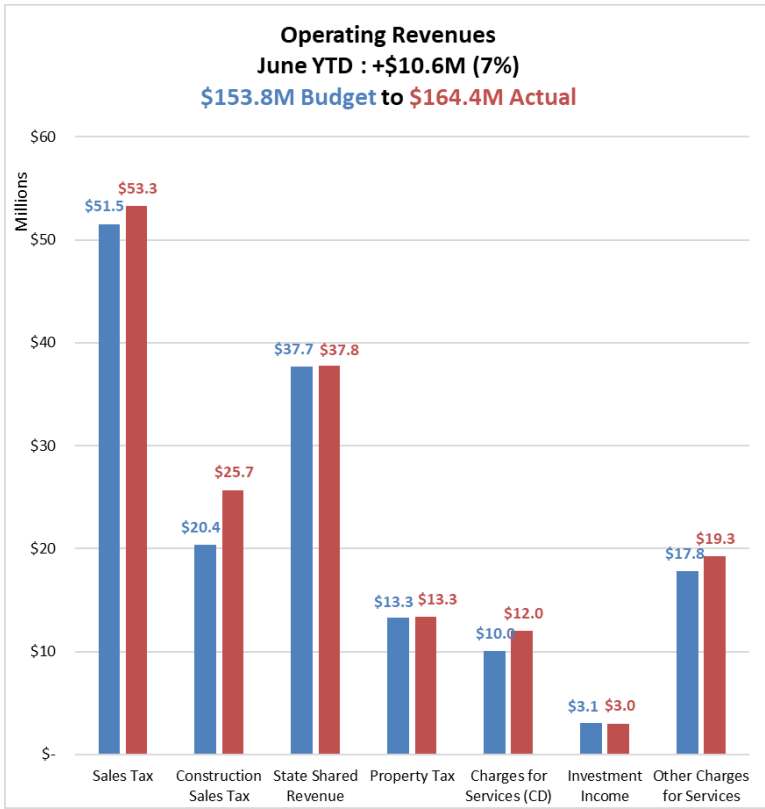
	FY 23-24 Total Adopted Budget	FY 23-24 Total Revised Budget	FY 23-24 Year-to-Date Budget	FY 23-24 Year-to-Date Actual
Revenues	\$ 148,736,137	\$ 153,807,431	\$ 153,807,431	\$ 164,350,626
Expenses	113,284,677	133,051,261	133,051,261	119,112,922
Operating Results	\$ 35,451,460	\$ 20,756,170	\$ 20,756,170	\$ 45,237,703
Transfers In:				
Adjustments for Prior-Year CIP Transfers	\$ -	\$ 778,280	\$ 778,280	\$ 778,280
Transfers Out:				
Debt Service	\$ 19,424,264	\$ 18,210,525	\$ 18,210,525	\$ 18,206,425
CIP	3,560,000	12,724,780	12,724,780	11,873,418
Adjustments for Prior-Year CIP Transfers	-	188,307	188,307	188,307
Net Transfers Out	\$ (22,984,264)	\$ (30,345,332)	\$ (30,345,332)	\$ (29,489,871)
Net Operating Results	\$ 12,467,196	\$ (9,589,163)	\$ (9,589,163)	\$ 15,747,833
Beginning Fund Balance	\$ 116,977,985	\$ 137,589,370		\$ 137,589,370
Ending Fund Balance	\$ 129,445,181	\$ 128,000,207		\$ 153,337,203
25% Revenue Reserve	\$ 38,851,425	\$ 38,851,425		\$ 38,442,632
Police Unfunded Pension Liability Reserve	19,334,929	19,334,929		19,334,929
ASRS Unfunded Pension Liability Reserve	24,639,443	24,639,443		28,169,781
HURF Funds Reserved by Statute	344,675	344,675		826,455
Road Replacement Funding Reserve	3,000,000	3,000,000		3,000,000
PAYGO Infrastructure Reserve	-	8,117,724		12,841,668
Allowance for Carry-Forward Encumbrances	-	-		6,868,876
Available Fund Balance	43,274,709	33,712,011		43,852,862
Total Fund Balance	\$ 129,445,181	\$ 128,000,207		\$ 153,337,203

FY23-24 Year-to-Date Results - June 2024

	YTD		Variance		Total	YTD Actual
	Budget	Actual	Favorable (Unfavorable)		FY 23-24 Budget	as % of Total Budget
Revenues						
Sales Tax	\$ 51,532,217	\$ 53,256,308	\$ 1,724,091	3%	\$ 51,532,217	103%
Construction Sales Tax	20,382,440	25,696,876	5,314,436	26%	20,382,440	126%
State Shared Revenue	37,654,434	37,754,273	99,839	0.3%	37,654,434	100%
Property Tax	13,285,644	13,343,224	57,580	0.4%	13,285,644	100%
Charges for Services (CD)*	10,040,000	12,020,066	1,980,066	20%	10,040,000	120%
Investment Income	3,089,350	3,013,428	(75,922)	(2%)	3,089,350	98%
Other Charges for Services	17,823,346	19,266,450	1,443,104	8%	17,823,346	108%
Total Revenues	\$ 153,807,431	\$ 164,350,626	\$ 10,543,195	7%	\$ 153,807,431	107%
Expenditures						
Salaries & Benefits	\$ 64,647,979	\$ 60,887,590	\$ 3,760,389	6%	\$ 64,647,979	94%
Supplies & Services	51,836,797	49,315,457	2,521,340	5%	51,836,797	95%
Capital Outlay	16,509,248	8,909,875	7,599,372	46%	16,509,248	54%
Contingency	57,238	-	57,238	-	57,238	-
Total Expenditures	\$ 133,051,261	\$ 119,112,922	\$ 13,938,339	10%	\$ 133,051,261	90%

*Consists of Community Development Charges for Services including permits, planning and engineering fees





* Note: FY 22-23 Salaries & Benefits costs included a one-time \$7M payment to the PSPRS Police Pension Plan in December 2022. Without this payment, the FY 22-23 total personnel costs were \$48.5M.

Revenue Analysis

For FY 23-24, actual revenues ended the fiscal year with a 7% favorable variance compared to budget estimates. The variances of the Revenue Categories are explained below.

Sales Tax

Sales Tax revenues were \$1.7M (3%) above the revised budget estimate. This positive performance reflects the Town’s continued growth in population and new commercial developments in Queen Creek, as well as the impact of inflation on the prices of taxable items. Based on foot traffic data from Buxton Mobilytics, the rolling annual total visits to the Town Center area (a major shopping area in Town) has increased by about 29% in the last 12 months, including traffic over the past calendar year from Costco, Ashley Furniture, and Hobby Lobby. Also, for the same period, 29% of visits to the Town Center area were made by individuals who live in zip codes outside of the Town (areas such as San Tan Valley, Florence, and Eastmark). Please refer to the Sales Tax Report (Appendix 1) for additional analysis of sales tax activity.

Construction Sales Tax

Construction Sales Tax revenues were \$5.3M (26%) above the revised budget estimate. This positive variance comes from completion of new homes that were permitted several months ago as well as from continued strong commercial construction activity. Also, similar to sales tax, persistent inflation has increased the cost of construction projects, which in turn increases the amount of construction sales tax paid on those projects. Please refer to the Sales Tax Report (Appendix 1) for additional analysis of construction sales tax activity.

State-Shared Revenue

State-shared revenues ended the year \$100K (0.3%) above the revised budget estimate. The state-shared revenue estimates were revised downward in February, mostly in HURF and Vehicle Licensing Tax revenues, based on reports from the Joint Legislative Budget Committee (JLBC). Still, the state’s economy remains strong, and the Town’s fast-growing population relative to the rest of the state has increased the Town’s proportionate share of distributions for all state-shared revenue categories. This fiscal year, the Town’s state-shared revenues were \$6.8M (22%) higher than the same period last year.

Property Tax

Property taxes matched budget, with a positive variance of only \$58K (0.4%). The Town receives the majority of its property tax distributions in October and November, and the remainder in April and May, due to Arizona’s statutes that allow property owners to pay their annual property taxes in two installments.

Charges for Services – Community Development (CD)

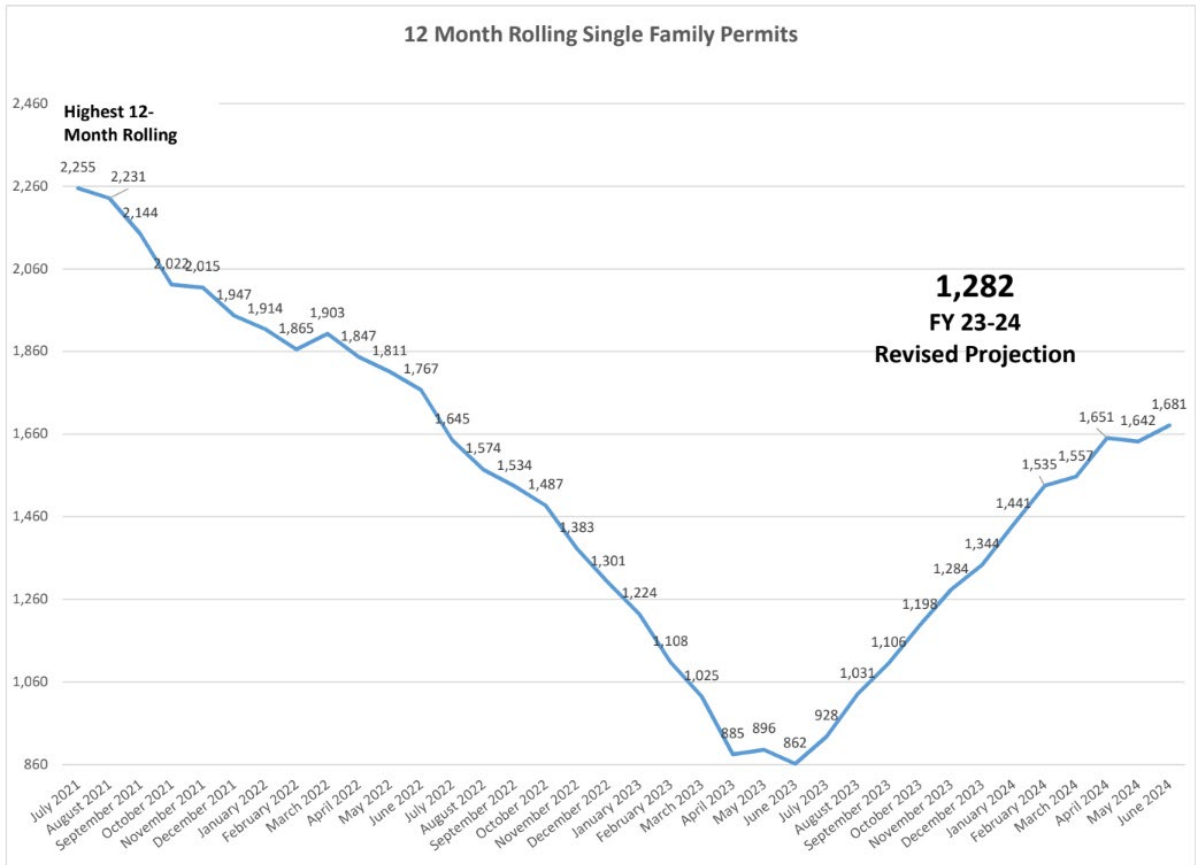
Charges for Services-CD accounts for planning, engineering and building permit revenues. The variance for these revenues was \$1.98M (20%), as presented in the following schedule:

June 2024 YTD Community Development Detailed Revenues

Charges for Services (CD)	<u>Revised Budget</u>	<u>Actual</u>	<u>\$ Variance</u>	<u>% Variance</u>
Planning Revenue	\$ 240,000	\$ 204,168	\$ (35,832)	(15%)
Engineering Revenue	1,300,000	1,062,638	(237,362)	(18%)
Building Permit Revenue	8,500,000	10,753,260	2,253,260	27%
Total Charges for Services (CD)	\$ 10,040,000	\$ 12,020,066	\$ 1,980,066	20%

Community Development revenue is tied to new and proposed development activity in the Town for new subdivisions, commercial developments, zoning changes, and annexations. Planning and engineering revenues are highly variable as they depend on when developers submit applications and plans for review. Year-to-date collections are reporting a 27% positive variance in building permit revenues, mostly due to construction related to the new LGES manufacturing facility. Engineering and planning revenues year-to-date are lower than expected due to some multi-family projects being paused by developers.

The revised FY 23-24 budget include an estimate of 1,282 single-family permits for the entire year; however, during FY 23-24 the Town issued 1,681 single-family permits. The rolling 12-month single-family permit trend has turned up since July 2023 due to continued demand for new housing in Queen Creek, as shown in the chart below.



A shortage of existing home inventory in the market is the largest factor driving demand for construction of new single-family homes. The overall housing market continues to struggle with mortgage interest rates over 6.5% and significant price increases in the last two years. Notably, current homeowners are reluctant to move as it would mean giving up their low mortgage rates of 3% or less and paying significantly more for another home compared to what they originally paid. However, active MLS listings in the region for June were 43% higher than the same month last year, which is a sign of a slightly improved housing resale market. Over time, a more robust resale market could soften demand for new homes.

Multi-family housing continues to add more units to the Town’s housing supply. During FY 23-24 the Town issued permits for 599 multi-family units. Combined with single-family permits, the Town issued permits for a total of 2,280 residential units this fiscal year, which is 113% of the total combined projection for new single-family and multi-family housing units this fiscal year.

Investment Income

In prior years, this category was combined with “Other Revenues” because low interest rates generated relatively little investment income for the Town. The Federal Reserve’s rapid rate increases in the last two years, combined with the Town’s growing reserve balances, have significantly bolstered the Town’s ability to earn higher rates of return on our available cash. Staff has begun to track and report this category separately this year as it now makes up a larger segment of the Town’s Operating Budget revenues.

Investment Income comes from two main sources: earnings on the Town’s Local Government Investment Pool (LGIP) account with the State Treasurer, and earnings on longer-term investments in the Town’s core investment portfolio.

In recent months, staff has analyzed the Town’s investment maturity schedules and revised monthly estimates of investment income based on the timing of receipts of investment earnings (without changing the annual total estimate). As this is the first year that we are tracking this category closely, our monthly estimates will improve over time as we gain more experience managing this revenue stream.

Other Charges for Services

Other Charges for Services is comprised of a number of different sources and ended the fiscal year with a \$1.4M (8%) positive variance. Major components of this variance include \$562K in ambulance billing receipts above estimates, \$525K in grant proceeds for the Police Department, and a \$372K dividend from the Town’s liability insurance provider. While the Town has received a dividend every year for the last several years, such dividends are not guaranteed and therefore are not budgeted.

The Other Revenue category also includes Utility ROI and Franchise Fees from the Town’s Water and Sewer utility operations, which account for \$3.9M (20%) of the Other Revenue category. Departmental Support Revenue accounts for an additional \$5.1M (27%) of the total revenue in this category.

Economic Indicators

Pages 10-12 of this report include key economic indicators and housing market data that staff is monitoring as we compare current revenue estimates against the latest economic news. Other indicators may be added in future reports as we identify those metrics that are most relevant to the Town’s revenue forecasts.

Expense Analysis

For FY 23-24, actual expenses ended the fiscal year with a 10% favorable variance compared to budget. The variances of the Expense Categories are explained below.

Salaries and Benefits

Salaries and Benefits expenses were \$3.8M (6%) below budget. Of the 61 new positions approved in the FY 23-24 budget, four remained vacant at the end of June: one each in Information Technology, Parks & Grounds Maintenance, Public Works and Police. Additionally, in March the Town Council approved adding seven new FTE to the current year's budget to accelerate hiring of positions that are planned for next fiscal year, mostly for Police, Parks & Recreation, and Public Works. The Town's practice is to add a full-year budget of salary and benefits for each position, regardless of when the position is approved and added during the fiscal year. This practice contributed to this year's salary savings. The remaining budget variance is due to turnover in staff positions. At the end of June, the Town had 31 vacancies related to staff turnover in the Operating Budget. The Town continues to experience difficulty filling positions due to low unemployment and a scarcity of qualified candidates in the current job market.

Supplies and Services

Supplies and Services expenses reported a \$2.5M (5%) favorable variance. This variance comes from multiple categories including contracted IT services, plan review contract services, vehicle maintenance and fuel, small tools & equipment, uniforms, training/travel, and contracts for consulting and legal services. Earlier this fiscal year, the Town was able to reduce about \$1.7M from departments' operating budgets to better align with historical trends and current needs. These budget reductions helped to lower the year-end variance in this category.

Capital Outlay

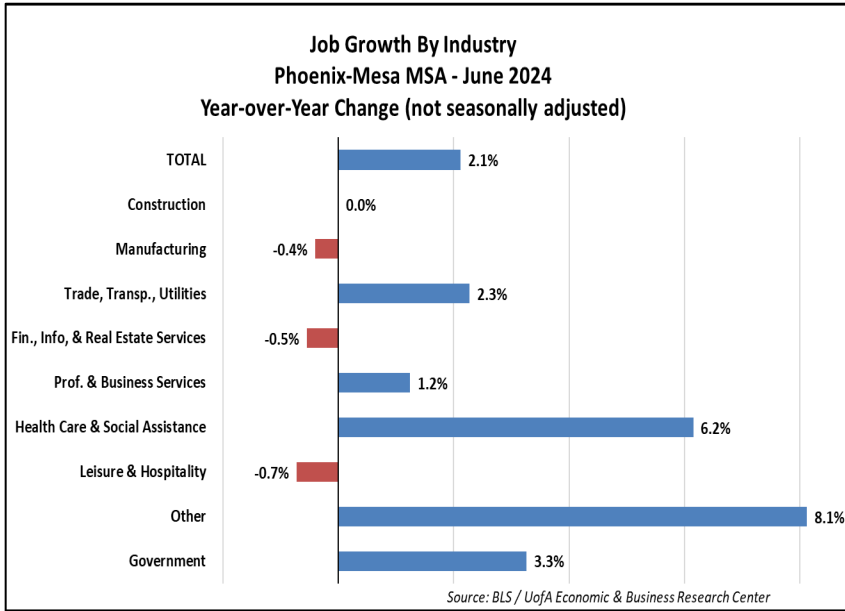
Capital Outlay expenses ended the year with a \$7.6M (46%) favorable variance; however, of this amount \$5.4M was for vehicles and equipment that are still on order waiting for delivery. For over two years, vendors for capital items have struggled with supply-chain issues due to lingering effects of the shutdowns during the COVID-19 pandemic. This means the timing of delivery for items such as vehicles and related equipment is often uncertain when items are ordered. These long-lead orders require us to reserve fund balance in the Operating Budget in order to carry these orders forward to FY 24-25.

Outstanding Encumbrances

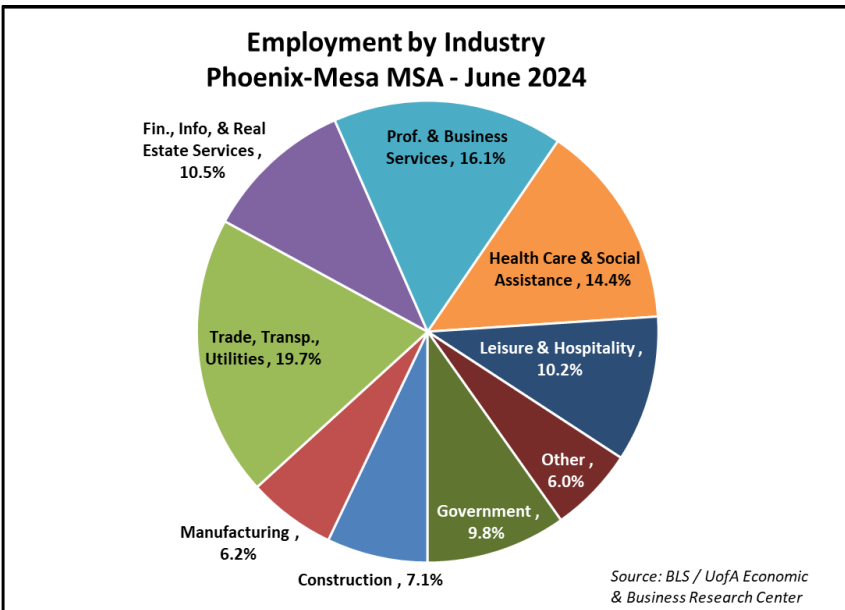
The following schedule displays actual expenses and outstanding encumbrances for the Supplies & Services and Capital Outlay categories as of June 30, 2024. This schedule provides a view of both actual spending and contractual commitments relative to the total budgets in these categories. At the end of the fiscal year, the Outstanding Encumbrance amounts represent the amount of Carry-Forward Reserve that will be required to set aside. On top of these encumbrances, the Carry-Forward Reserve includes an additional \$881K in contingency for remaining project budgets and to accommodate potential vehicle pricing changes for vehicle orders placed but not yet delivered.

Expenditure Category:	June 2024 (FY 23-24) Expenses and Encumbrances				
	YTD Actual	Outstanding Encumbrances	Total Actual + Encumbrances	Total FY 23-24 Budget	YTD Spent & Encumbered
Supplies & Services	49,315,457	372,464	49,687,921	51,836,797	96%
Capital Outlay	8,909,875	5,615,140	14,525,015	16,509,248	88%
Total	\$ 58,225,332	\$ 5,987,604	\$ 64,212,936	\$ 68,346,044	94%

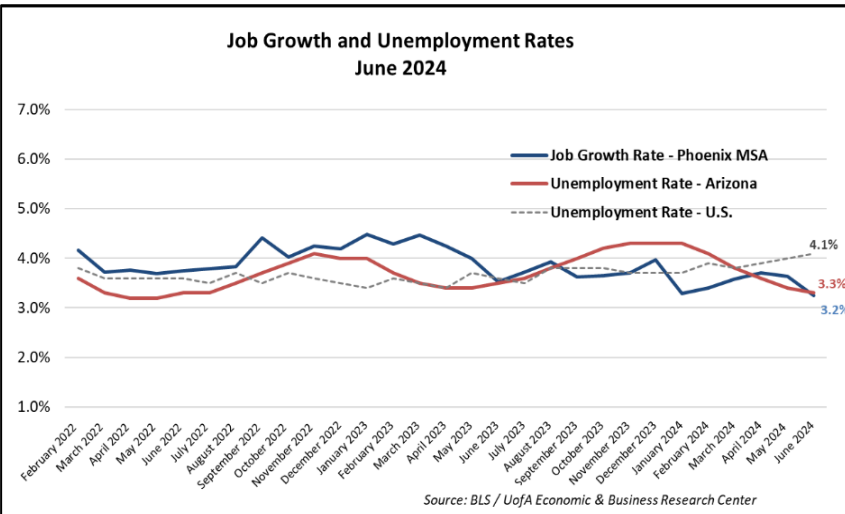
Economic Indicators



This chart demonstrates which industries have added or lost jobs, compared to the same month one year ago. This information is useful to identify which sectors may be growing or shrinking in the region. In the current environment, the Health Care & Social Assistance and Other Services sectors are making up a majority of the Phoenix MSA's year-over-year increase. Specifically, growth has happened in ambulatory health and private educational services. In the last 12 months, all industries except Manufacturing, Finance/Real Estate, and Leisure and Hospitality have added jobs.

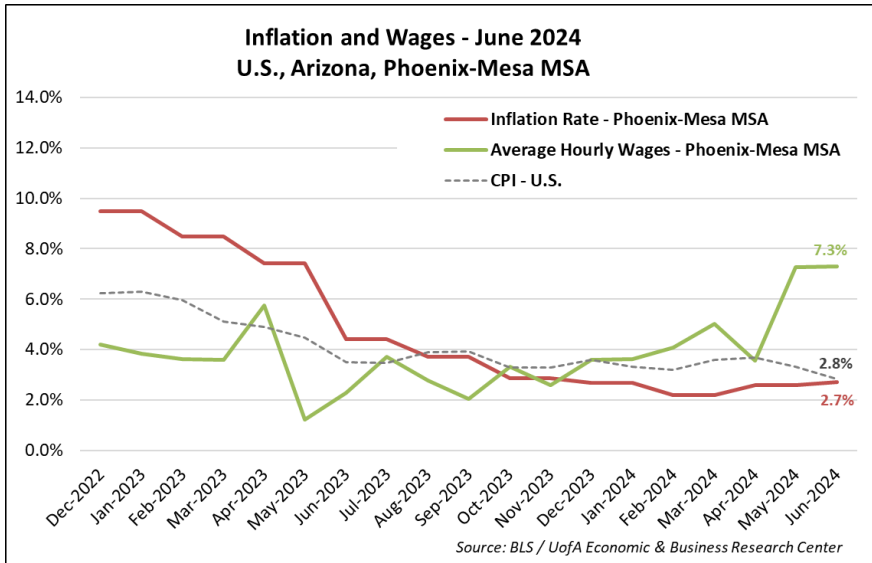


This chart shows the relative size of each major employment industry in the region. The Phoenix employment base is reasonably diversified with a healthy mix of industries, meaning the regional economy is not overly reliant on one industry to maintain a stable job base.



This chart tracks the rate at which jobs are being created and lost in the Phoenix metro area. Most economists consider an unemployment rate below 6% as "full employment." Low unemployment reflects a strong and growing economy, which is one factor that can impact future population growth. But a tight labor market puts pressure on wages as employers try to recruit and retain talent. In turn, this can drive inflation on the cost of goods and services.

Economic Indicators



This chart compares the rates of inflation and wage growth to gauge the extent to which wages are keeping up with inflation. Persistently high inflation that outpaces income growth can impact households' spending patterns over time. Slower wage growth could help reduce inflation as wages are a key component of prices, but it may affect households' ability to keep up with the cost of living. The recent uptick in year-over-year regional wage growth could affect inflation trends for the Phoenix Metro area.

Housing Market Indicators			
	Current	1 Year Prior	1 Year Change
Home Prices and Affordability			
Federal Housing Finance Agency House Price Index:			
Phoenix-Mesa MSA	620.5	591.1	5.0%
U.S.	424.7	403.3	5.3%
Median Home Prices:			
Queen Creek	\$ 639,995	\$ 585,000	9.4%
Phoenix-Mesa MSA	\$ 450,000	\$ 443,798	1.4%
Arizona	\$ 514,900	\$ 512,500	0.5%
U.S.	\$ 426,900	\$ 404,200	5.6%
Housing Cost vs. Wage Growth:			
30-Year Fixed Mortgage Interest Rate	6.86%	6.71%	--
Monthly Payment on QC Median Home ⁽¹⁾	\$ 3,339	\$ 3,006	11.1%
Average Hourly Wage - Phoenix-Mesa MSA	\$ 34.49	\$ 32.03	7.7%
Real Estate Activity			
SF Homes Sold - Queen Creek	129	171	(24.6)%
SF Days on Market - Queen Creek	72	53	35.8%
SF Homes Sold - Phoenix-Mesa MSA	5,133	5,943	(13.6)%
SF Active Listings - Phoenix-Mesa MSA	16,683	11,638	43.3%
New Single-Family Building Permits			
Queen Creek	138	99	39.4%
Phoenix / Pinal County Region	1,943	1,882	3.2%
Queen Creek 12-Month Rolling Total	1,681	862	95.0%
Regional 12-Month Rolling Total	26,861	17,861	50.4%

Source: Freddie Mac / Federal Reserve Bank of St. Louis / UofA Economic & Business Research Center / Redfin / QC Development Services

⁽¹⁾ Assumes 20% down, 30-year conventional mortgage

These housing data points indicate how the price and volume of housing activity are changing in Queen Creek and the Phoenix Region.

Home Prices and Affordability – These factors measure the increase in the price of existing homes and the impact of higher interest rates. Prices in Queen Creek have stabilized over the last few months, in contrast to sharp increases experienced the year before. Mortgage rates continue to be elevated which, combined with high home prices, are keeping some buyers out of the housing market.

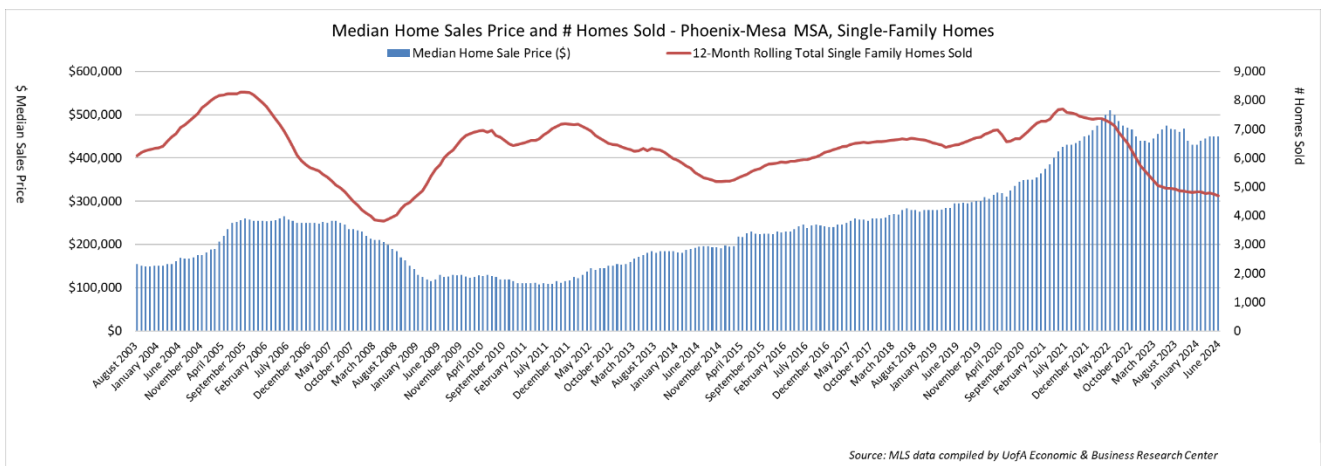
Real Estate Activity – These data points track the volume of existing home sales in Queen Creek and the Phoenix region. Trends in Queen Creek are running slightly higher than regional trends.

New SF Building Permits – The latest data shows June new home construction in Queen Creek at higher levels than the same month last year, following trends of activity in the surrounding region.

Economic Indicators

Historical Single-Family Housing Prices and Sales

This chart provides a 20-year history of existing single-family home prices and sales volumes in the Phoenix Metro area. Two decades of data are provided to give context and order-of-magnitude perspective to the current market compared to prior periods of growth and contraction, including the historical downturn of 2008-2010. This chart shows a rapid acceleration in existing home prices at the onset of the COVID-19 pandemic in March 2020 and then a drop in prices and volume since long-term interest rates began rising in April 2022. The last year has seen stabilization in the median sales price due to persistent demand for housing competing with the lack of available homes for sale. The recent rise in sales of existing homes reflects continued demand for housing in the region despite higher costs of buying a home and persistently high mortgage interest rates. However, overall inventory of existing homes remains historically low and is a major factor that is driving new home construction in the region.





TOWN OF
QUEEN CREEK
ARIZONA

FY 23-24 Sales Tax Report

FY 23-24 Business Activity through May 2024*
(Unaudited)

Issued September 2024

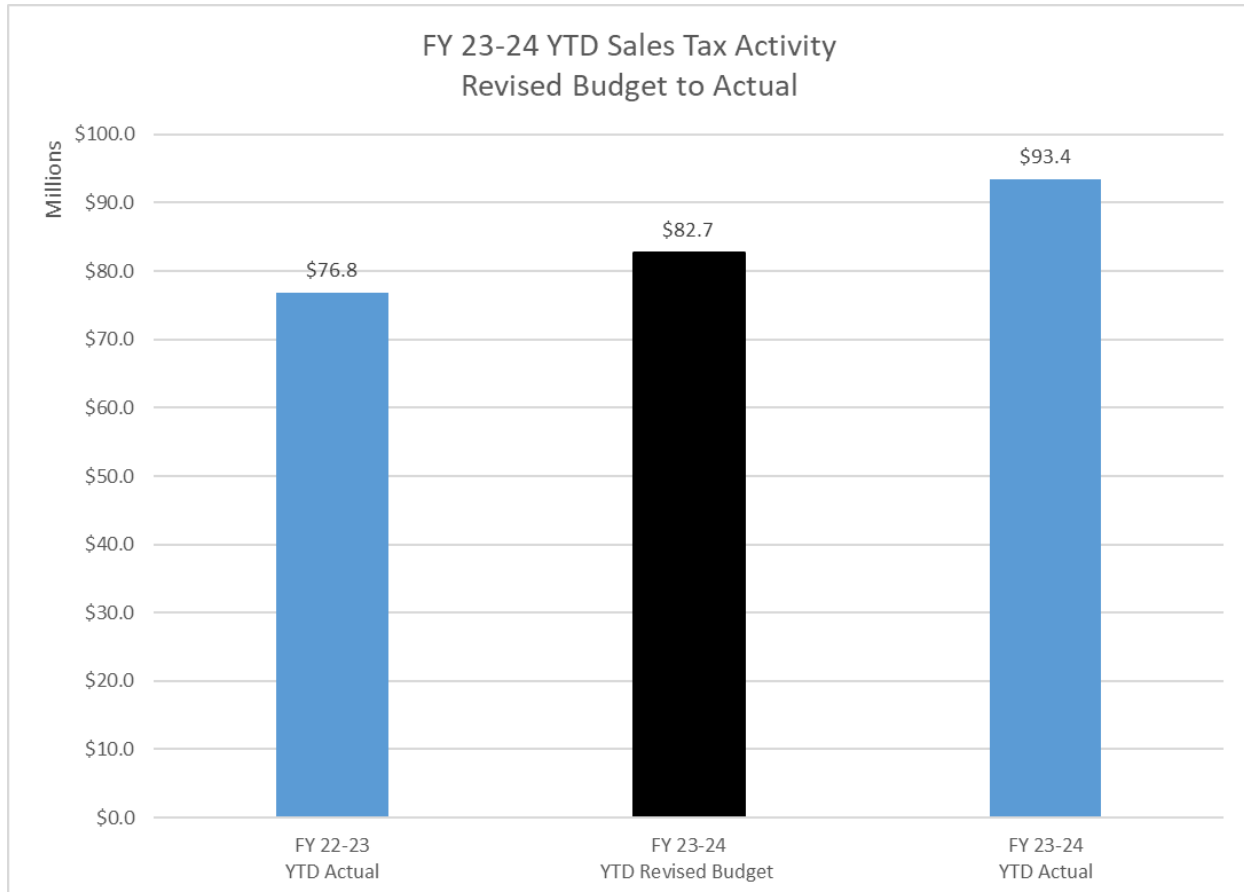
This report contains information regarding the actual revenue collections from the Town's 2.0% sales tax reflected in the General Fund, 0.25% dedicated EMS sales tax, 0.25% Town Center dedicated sales tax and the 2.0% Construction Contracting sales tax dedicated to infrastructure improvements.

The information herein is provided for reference only, is not intended to contain information material to a decision to purchase or sell obligations, and does not, and is not intended to, indicate future or continuing trends of the financial condition or other affairs of the Town. No representation is made as to the materiality of such information. Any budgeted information, unaudited information, forecasts, projections, opinions, assumptions or estimates contained herein are "forward looking statements" that must be read with an abundance of caution and may not be realized or may not occur in the future.

YEAR-TO-DATE FY 23-24 SALES TAX ACTIVITY

OVERALL PERFORMANCE SUMMARY:

The FY24 sales tax revenue total of \$93.4M exceeds the revised budget by 13%, or \$10.7M. Relative to FY 22-23, FY 23-24 actuals are 22%, or \$16.6M higher than the previous year.



Sales Category	FY 22-23 YTD Actual	FY 23-24 YTD Revised Budget	FY 23-24 YTD Actual	FY 23-24 YTD Revised Budget-To-Actual		FY22-23 YTD Actual to FY 23-24 YTD Actual	
				\$ Variance	% Variance	\$ Increase	% Increase
Construction	\$ 33,069,185	\$ 34,498,305	\$ 43,449,966	\$ 8,951,661	26%	\$ 10,380,781	31%
Retail Trade	\$ 31,342,995	\$ 35,180,462	\$ 36,406,372	\$ 1,225,910	3%	\$ 5,063,377	16%
Communications & Utilities	\$ 2,202,689	\$ 2,560,970	\$ 2,675,154	\$ 114,184	4%	\$ 472,465	21%
Restaurant & Bar	\$ 5,569,691	\$ 5,779,833	\$ 5,893,004	\$ 113,171	2%	\$ 323,313	6%
Real Estate, Rental & Leasing	\$ 3,018,172	\$ 3,328,334	\$ 3,525,772	\$ 197,438	6%	\$ 507,600	17%
All Others**	\$ 1,558,331	\$ 1,394,604	\$ 1,452,836	\$ 58,232	4%	\$ (105,494)	(7%)
Totals	\$ 76,761,062	\$ 82,742,507	\$ 93,403,104	\$ 10,660,597	13%	\$ 16,642,042	22%

**All Others includes transportation, wholesale trade, finance and insurance, services, arts and entertainment, and other categories.

Note: Reporting categories are based on Arizona Department of Revenue Business Code classifications.

ANALYSIS

Town of Queen Creek sales tax collections are positively impacted by the high incomes of Town households. Per the 2022 American Communities Supplemental Survey data provided by the U.S. Census, Queen Creek's median household income is \$129,605, which is among the highest in the region for full-service cities and towns.

The Town utilizes data sources to analyze consumer foot traffic to create customized reports for different geographical areas and time periods. This data is being used to analyze the number of visits to commercial developments within the town and compare current foot traffic with prior periods. When comparing data from May 2023 and May 2024, the number of visits to the Town Center area increased by about 5%. A further discussion of this data can be found in the Retail Trade section.

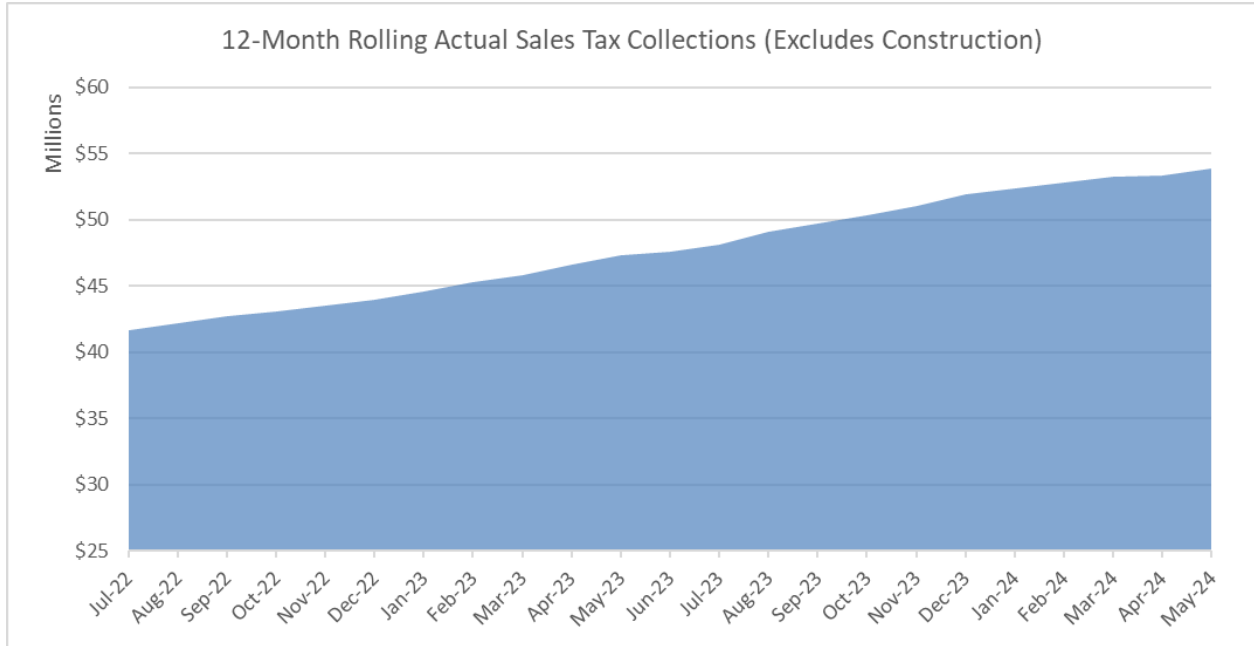
Additionally, taxable spending from an estimated 100K+ population from Eastmark master-planned community (Mesa) and unincorporated San Tan Valley has a significant impact on the Town's sales tax revenues. According to Mobilytics, approximately 40% of visits to the Town Center area from June 2023 through May 2024 were from individuals living in zip code 85142. An additional 29% of visits to the Town Center during the same time period were made by individuals living in zip codes covering San Tan Valley, Florence, and Eastmark.

May sales tax collections in FY 23-24 were higher than in FY 22-23. The strong levels of sales tax collections can be attributed to the continuing growth in population due to development both within the Town and in surrounding areas, new businesses continuing to open, and the Town's ability to collect sales taxes on e-commerce transactions.

In the past year, inflation levels have impacted the price of goods. The higher prices of goods are anticipated to cause further increases in sales tax collections for the Town for the foreseeable future, but only to a point as local wages are not currently keeping up with inflation. Higher prices with little increase in income may force households to cut back on spending in some areas over time.

HISTORICAL 12 MONTH ROLLING PERIODS

The following section contains a 12-month rolling historical actuals chart for the sales tax base (everything except construction). This chart is useful to identify the overall data trends since FY23 in all sales tax categories, excluding construction. Of particular note is the continued growth of the sales tax base over time, which signifies that the Town’s commercial sectors have continued to grow, diversify, and mature.



YEAR-TO-DATE ANALYSIS BY CATEGORY

CONSTRUCTION CONTRACTING:

Construction sales tax is collected on all construction activity; commercial, new residential and major residential remodels. It also includes landscaping, painting, flooring installation, siding, roofing, concrete, plumbing, heating, framing, drywall, infrastructure, masonry, finish carpentry, etc. Speculative construction activity (developing land for sale as a building site) is also included in this category.

May 2024 Actuals: \$7.3M

FY 23-24 YTD Actuals: \$43.4M

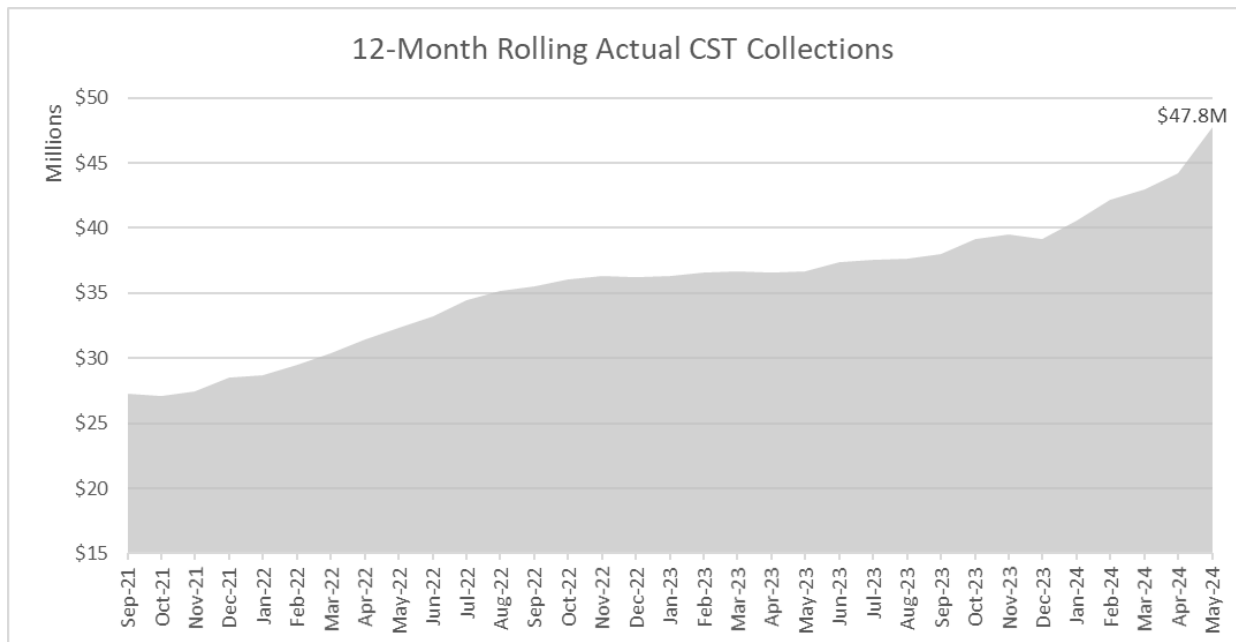
FY 23-24 YTD Revised Budget to Actual Variance of \$9.0M or 26%

FY 23-24 YTD Actual to FY 22-23 YTD Actual Increase of \$10.4M or 31%

FY 23-24 collections are higher than the FY 23-24 revised budget and the prior fiscal year actuals through May activity.

Sales Tax Discussion

Performance in construction contracting has been largely dependent in recent years on new home sales and in particular, the large-scale homebuilders. Homebuilders have been impacted by supply chain issues stemming from the COVID-19 pandemic and increasing home prices throughout the greater Phoenix region. Additionally, rising interest rates also impacted affordability, resulting in reduced demand for new homes. Despite reduced demand for new single family homes, the 12-month rolling sales tax collections from construction contracting has grown since FY22, which can be seen in the following graph.



Though known major homebuilders accounted for the majority of construction contracting sales tax revenues for the month of May, construction of multi-family and commercial developments is responsible for a large share. As seen below, the share of construction sales tax revenues coming from non-homebuilders has grown in the past few years. This shows that despite a decrease in demand for single

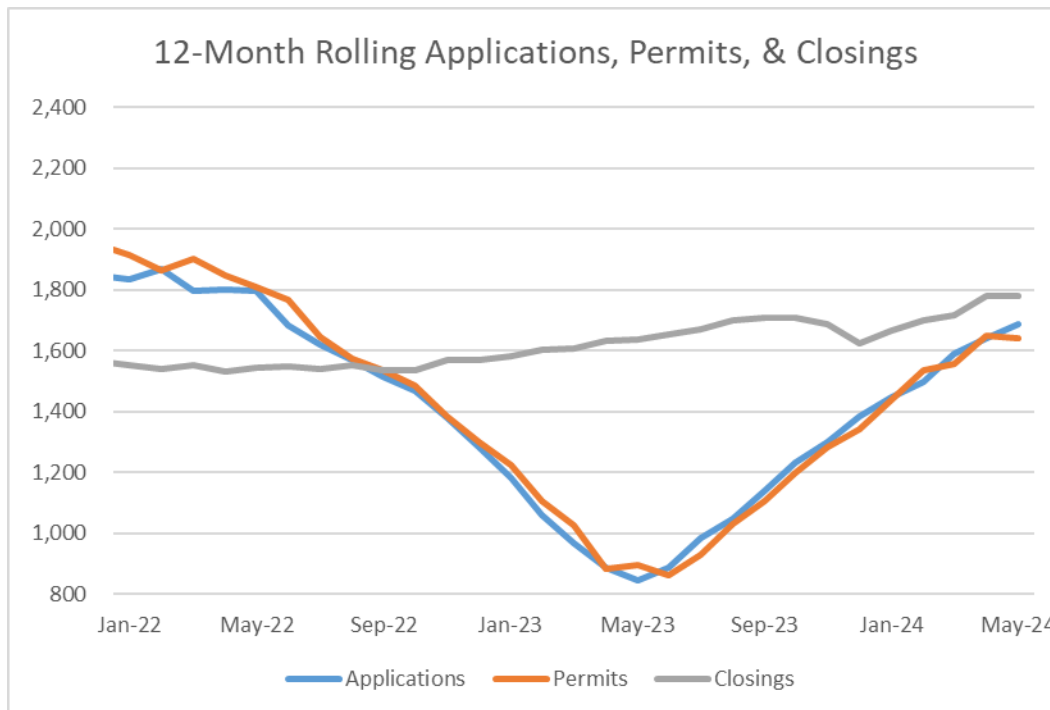
Appendix 1: Queen Creek Monthly Sales Tax Report

family homes over the past few years, multi-family and non-residential activity is remaining strong and making up the difference in construction sales tax revenues.

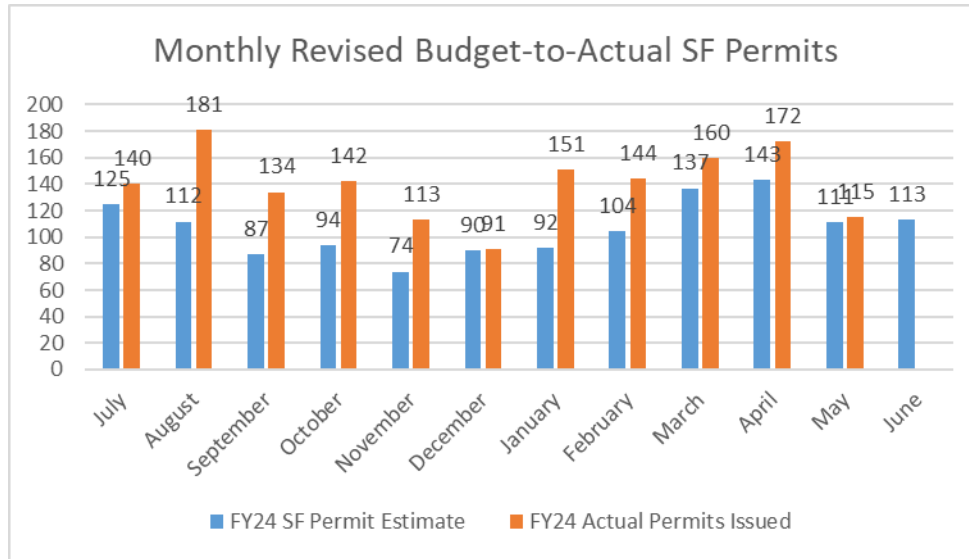
Business Type	FY22 YTD Actuals		FY23 YTD Actuals		FY24 YTD Actuals	
	Sales Tax (\$)	% of Total	Sales Tax (\$)	% of Total	Sales Tax (\$)	% of Total
Homebuilders	\$20.8M	70%	\$21.3M	64%	\$23.9M	55%
Gen. Contractors, Pool/ Landscape, & Other Specialized Trades	\$8.8M	30%	\$11.8M	36%	\$19.5M	45%
Total	\$29.5M	100%	\$33.1M	100%	\$43.4M	100%

New Single Family Home Applications, Permits, and Closings

Town staff is also monitoring single family home permit applications, permit issuances, and closings to better understand how the aforementioned factors are impacting the Town’s single family home market. The following graph displays new single-family home (NSF) applications, permits issued, and home completions over a rolling 12-month period dating back to January 2022:



Appendix 1: Queen Creek Monthly Sales Tax Report



As seen in the graphs above, the 12-month rolling applications and permits decreased steadily throughout FY 22-23. The FY 23-24 adopted budget included a single family home permit estimate of about 800 permits, but the projection was revised upward to 1,282 in February 2024. Actual permits issued through May were about 132% of the revised year-to-date budget.

Each year, construction sales tax collections trend downward in the month of January due to decreased activity around the holidays, which is then followed by a rebound in collections in February and the following months. Construction sales tax activity did not follow that same trend, with strong construction-related sales tax collections through the winter and into the spring months. This contributes to the high budget-to-actual variance and higher collections versus the prior year. An illustration of this trend can be seen in the construction sales tax graph on page 14 of this appendix.

With the uptick in permits issued over the past six months, the 12-month rolling permit total has stabilized and began increasing after almost 24 months of decline. Overall, the Town made up 4.5% of total NSF permits issued in the greater Phoenix area in May. The rolling 12-month closings have stayed relatively consistent over the past year with a slight uptick due to the increase in permitting experienced mid-2023.

New Home Closings and Prices

The Town utilizes RL Brown Housing Reports, an independent source of housing market information, to track monthly home sales, which are an indicator of construction sales tax receipts for the month. RL Brown's data indicates that Queen Creek had 169 new home sales close in the month of May with an average sales price of \$696K for these homes. The following table shows the monthly closings by builder, average sale price and estimated gross revenue for the month of May for new homes that closed within the Town.

Appendix 1: Queen Creek Monthly Sales Tax Report

BUILDER	# CLOSINGS	AVG. SALE PRICE	EST. GROSS REVENUE
ASHTON WOODS HOMES	21	\$ 649,006	\$ 13,629,125
LENNAR HOMES	19	\$ 535,513	\$ 10,174,750
TAYLOR MORRISON	18	\$ 898,785	\$ 16,178,137
FULTON HOMES	17	\$ 697,149	\$ 11,851,539
MARACAY HOMES	15	\$ 661,938	\$ 9,929,069
WILLIAM LYON HOMES	13	\$ 529,110	\$ 6,878,435
RICHMOND AMERICAN	13	\$ 715,418	\$ 9,300,429
KB HOME	11	\$ 535,178	\$ 5,886,957
SHEA HOMES	9	\$ 639,151	\$ 5,752,359
NEWPORT HOMES	6	\$ 484,750	\$ 2,908,498
TOLL BROTHERS	6	\$ 1,434,956	\$ 8,609,735
MISC CUSTOM	4	\$ 1,396,000	\$ 5,584,000
BRIGHTLAND HOMES	4	\$ 602,360	\$ 2,409,438
WOODSIDE HOMES	4	\$ 503,338	\$ 2,013,351
PULTE HOMES	4	\$ 822,429	\$ 3,289,714
DAVID WEEKLEY HOMES	3	\$ 523,656	\$ 1,570,969
ELLIOTT HOMES	2	\$ 865,215	\$ 1,730,430
GRAND TOTAL	169	\$ 696,432	\$ 117,697,008

RETAIL TRADE:

Retail trade includes large department stores, auto dealers, grocery stores, supercenters, automotive repairs, discount stores, home furnishings, drug stores, jewelry and other vendors typically selling merchandise in small quantities to the public. Use tax is also included in this category.

May 2024 Actuals: \$3.4M

FY 23-24 YTD Actuals: \$36.4M

FY 23-24 YTD Revised Budget to Actual Variance of \$1.2M or 3%

FY 23-24 YTD Actual to FY 22-23 YTD Actual Increase of \$5.1M or 16%

FY 23-24 YTD collections in the retail category were higher than the FY 23-24 revised budget and prior year actual collections.

Compared to the previous fiscal year, new businesses continue to open, but more influentially, retail anchors in the major retail centers in the Town are performing well. The higher-dollar entities drive revenue in this class. In May, the top 20 payers of 6,402 total payers in the retail category delivered 65% of the revenue. The top 10 payers in the category account for 55% of the total.

The Town Center area includes large shopping centers in town such as Queen Creek Marketplace, QC District, Cornerstone at Queen Creek, Terravella, and Queen Creek Crossing (Costco development). According to data from Buxton Mobilytics, the rolling annual total visits to the Town Center area have increased by about 29% between May 2023 and May 2024. When comparing visits in May 2023 versus May 2024, the total number of visits to the Town Center area is up approximately 5%. The increase in visits year-over-year can be attributed to the opening of Costco in January 2023, the opening of Ashley Furniture and Hobby Lobby in Spring 2024, the increase in population in Queen Creek and the surrounding

Appendix 1: Queen Creek Monthly Sales Tax Report

area, new establishments opening in the Town Center area, and continued traffic from Eastmark, San Tan Valley, southeast Gilbert, and Florence.

Of the total retail sales tax collections in May, at least \$642K, or 19%, is estimated to come from e-commerce transactions. May 2024 e-commerce sales tax collections are 38% higher than collections in May 2023.

High inflation has a direct impact on the collections in the retail category. Retail sales tax collections increase as prices rise, but collections are also impacted by changes in consumer behavior that may come as a result of those increased prices (buying less items, switching to generic brands, etc.). Staff continues to closely monitor the retail sales tax category to identify impacts of high inflation on Queen Creek consumers and businesses.

COMMUNICATIONS/UTILITIES:

This category includes businesses that provide telecommunications (internet, telephone, cellular service, cable/satellite television, etc.) and electricity, gas, or water services.

May 2024 Actuals: \$240K

FY 23-24 YTD Actuals: \$2.7M

FY 23-24 YTD Revised Budget to Actual Variance of \$114K or 4%

FY 23-24 YTD Actual to FY 22-23 YTD Actual Increase of \$472K or 21%

Year-to-date collections in the communications/utilities category are higher than the revised FY 23-24 budget and prior year collections. This variance can be attributed to new single family homes, multi-family projects, and non-residential developments within the Town.

RESTAURANTS & BARS:

This industry is comprised of establishments serving customers by preparing meals, snacks, and beverages for immediate consumption.

May 2024 Actuals: \$574K

FY 23-24 YTD Actuals: \$5.9M

FY 23-24 YTD Revised Budget to Actual Variance of \$113K or 2%

FY 23-24 YTD Actual to FY 22-23 YTD Actual Increase of \$323K or 6%

This category is equal to the current year revised budget and slightly higher than prior year actual collections. Performance in this category has been strong for existing restaurants and bars and new establishments continue to open in the Town.

RENTAL, REAL ESTATE & LEASES:

This category consists of entities engaged in renting or leasing tangible and intangible assets as well as other establishments providing related services.

May 2024 Actuals: \$356K

FY 23-24 YTD Actuals: \$3.5M

FY 23-24 YTD Revised Budget to Actual Variance of \$197K or 6%

FY 23-24 YTD Actual to FY 22-23 YTD Actual Increase of \$507K or 17%

This category's collections are above the revised budget and prior year collections. This can be attributed to the continued development of commercial and residential properties that have become available for rent to tenants this year. Additionally, an increase in rent prices may contribute to the year-over-year increase. Due to recent legislation, long-term residential leases will no longer be taxable beginning in January 2025.

ALL OTHER CATEGORIES:

The categories included here are transportation, accommodations, manufacturing, wholesale trade, finance and insurance, services, and arts and entertainment.

May 2024 Actuals: \$115K

FY 23-24 YTD Actuals: \$1.5M

FY 23-24 YTD Revised Budget to Actual Variance of \$58K or 4%

FY 23-24 YTD Actual to FY 22-23 YTD Actual Decrease of (\$105K) or (7%)

This category is below prior year actual collections and approximately level with the FY24 revised budget.

Of the existing categories in the All Other category, the arts and entertainment and services categories have performed better than anticipated due to the opening of new businesses and strong performance of these types of businesses in the Town. Year-over-year performance is decreased due to a one-time payment correction in FY23 from a taxpayer in the 'Other' category that artificially inflated collections from more typical levels.

ATTACHMENT 1:

SALES TAX BACKGROUND INFORMATION:

The Town of Queen Creek’s sales tax is the largest revenue source for Town operations. The Town of Queen Creek’s Transaction Privilege Tax (TPT) program is administered by the State of Arizona’s Department of Revenue (AZDOR). AZDOR issues TPT licenses to businesses, updates license data, provides support, collects tax dollars due, performs audits, and distributes the tax revenue to the Town.

SALES TAX RATE DETAILS

The Town of Queen Creek has the following sales tax rates:

- 2.0% tax rate charged on all taxable activities within Town limits
 - Dedicated to the General Fund for general purpose government operations
- 0.25% tax rate charged on all taxable activities within Town limits
 - Dedicated to the Emergency Services (EMS) Fund to fund law enforcement and fire and medical services
- 0.25% special district rate – an additional tax rate charged on certain taxable activities occurring within certain major retail developments in Town Center: Queen Creek Marketplace, Cornerstone, and QC District
 - Dedicated to the Town Center Fund to fund infrastructure related improvements and other operations within the Town Center planning area
- 2.0% additional tax rate on construction contracting activities within Town limits
 - Dedicated to funding infrastructure improvements within Town limits

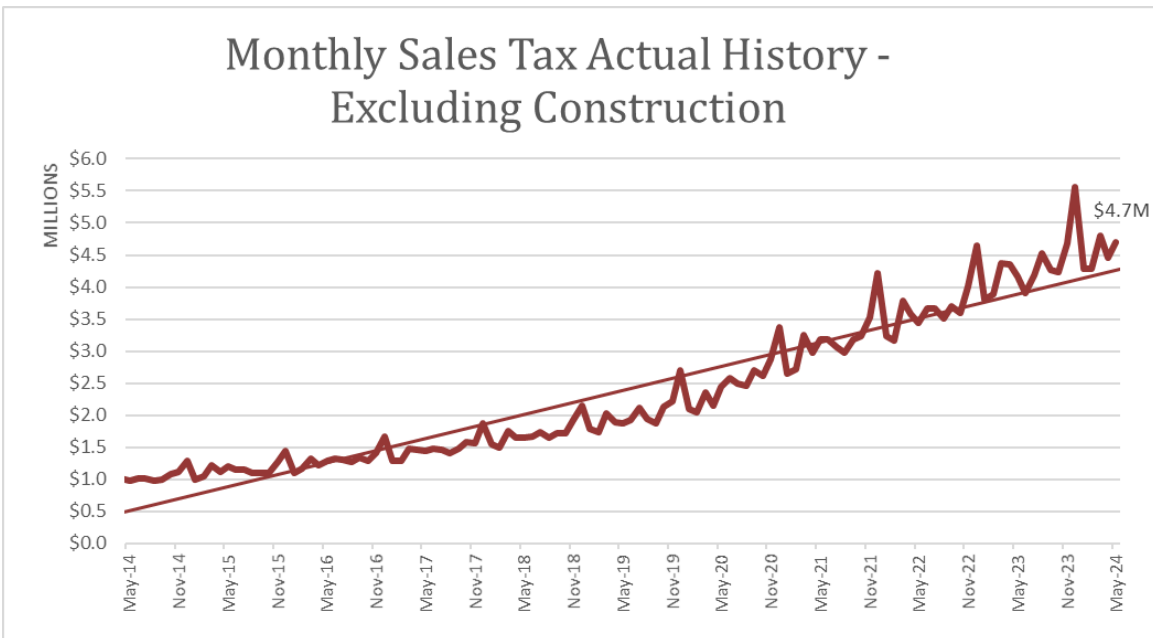
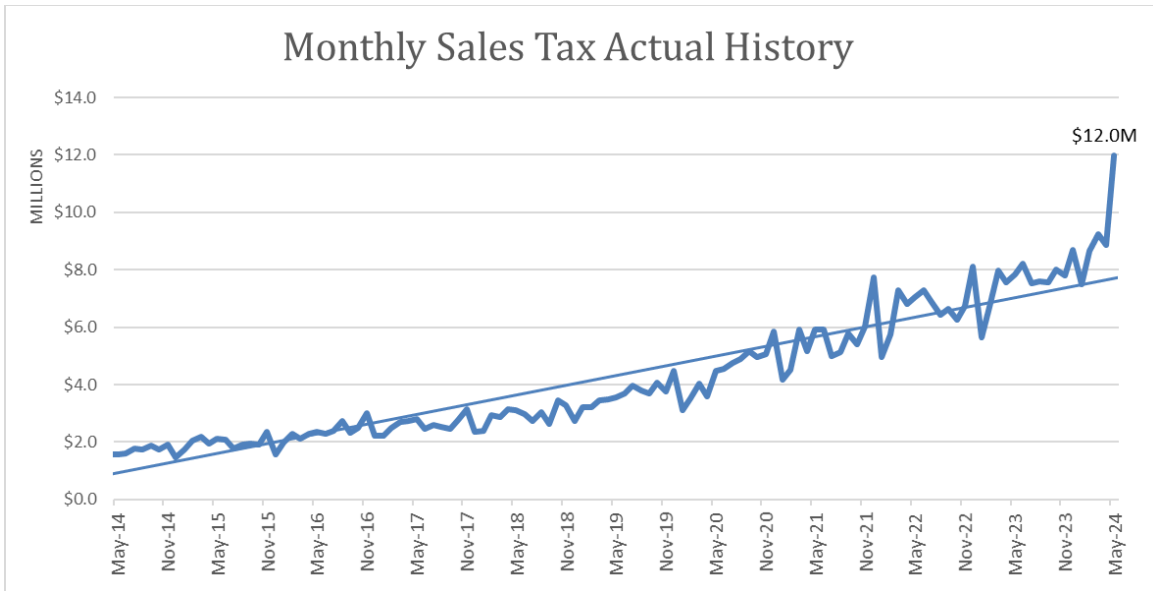
Sales Tax Rate Components					
Queen Creek Rate		Queen Creek Special District Rate (Town Center)		Construction Contracting Rate	
General Fund	2.00%	General Fund	2.00%	General Fund	2.00%
EMS	0.25%	EMS	0.25%	EMS	0.25%
		Town Center	0.25%	Construction Fund	2.00%
Total Rate	2.25%	Total Rate	2.50%	Total Rate	4.25%

Revenue by Fund	FY24 Actuals YTD	% of Total
General Fund	\$ 63,741,090	68.2%
EMS Fund	7,967,636	8.5%
Town Center Fund	1,247,336	1.3%
Construction Fund	20,447,043	21.9%
Totals	\$ 93,403,105	100.0%

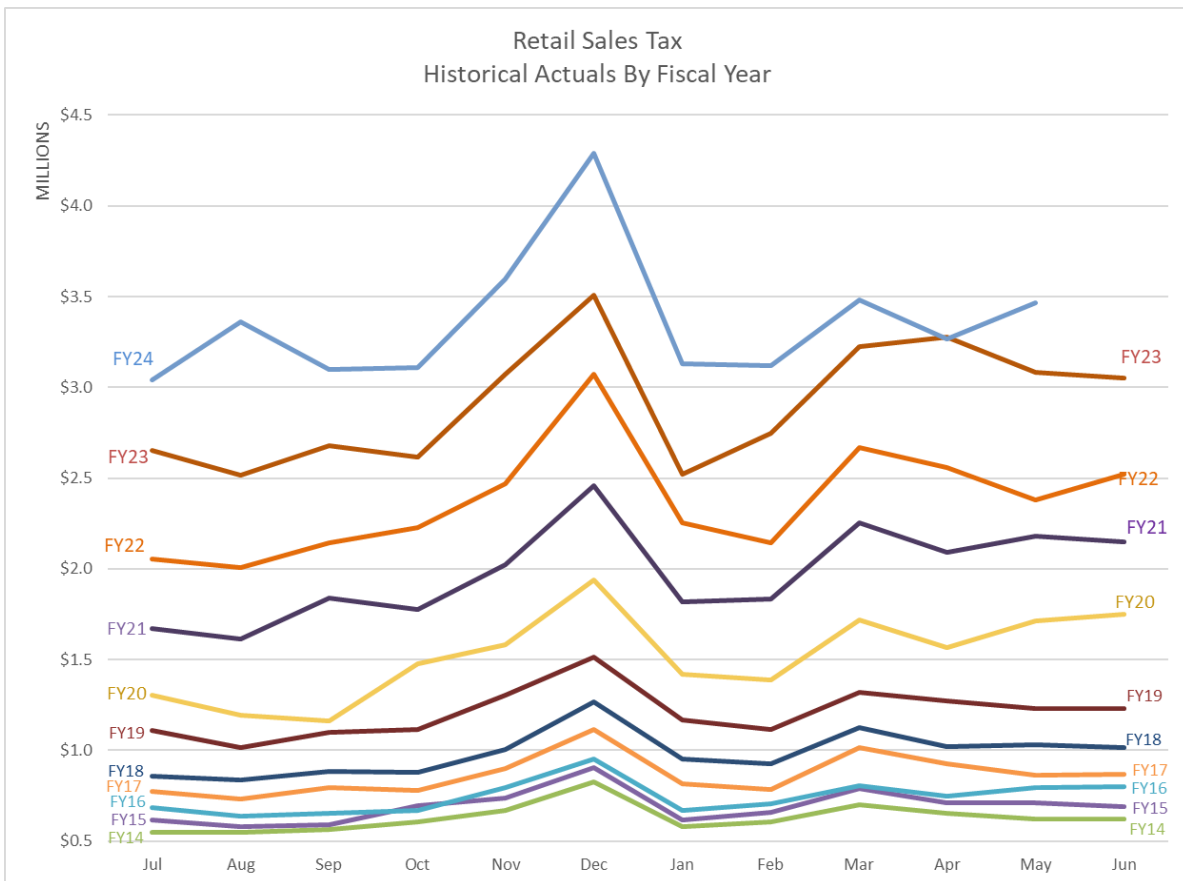
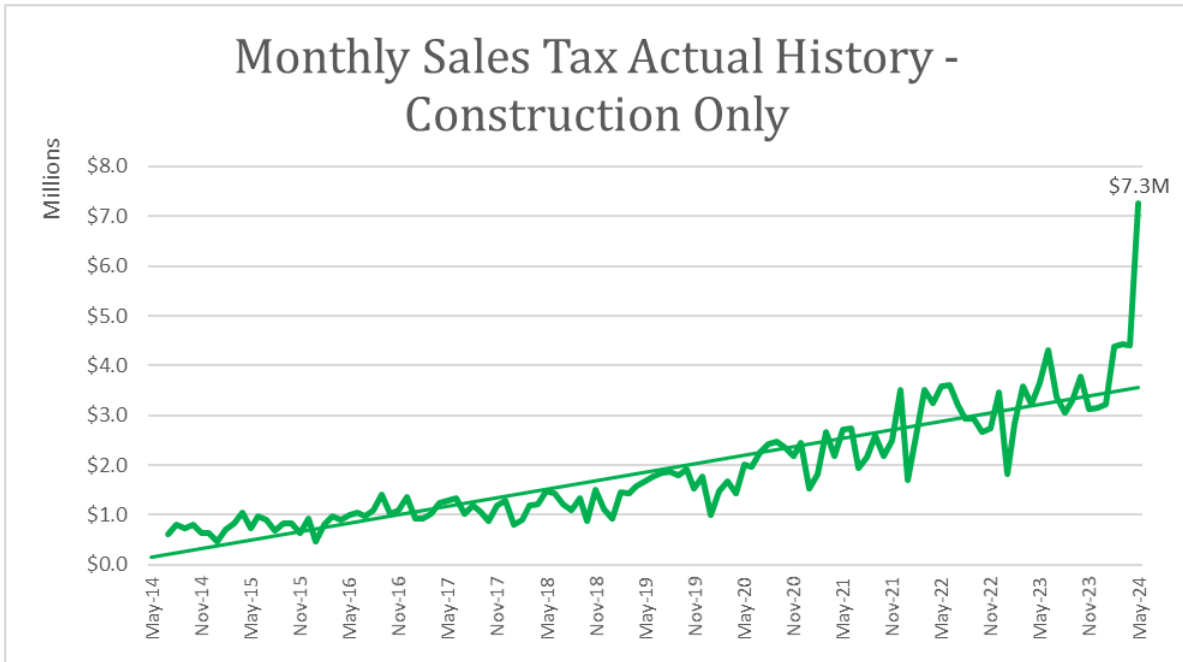
Operating Budget	Jul	Aug	Sep	Oct	Nov	Dec
General Fund	\$ 5,201,198	\$ 5,375,744	\$ 5,246,192	\$ 5,438,261	5,526,033	6,277,617
EMS Fund	\$ 650,150	\$ 671,968	\$ 655,774	\$ 679,783	690,754	784,702
Total Operating Budget	\$ 5,851,347	\$ 6,047,712	\$ 5,901,966	\$ 6,118,043	\$ 6,216,788	\$ 7,062,319

Operating Budget	Jan	Feb	Mar	Apr	May	FY23-24 YTD
General Fund	\$ 5,227,610	\$ 5,777,961	\$ 6,236,370	\$ 5,932,121	\$ 7,501,983	\$ 63,741,090
EMS Fund	\$ 653,451	\$ 722,245	\$ 779,546	\$ 741,515	\$ 937,748	\$ 7,967,636
Total Operating Budget	\$ 5,881,061	\$ 6,500,207	\$ 7,015,916	\$ 6,673,636	\$ 8,439,731	\$ 71,708,726

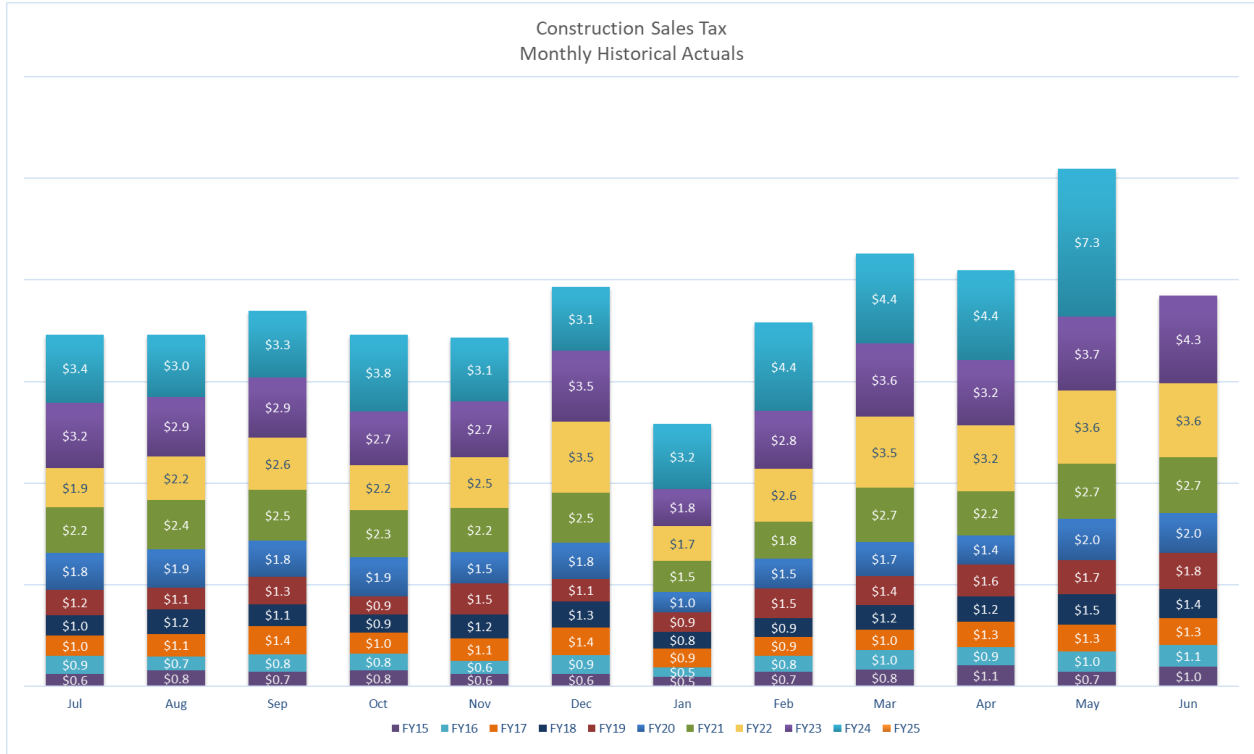
Historical Performance



Appendix 1: Queen Creek Monthly Sales Tax Report



Appendix 1: Queen Creek Monthly Sales Tax Report



Note: In FY 19-20 reporting is revised to reflect ADOR business code categories. Overall TPT revenues are not impacted.

Appendix 1: Queen Creek Monthly Sales Tax Report

TAX RATE CATEGORIES

Town-wide Queen Creek Sales Tax Rates:

BUSINESS CODE CATEGORY	REGION CODE	BUSINESS CODE	TAX RATE	REPORTING CATEGORY
Advertising	QC	018	2.25%	All Others
Amusements	QC	012	2.25%	All Others
Contracting-Prime	QC	015	4.25%	Construction Contracting
Contracting-Speculative Builders	QC	016	4.25%	Construction Contracting
Contracting – Owner Builder	QC	037	4.25%	Construction Contracting
Job Printing	QC	010	2.25%	All Others
Manufactured Buildings	QC	027	2.25%	Construction Contracting
Timbering & Other Extraction	QC	020	0.10%	All Others
Severance – Metal Mining	QC	019	2.25%	All Others
Publication	QC	009	2.25%	All Others
Hotels	QC	044	2.25%	All Others
Hotel/Motel (Additional Tax)	QC	144	3.00%	All Others
Residential Rental, Leasing & Licensing for Use	QC	045	2.25%	Rental, R.E. & Leases
Commercial Rental, Leasing & Licensing for Use	QC	213	2.25%	Rental, R.E. & Leases
Rental, Leasing & Licensing for Use	QC	214	2.25%	Rental, R.E. & Leases
Restaurants & Bars	QC	011	2.25%	Restaurants & Bars
Retail Sales	QC	017	2.25%	Retail Sales
Retail Sales Food for Home	QC	062	2.25%	Retail Sales
MRRA	QC	315	2.25%	All Others
Communications	QC	005	2.25%	Comm. & Utilities
Transporting	QC	006	2.25%	All Others
Utilities	QC	004	2.25%	Comm. & Utilities
Use Tax Purchases	QC	029	2.25%	All Others
Use Tax from Inventory	QC	030	2.25%	All Others
Retail Sales for Remote Sellers	QC	605	2.25%	Retail Sales
Retail Sales Food for Home Consumption Remote Sellers	QC	606	2.25%	Retail Sales
Marijuana Sales	QC	420	2.25%	Retail Sales
Medical Marijuana Sales	QC	203	2.25%	Retail Sales

Queen Creek Special District Tax Rates (Town Center):

BUSINESS CODE CATEGORY	REGION CODE	BUSINESS CODE	TAX RATE	REPORTING CATEGORY
Amusements	QD	012	2.50%	All Others
Job Printing	QD	010	2.50%	All Others
Publication	QD	009	2.50%	All Others
Hotels	QD	044	2.50%	All Others
Hotel/Motel (Additional Tax)	QD	144	3.00%	All Others
Restaurants & Bars	QD	011	2.50%	Restaurants & Bars
Retail Sales	QD	017	2.50%	Retail Sales
Retail Sales Food for Home	QD	062	2.50%	Retail Sales
MRRA	QD	315	2.50%	All Others
Communications	QD	005	2.50%	Comm. & Utilities
Utilities	QD	004	2.50%	Comm. & Utilities
Retail Sales for Remote Sellers	QD	605	2.50%	Retail Sales
Retail Sales Food for Home Consumption Remote Sellers	QD	606	2.50%	Retail Sales