

Memo of Interest

To: Honorable Mayor and Council
From: Scott McCarty, Finance Director
Through: Bruce Gardner, Town Manager
Date: 11/21/2024
Re: Operating Budget Financial Report – FY 24-25 Year-to-Date Results

Attached for your review is the Operating Budget financial report through September. 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.

The Operating Budget results continue to reflect steady population growth and development activity overall in the Town. The results also show positive growth rates in our major revenue sources, as well as savings in our operating expense budgets.

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 24-25 Financial Report

Operating Budget to Actual Performance
Fiscal Year to Date through September 2024
(Unaudited)

Issued November 21, 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 24-25 to date shows favorable variances for both revenues and expenses. Actual revenues are performing well, with receipts exceeding expectations by \$4.1M (15%). This is mainly the result of Construction Sales Tax revenues performing better than expected due to continued residential and commercial growth in the Town and construction of the LGES manufacturing facility. Operating Budget revenues through September are \$2.7M higher than the same period last fiscal year, an increase of 9%.

The FY 24-25 budget includes an estimate of 1,080 new single-family permits and 1,055 multi-family units, for a total of 2,135 residential units. Through September 2024, the Town has issued permits for 332 single-family units and one multi-family units, for a total of 334 residential units, or 16% of the annual total.

Total expenses to date are \$7.6M (23%) below budget. This favorable variance comes from a combination of vacancy savings in personnel costs and savings in several expenditure categories including street and building maintenance, contracted IT services, and vehicle fuel and maintenance. The revised budget also includes increases to the budget of \$6.9M for carry-forward projects and equipment and another \$9.2M for two years of police vehicle orders in an attempt to keep the Police Department adequately equipped with vehicles in the face of continually delayed ordering windows for vehicles.

The Revised Operating Budget anticipated that year-to-date expenses would exceed revenues (before transfers) by \$5.8M. However, because actual results to date are better than expected, revenues are \$5.9M above expenses, an improvement of \$11.7M (201%).

The Operating Budget is projected to end the fiscal year with a fund balance of \$137.5M broken down as follows:

- \$41.3M in the 25% Operating Reserves
- \$47.5M in PSPRS and ASRS pension reserves
- \$17.5M in the PAYGO Infrastructure Reserve (New Policy)
- \$3.0M in the newly created Road Replacement reserve
- \$0.6M restricted for road maintenance projects funded by HURF revenues
- \$27.6M unreserved fund balance

The Arizona economy remains diversified with strong fundamentals and low unemployment. Still, inflation and fluctuating interest rates continue to impact the local and regional housing markets. New single-family housing starts remain strong in Queen Creek; but, higher mortgage interest rates have kept many would-be homebuyers on the sidelines. Multi-family communities have recently paused their development plans, a situation that staff is monitoring closely.

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. Actual revenues are above expenses by \$5.9M due to continued revenue growth and expense savings. This compares favorably to the revised budget that estimated expenses would exceed revenues by \$5.8M through September.

The Total Revised Expense Budget reflects \$6.9M that was carried forward from the previous fiscal year to provide spending authority for various projects and equipment needs, including \$6.2M for vehicles and equipment. It also includes \$9.2M of additional police vehicles that have been approved for ordering up to two years in advance, a strategy designed to ensure we have enough vehicles for the Police Department's rapidly expanding head count.

The majority of the Town's debt services costs are incurred in August when principal and interest payments are due on the Town's excise tax bonds. Transfers Out for Debt Service therefore show a large amount transferred to date to meet these obligations. The next interest payments are due in February.

The Town's total Operating fund balance reflects a decrease of \$15.8M and an ending balance of \$137.5M; however, staff expects a large portion of the budget for capital equipment will not be spent before the end of the fiscal year, which will improve the actual ending results. Of the total fund balance, \$47.5M is reserved for pension funding and \$41.3M 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 as of June 30, 2024.

Other restrictions on fund balance include \$3.0M for the Road Replacement reserve, \$0.6M for future HURF projects, and \$17.5M for the PAYGO Infrastructure Reserve. The PAYGO Reserve represents the estimated total 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. The remaining fund balance is available to fund future policy objectives at the direction of the Town Council.

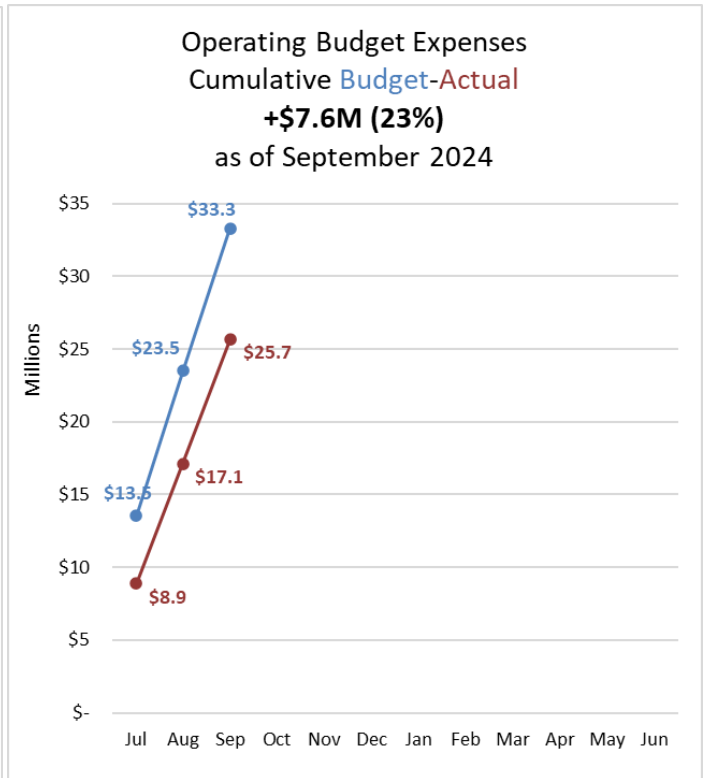
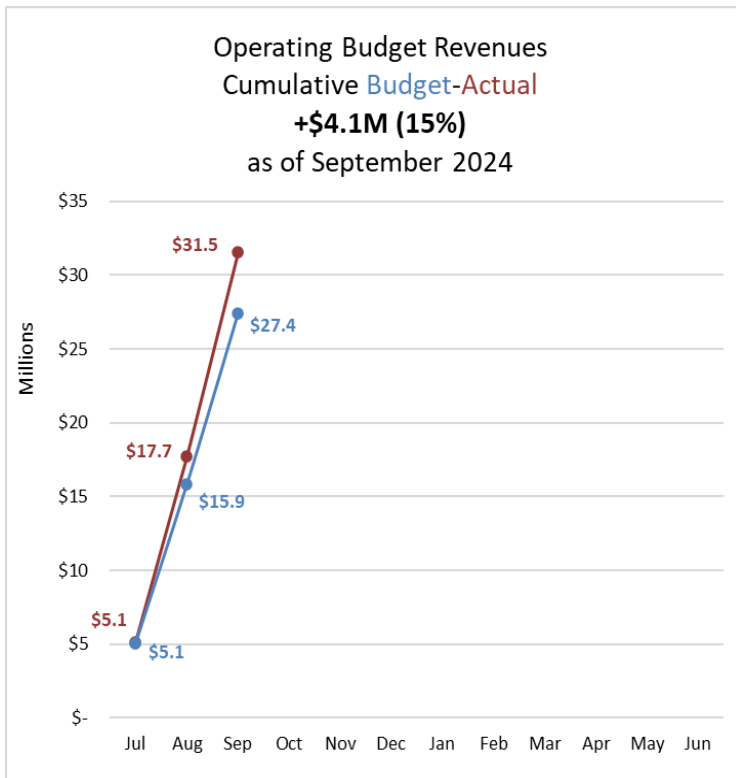
Summary FY 24-25 Operating Budget - September 2024

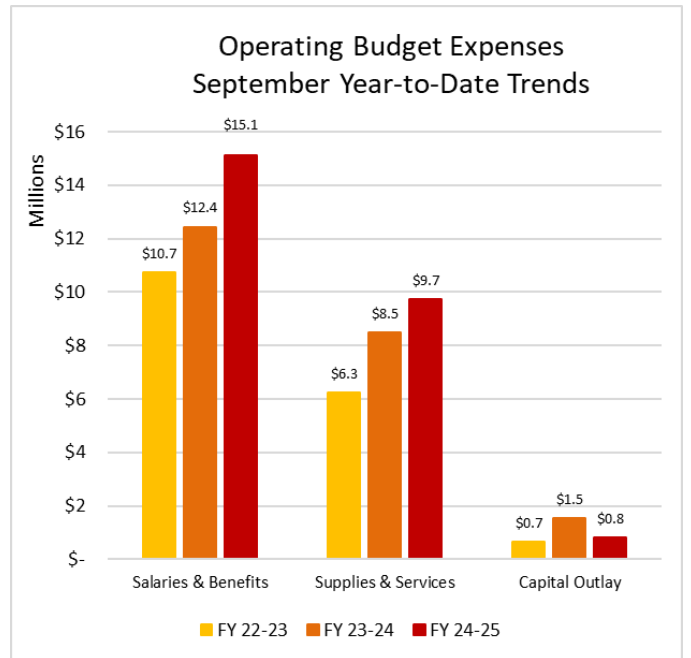
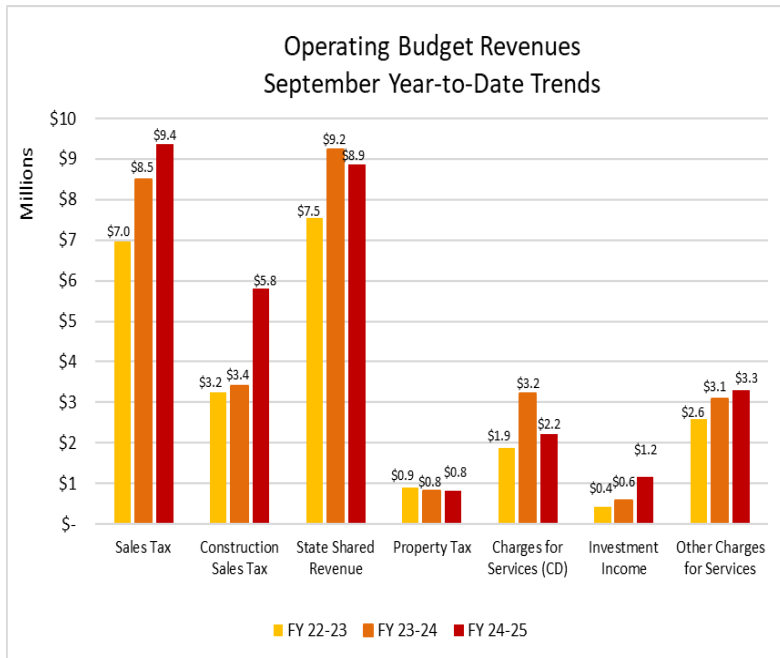
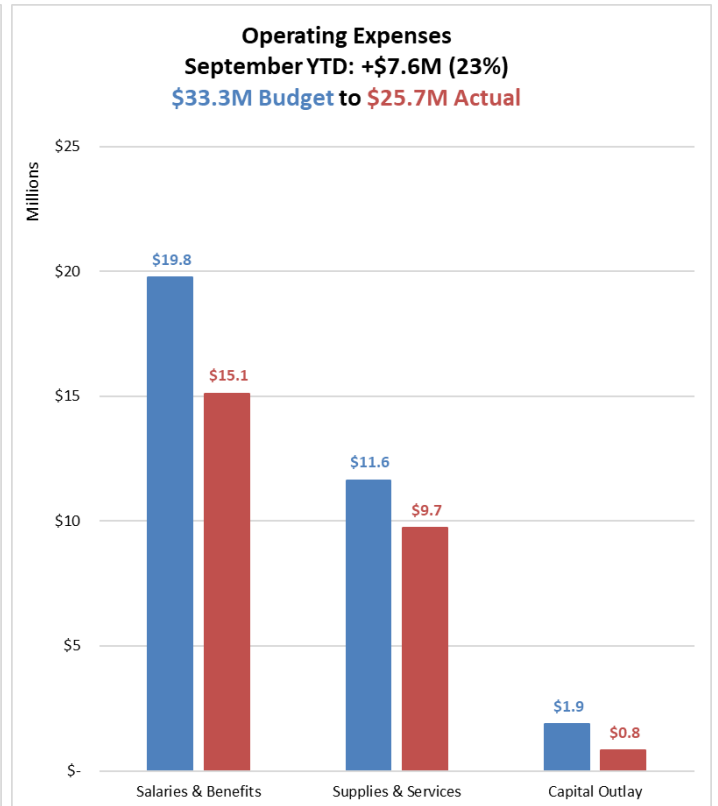
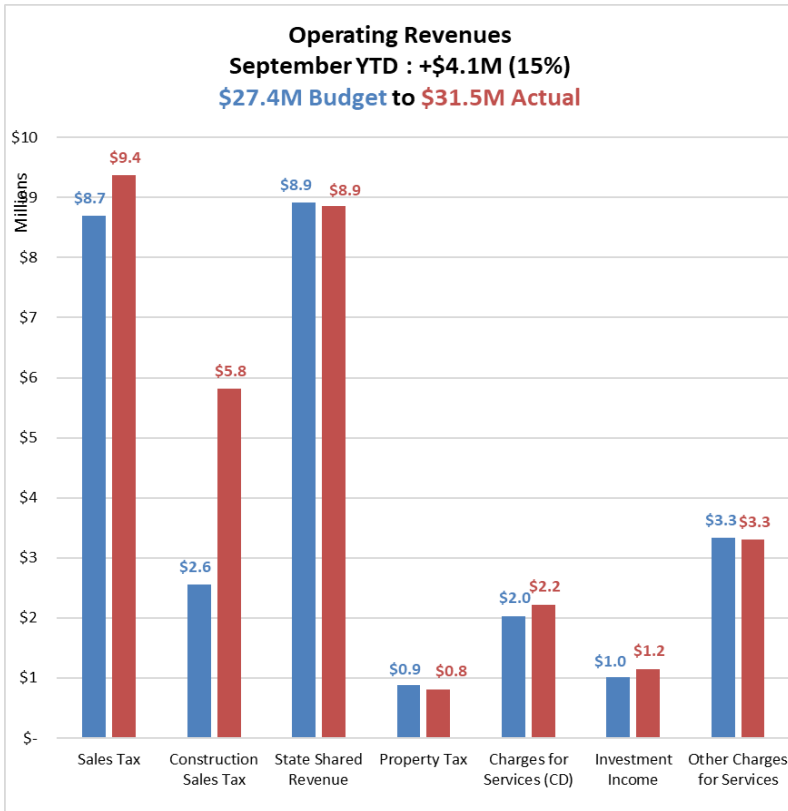
	FY 24-25 Total Adopted Budget	FY 24-25 Total Revised Budget	FY 24-25 Year-to-Date Budget	FY 24-25 Year-to-Date Actual
Revenues	\$ 158,878,866	\$ 160,736,872	\$ 27,438,992	\$ 31,537,421
Expenses	136,509,627	154,466,937	33,280,221	25,659,826
Operating Results	\$ 22,369,239	\$ 6,269,935	\$ (5,841,229)	\$ 5,877,595
Transfers Out:				
Debt Service	\$ 18,440,059	\$ 18,173,875	\$ 11,935,665	\$ 11,935,665
CIP	3,903,228	3,903,228	-	-
Net Transfers Out	\$ (22,343,287)	\$ (22,077,103)	\$ (11,935,665)	\$ (11,935,665)
Net Operating Results	\$ 25,952	\$ (15,807,168)	\$ (17,776,894)	\$ (6,058,069)
Beginning Fund Balance	\$ 143,452,680	\$ 153,337,203		
Ending Fund Balance	\$ 143,478,632	\$ 137,530,035		
25% Revenue Reserve	\$ 41,304,925	\$ 41,304,925		
Police Unfunded Pension Liability Reserve	19,334,929	19,334,929		
ASRS Unfunded Pension Liability Reserve	26,506,927	28,169,781		
HURF Funds Reserved by Statute	664,622	664,622		
Road Replacement Funding Reserve	3,000,000	3,000,000		
PAYGO Infrastructure Reserve	12,765,433	17,489,377		
Available Fund Balance	39,901,796	27,566,401		
Total Fund Balance	\$ 143,478,632	\$ 137,530,035		

FY 24-25 Year-to-Date Results - September 2024

	YTD Budget	YTD Actual	Variance Favorable (Unfavorable)		Total FY 24-25 Budget	YTD Actual as % of Total Budget
Revenues						
Sales Tax	\$ 8,698,660	\$ 9,364,671	\$ 666,011	8%	\$ 58,061,682	16%
Construction Sales Tax	2,558,550	5,817,645	3,259,095	127%	16,478,673	35%
State Shared Revenue	8,918,466	8,862,151	(56,315)	(0.6%)	37,046,942	24%
Property Tax	878,410	814,493	(63,917)	(7%)	13,920,642	6%
Charges for Services (CD)*	2,031,920	2,222,755	190,835	9%	8,568,600	26%
Investment Income	1,015,161	1,151,550	136,389	13%	4,503,923	26%
Other Charges for Services	3,337,825	3,304,156	(33,669)	(1.0%)	22,156,410	15%
Total Revenues	\$ 27,438,992	\$ 31,537,421	\$ 4,098,429	15%	\$ 160,736,872	20%
Expenditures						
Salaries & Benefits	\$ 19,762,000	\$ 15,113,178	\$ 4,648,822	24%	\$ 78,645,102	19%
Supplies & Services	11,641,411	9,734,702	1,906,709	16%	48,134,413	20%
Capital Outlay	1,876,810	811,946	1,064,864	57%	27,687,422	3%
Total Expenditures	\$ 33,280,221	\$ 25,659,826	\$ 7,620,395	23%	\$ 154,466,937	17%

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





Revenue Analysis

For FY 24-25, actual revenues are reporting a 15% favorable variance compared to the year-to-date budget estimates. The variances of the Revenue Categories are explained below.

Sales Tax

Sales Tax revenues are currently \$666K (8%) above budget. 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 19% in the last 12 months, including traffic over the past calendar year from Costco, Ashley Furniture, and Hobby Lobby. Also, for the same period, 28% 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 are \$3.3M (127%) above budget. Much of this positive variance comes from the LGES manufacturing facility in the State Lands area that is currently under construction. The FY 24-25 budget did not include any revenue estimates from the LGES project as that project was just underway when the budget was developed. Throughout the life of this project, we can expect to see higher than average construction sales tax collections. Staff will present a revision to this and our other revenue estimates in February 2025 to account for the LGES project and other development activity.

In addition to LGES, construction sales tax continues to come in from completion of new homes that were permitted several months ago as well as from 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 are \$56K (0.6%) below the budget estimate and 4% lower than the same period last year, with the decline occurring in state-shared income tax distributions. As a reminder, the FY 24-25 budget included an estimated 2% reduction in the Town's overall state-shared revenues due to full implementation of the state's flat income tax rate. 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.

Property Tax

Property taxes are approximately 7% below budget; however, this is due to the timing of when property owners remit their property taxes. 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)

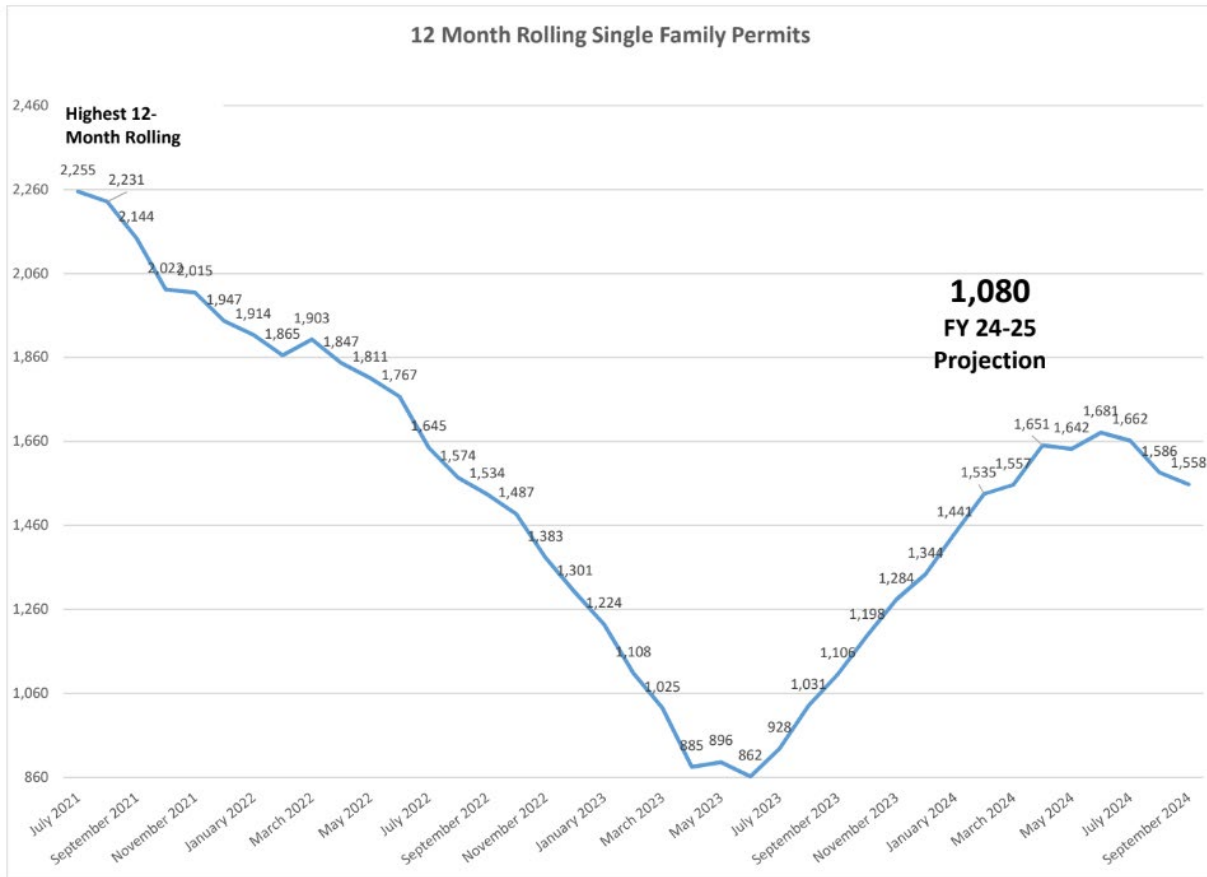
Charges for Services-CD accounts for planning, engineering and building permit revenues. The variance for these revenues is currently \$191K (9%), as presented in the following schedule:

September 2024 YTD Community Development Detailed Revenues

Charges for Services (CD)	YTD Budget	Actual	\$ Variance	% Variance
Planning Revenue	\$ 47,050	\$ 48,295	\$ 1,245	3%
Engineering Revenue	375,890	198,880	(177,010)	(47%)
Building Permit Revenue	1,608,980	1,975,580	366,600	23%
Total Charges for Services (CD)	\$ 2,031,920	\$ 2,222,755	\$ 190,835	9%

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 positive variance in building permit revenues, much of which is due to continued strength in the nonresidential market that is driving new construction. Engineering and planning revenues year-to-date are lower than expected due to some multi-family projects being paused by developers, which is also discussed below.

Building permit revenue is about 23% above the revised budget estimate. The FY 24-25 budget included an estimate of 1,080 single-family permits for the year. Through September the Town has issued 332 single-family permits, or 31% of the total estimate. The rolling 12-month single-family permit trend has leveled off since March 2024, although demand for new housing in Queen Creek continues to be strong relative to historical trends, as shown in the chart below.



Multi-family housing has added more units to the Town's housing supply in recent years. However, through September, the Town has issued permits for only one multi-family unit, compared to the budget estimate of 1,055. This is due to certain developers pausing their progress. The Alexan (495 units) and Hudson Station (240 units) developments are updating their plans, and the owner of Elanto (320 units) recently terminated its contract with the current developer. Development Services and Finance staff are monitoring this trend in multi-family developments to identify any potential industry-wide trends that could impact our revenue estimates for the current and next fiscal year.

Investment Income

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.

Despite recent rate cuts by the Federal Reserve, the LGIP continues to generate yields north of 5%. We expect these yields to come down in the next few months as the Fed has signaled its intent to continue reducing short-term rates, assuming the Fed's view of the economy supports such moves. In response, we are reviewing the Town's asset allocation to determine the proper mix of LGIP and longer-term investments for the Town's available cash. We have directed the Town's investment advisory firm to look for opportunities in the three to five year range, which is longer than we have historically invested but still complies with the Town's investment policy. In all cases, the Town's investment strategy is guided by our core objectives of safety first, then liquidity, and then yield.

Other Charges for Services

Other Charges for Services is comprised of a number of different sources and is currently reporting a \$34K (1.0%) negative variance. It is too early in the year to identify trends in this category, but staff will continue to monitor these revenues.

The Other Revenue category includes Utility ROI and Franchise Fees from the Town's Water and Sewer utility operations, which account for \$886K (27%) of the Other Revenue total. Departmental Support Revenue accounts for an additional \$1.3M (39%) 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 24-25, actual expenses are reporting a 23% favorable variance compared to the year-to-date budget estimates. The variances of the Expense Categories are explained below.

Salaries and Benefits

Salaries and Benefits expenses are \$4.6M (24%) below budget. Of the 87 new positions approved in the FY 24-25 budget, 44 remained vacant at the end of September, half of which are in the Police Department. The remaining budget variance is due to turnover in staff positions. At the end of September, the Town had 25 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 are reporting a \$1.9M (16%) favorable variance. This includes about \$595K in savings on road maintenance projects in the HURF Fund that are still being prepared for contract approval. Other savings are coming from multiple categories including contracted IT and general services, vehicle maintenance, fuel, small tools & equipment, and maintenance costs for buildings and streets.

Capital Outlay

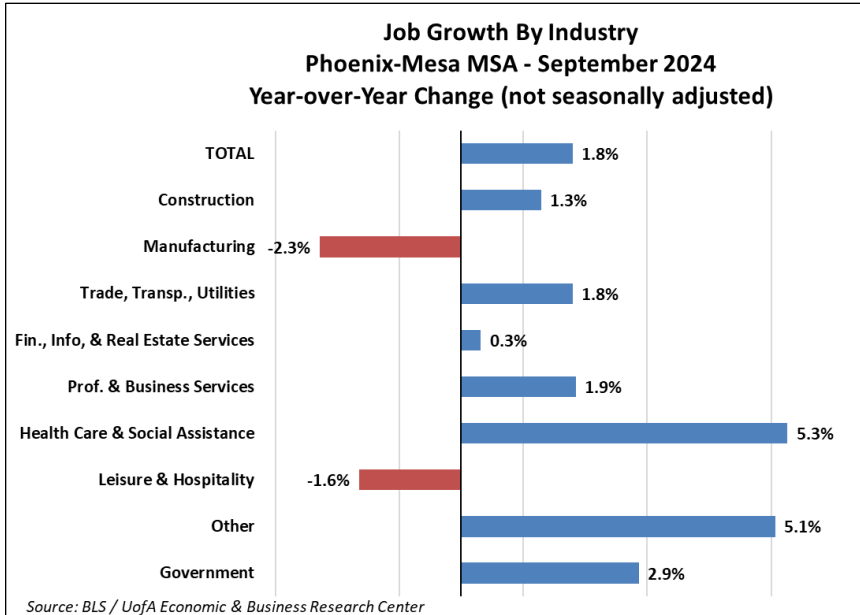
Capital Outlay expenses are showing a \$1.1M (57%) favorable variance. The budgets in this category are for one-time purchases related to major equipment and special projects. For over three years, vendors for capital items have struggled with supply-chain issues due to lingering effects of the shutdowns 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. In September, the Town Council approved a total of \$6.2M in capital equipment to be carried forward from the prior fiscal year due to these long-lead issues. Furthermore, in October the Town Council approved \$9.2M in new police vehicle orders for the next two years in an attempt to get ahead of supply chain issues and maintain adequate inventory for the growing Police Department. Although we do not expect to receive most of these vehicles before the end of the fiscal year, state law requires us to allocate current budget authority to issue the purchase orders. These budget allocations therefore contribute to the decrease in the Revised Budget Net Operating Results shown on page 3 and will also require a substantial allocation of year-end reserves to carry these orders forward to FY 25-26.

Outstanding Encumbrances

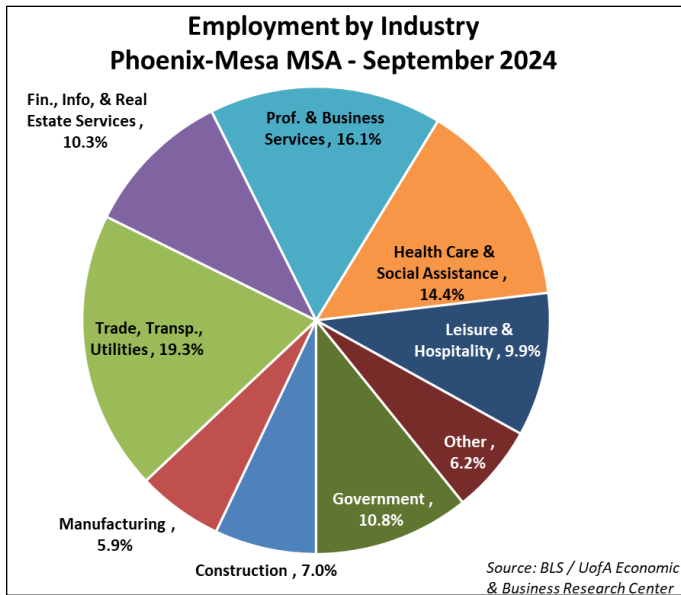
The following schedule displays year-to-date expenses and outstanding encumbrances for the Supplies & Services and Capital Outlay categories. This schedule provides a view of both actual spending and contractual commitments relative to the total budgets in these categories. This data helps gauge the pace at which departments are committing Town funds relative to their total annual budgets. At the end of the fiscal year, the Outstanding Encumbrance amounts help measure the need for and size of potential carry-forward authorizations that will be required in the next fiscal year.

Expenditure Category:	September 2024 Expenses and Encumbrances				
	YTD Actual	Outstanding Encumbrances	Total Actual + Encumbrances	Total FY 24-25 Budget	YTD Spent & Encumbered
Supplies & Services	\$ 9,734,702	\$ 15,695,276	\$ 25,429,979	\$ 48,134,413	53%
Capital Outlay	811,946	6,503,060	7,315,005	27,687,422	26%
Total	\$ 10,546,648	\$ 22,198,336	\$ 32,744,984	\$ 75,821,835	43%

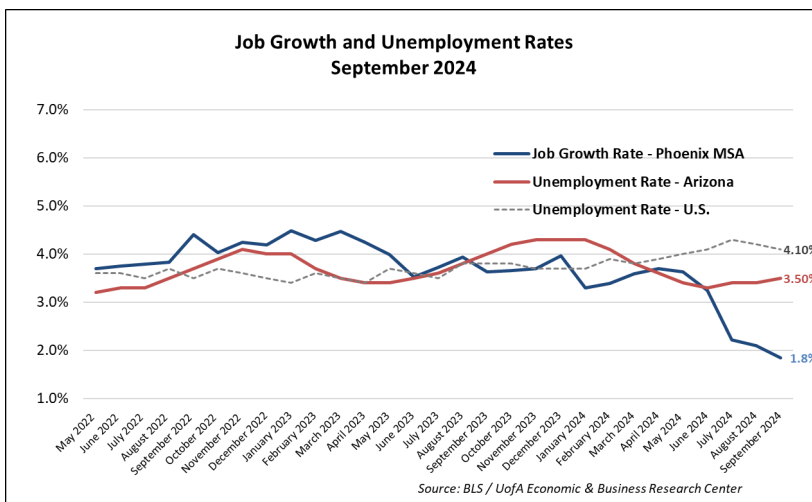
Economic Indicators



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, Government, and Other Services sectors are making up a majority of the Phoenix MSA's year-over-year increase. Specifically, growth has happened in local government, ambulatory health, and private educational services. In the last 12 months, all industries except Manufacturing and Leisure and Hospitality have added jobs.

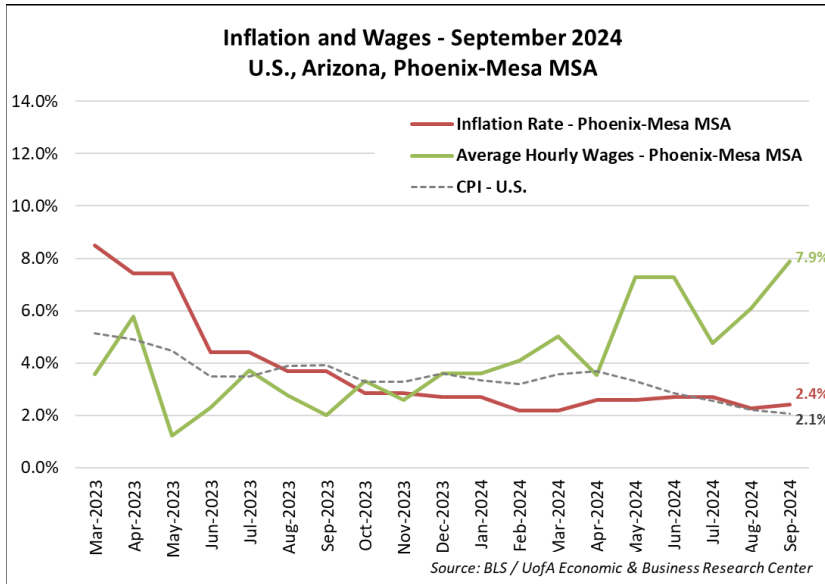


This chart shows the relative size of each major employment industry in the region. The Phoenix employment base is reasonably diversified with a healthy mix of industries, meaning the regional economy is not overly reliant on one industry to maintain a stable job base.



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 in the near term.

Housing Market Indicators			
	Current	1 Year Prior	1 Year Change
Home Prices and Affordability			
Federal Housing Finance Agency House Price Index:			
Phoenix-Mesa MSA	508.4	482.5	5.4%
U.S.	373.1	352.3	5.9%
Median Home Prices:			
Queen Creek	\$ 625,000	\$ 598,387	4.4%
Phoenix-Mesa MSA	\$ 440,000	\$ 432,000	1.9%
Arizona	\$ 493,225	\$ 499,990	(1.4)%
U.S.	\$ 404,500	\$ 392,700	3.0%
Housing Cost vs. Wage Growth:			
30-Year Fixed Mortgage Interest Rate	6.08%	7.31%	--
Monthly Payment on QC Median Home ⁽¹⁾	\$ 3,008	\$ 3,265	(7.9)%
Average Hourly Wage - Phoenix-Mesa MSA	\$ 35.31	\$ 32.73	7.9%
Real Estate Activity			
SF Homes Sold - Queen Creek	113	122	(7.4)%
SF Days on Market - Queen Creek	69	47	46.8%
SF Homes Sold - Phoenix-Mesa MSA	4,539	4,476	1.4%
SF Active Listings - Phoenix-Mesa MSA	18,138	12,800	41.7%
New Single-Family Building Permits			
Queen Creek	106	134	(20.9)%
Phoenix / Pinal County Region	2,314	1,992	16.2%
Queen Creek 12-Month Rolling Total	1,588	1,106	43.6%
Regional 12-Month Rolling Total	27,195	19,452	39.8%

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.

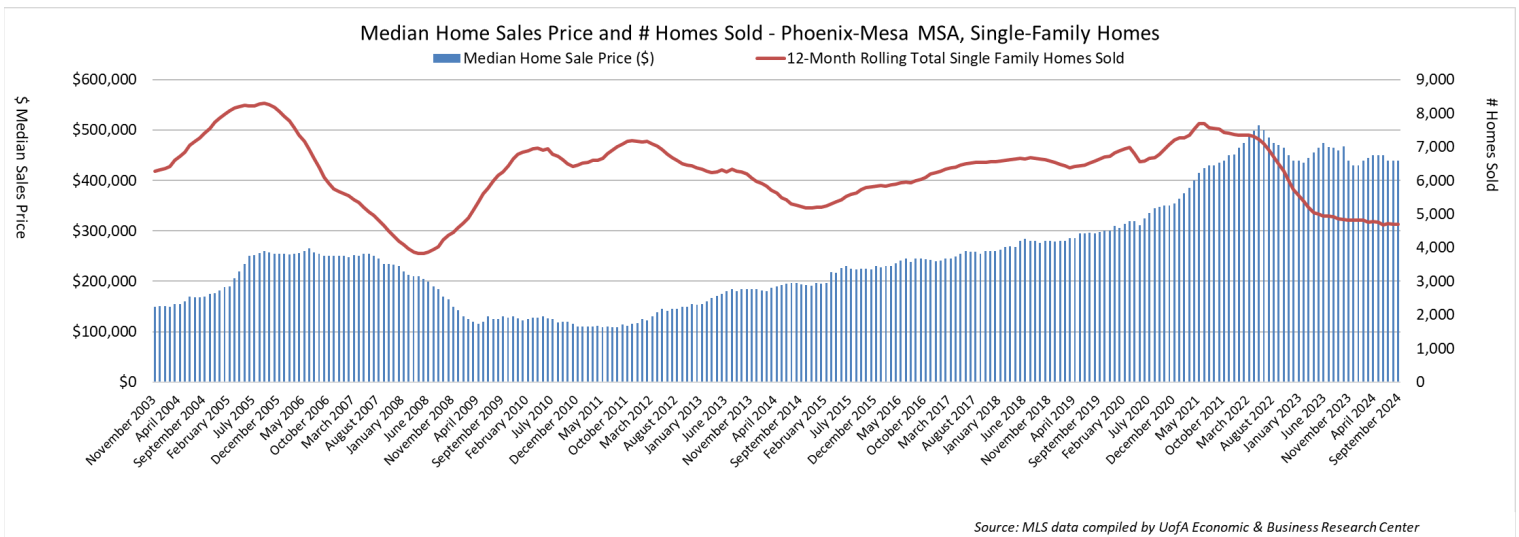
Real Estate Activity – These data points track the volume of existing home sales in Queen Creek and the Phoenix region. Trends in Queen Creek reflect a cooler market than overall regional trends.

New SF Building Permits – The latest data show new home construction in Queen Creek at lower levels than the same month last year, while the region sees increased new construction activity.

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 and a gradual decline in the volume of homes sold. Persistent demand for housing is clashing with the lack of available existing homes for sale and is a major factor that is driving new home construction in the region.





TOWN OF
QUEEN CREEK
ARIZONA

FY 24-25 Sales Tax Report

FY 24-25 Business Activity through August 2024*
(Unaudited)

Issued October 2024

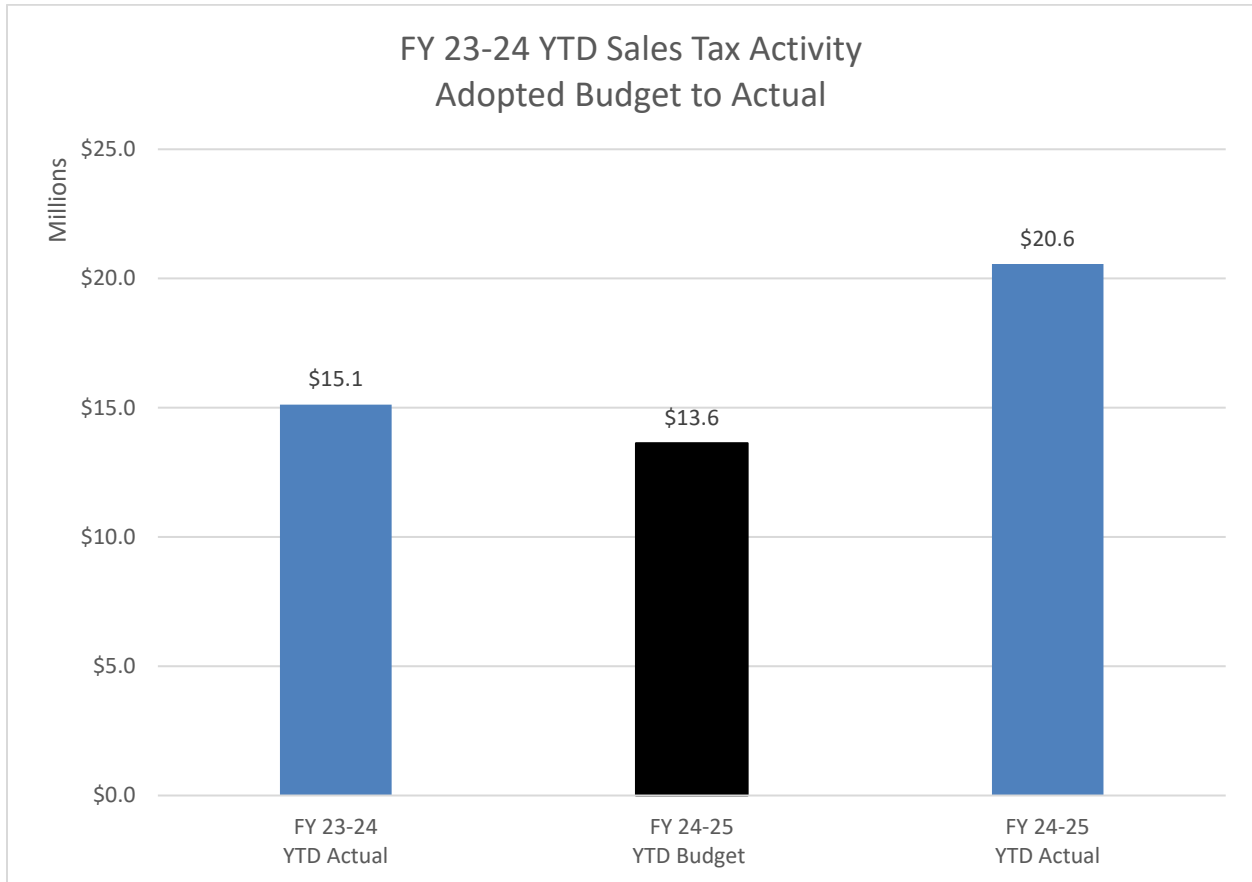
This report contains information regarding the actual revenue collections from the Town's 2.0% sales tax reflected in the General Fund, 0.25% dedicated EMS sales tax, 0.25% Town Center dedicated sales tax and the 2.0% Construction Contracting sales tax dedicated to infrastructure improvements.

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YEAR-TO-DATE FY 24-25 SALES TAX ACTIVITY

OVERALL PERFORMANCE SUMMARY:

The FY25 sales tax revenue total of \$20.6M exceeds the adopted budget by 51%, or \$6.9M. Relative to FY 23-24, FY 24-25 actuals are 36%, or \$5.4M higher than the previous year.



Sales Category	FY 23-24 YTD Actual	FY 24-25 YTD Budget	FY 24-25 YTD Actual	FY 24-25 YTD Budget-To-Actual		FY23-24 YTD Actual to FY 24-25 YTD Actual	
				\$	%	\$	%
Construction	\$ 6,412,924	4,870,529	10,988,885	6,118,356	126%	\$ 4,575,961	71%
Retail Trade	\$ 6,300,907	6,235,456	6,748,543	513,087	8%	447,636	7%
Communications & Utilities	\$ 676,149	737,924	788,876	50,952	7%	112,727	17%
Restaurant & Bar	\$ 956,151	1,046,135	1,043,446	(2,689)	(0%)	87,295	9%
Real Estate, Rental & Leasing	\$ 567,887	525,928	754,537	228,609	43%	186,650	33%
All Others**	\$ 203,542	213,670	234,706	21,036	10%	31,164	15%
Totals	\$ 15,117,560	\$ 13,629,642	\$ 20,558,992	\$ 6,929,350	51%	\$ 5,441,432	36%

**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 2023 American Communities Survey data provided by the U.S. Census, Queen Creek's median household income is \$135,444, 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 August 2023 and August 2024, the number of visits to the Town Center area increased by about 2%. A further discussion of this data can be found in the Retail Trade section.

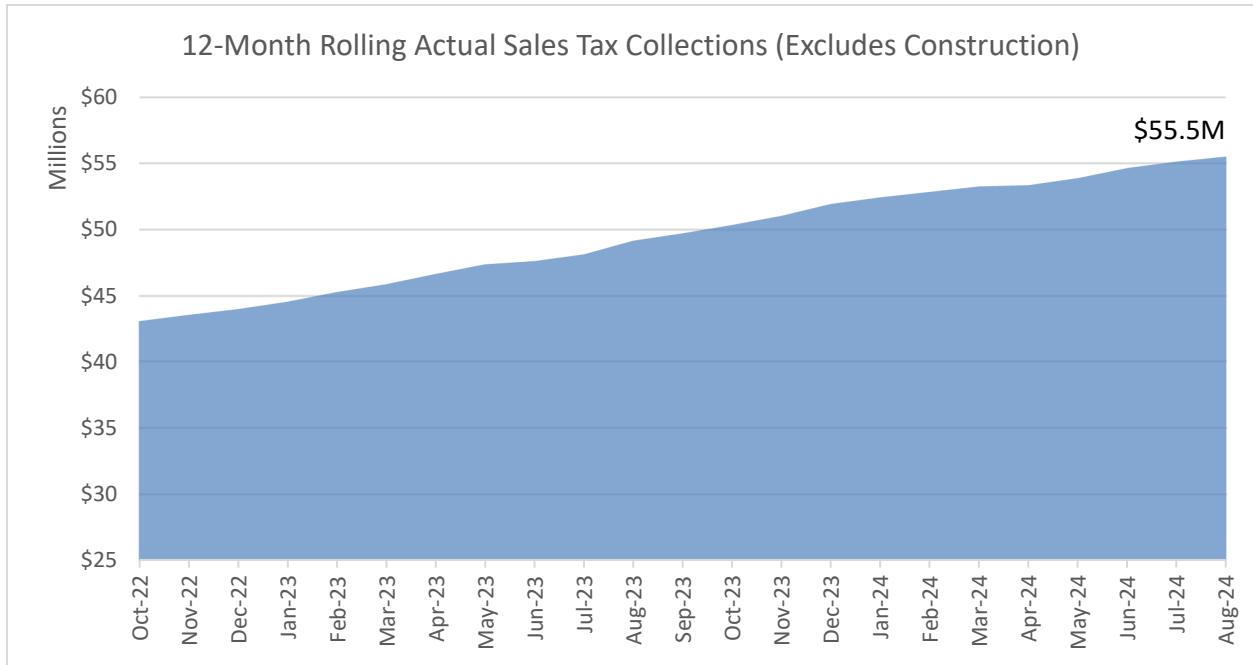
Additionally, taxable spending from an estimated 100K+ population from Eastmark master-planned community (Mesa) and unincorporated San Tan Valley has a significant impact on the Town's sales tax revenues. According to Mobilytics, approximately 36% of visits to the Town Center area from September 2023 through August 2024 were from individuals living in zip code 85142. An additional 28% 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.

August sales tax collections in FY 24-25 were higher than in FY 23-24. 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.

August 2024 Actuals: \$5.6M

FY 24-25 YTD Actuals: \$11M

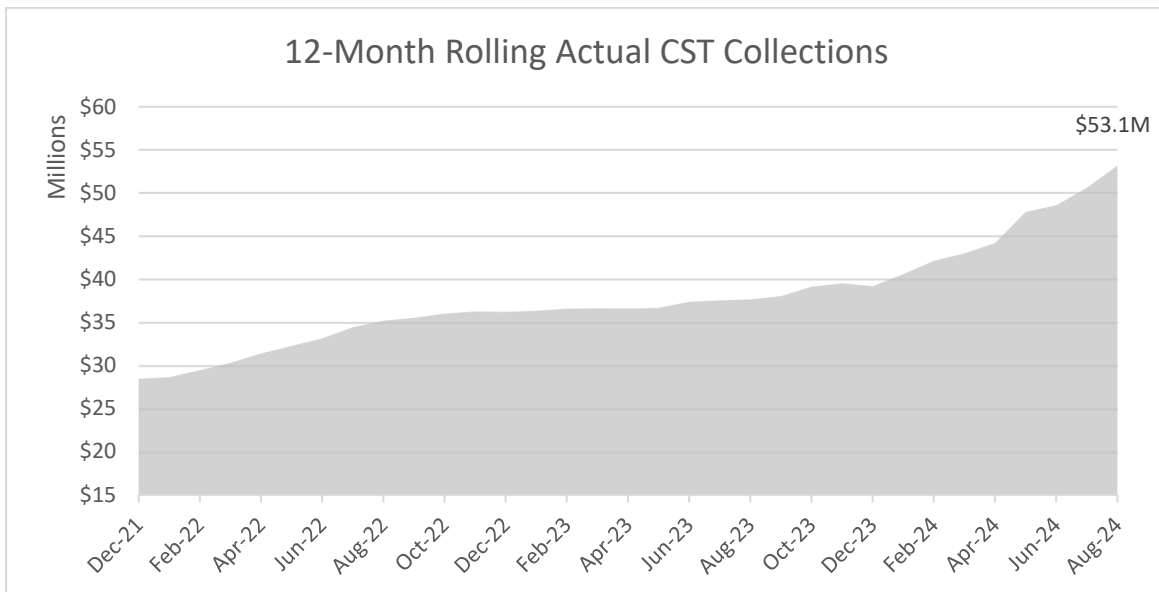
FY 24-25 YTD Adopted Budget to Actual Variance of \$6.1M or 126%

FY 24-25 YTD Actual to FY 23-24 YTD Actual Increase of \$4.6M or 71%

FY 24-25 collections are higher than the FY 24-25 adopted budget and the prior fiscal year actuals through August 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 are also impacting 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 August, 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 family homes over the past few years, multi-family and non-residential activity is remaining strong

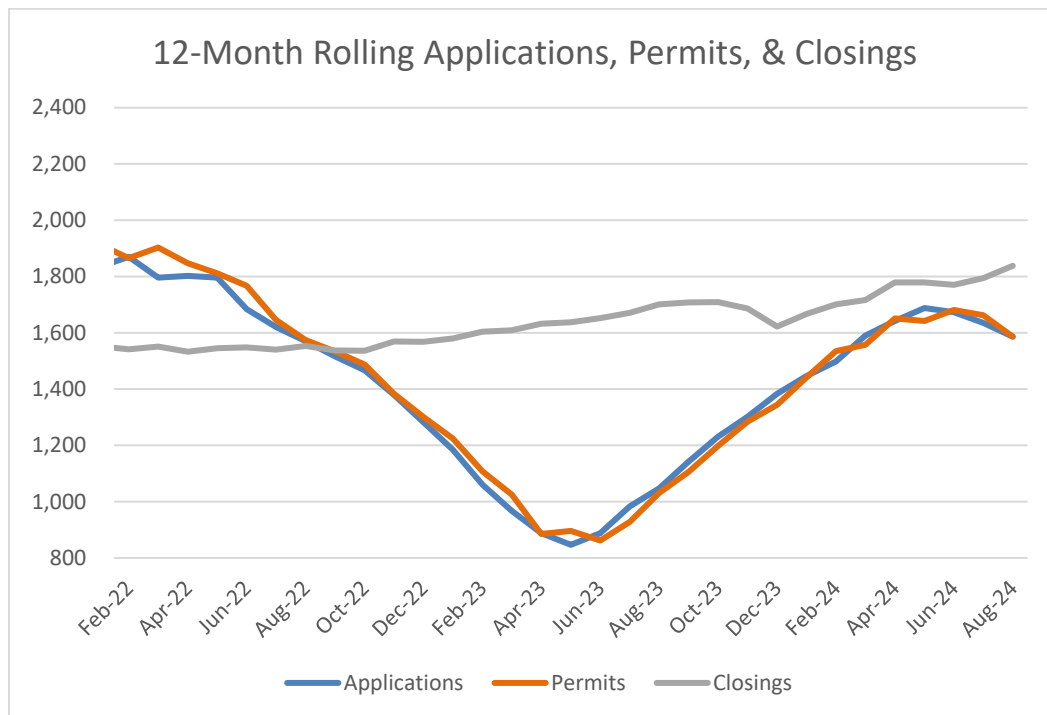
Appendix 1: Queen Creek Monthly Sales Tax Report

and making up the difference in construction sales tax revenues. Additionally, construction activity in the State Lands area relating to the LG industrial project is having a positive impact on construction sales tax revenues.

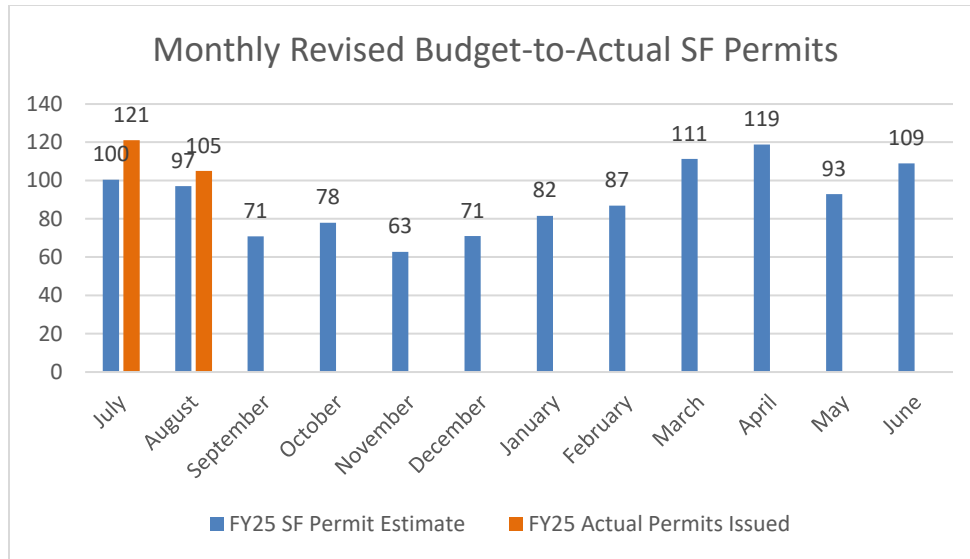
Business Type	FY23 YTD Actuals		FY24 YTD Actuals		FY25 YTD Actuals	
	Sales Tax (\$)	% of Total	Sales Tax (\$)	% of Total	Sales Tax (\$)	% of Total
Homebuilders	\$1.6M	55%	\$1.8M	60%	\$3.5M	63%
Gen. Contractors, Pool/ Landscape, & Other Specialized Trades	\$1.3M	45%	\$1.2M	40%	\$2.1M	37%
Total	\$2.9M	100%	\$3.0M	100%	\$5.6M	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 December 2021:



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, but rebounded in FY 23-24. The FY 24-25 adopted budget included a single family home permit estimate of about 1080 permits. Actual permits issued through August were about 14% of the adopted year-to-date budget.

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 5% of total NSF permits issued in the greater Phoenix area in August. 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 142 new home sales close in the month of August with an average sales price of \$722K for these homes. The following table shows the monthly closings by builder, average sale price and estimated gross revenue for the month of August for new homes that closed within the Town.

Appendix 1: Queen Creek Monthly Sales Tax Report

BUILDER	# CLOSINGS	AVG. SALE PRICE	EST. GROSS REVENUE
LENNAR HOMES	19	\$ 677,688	\$ 12,876,066
TAYLOR MORRISON	15	\$ 839,414	\$ 12,591,212
SHEA HOMES	14	\$ 646,503	\$ 9,051,043
ASHTON WOODS HOMES	12	\$ 640,279	\$ 7,683,346
MATTAMY HOMES	12	\$ 618,361	\$ 7,420,337
RICHMOND AMERICAN	9	\$ 778,849	\$ 7,009,637
WILLIAM LYON HOMES	8	\$ 484,011	\$ 3,872,086
MARACAY HOMES	8	\$ 779,805	\$ 6,238,443
KB HOME	8	\$ 535,356	\$ 4,282,851
TOLL BROTHERS	7	\$ 1,392,699	\$ 9,748,896
PULTE HOMES	7	\$ 793,343	\$ 5,553,399
FULTON HOMES	7	\$ 785,588	\$ 5,499,119
WOODSIDE HOMES	5	\$ 683,046	\$ 3,415,230
DAVID WEEKLEY HOMES	5	\$ 626,908	\$ 3,134,539
BRIGHTLAND HOMES	2	\$ 548,624	\$ 1,097,248
MISC CUSTOM	2	\$ 849,500	\$ 1,699,000
ELLIOTT HOMES	1	\$ 763,400	\$ 763,400
CRESLEIGH HOMES	1	\$ 589,769	\$ 589,769
GRAND TOTAL	142	\$ 722,011	\$ 102,525,621

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.

August 2024 Actuals: \$3.5M

FY 24-25 YTD Actuals: \$6.7M

FY 24-25 YTD Adopted Budget to Actual Variance of \$513K or 8%

FY 24-25 YTD Actual to FY 22-23 YTD Actual Increase of \$447K or 7%

FY 24-25 YTD collections in the retail category were higher than the FY 24-25 adopted 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 August, the top 20 payers of 6,370 total payers in the retail category delivered 68% of the revenue. The top 10 payers in the category account for 60% 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 19% between August 2023 and August 2024. When comparing visits in August 2023 versus August 2024, the total number of visits to the Town Center area is up approximately 2%. 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

Appendix 1: Queen Creek Monthly Sales Tax Report

surrounding 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 August, at least \$583K, or 17%, is estimated to come from e-commerce transactions. August 2024 e-commerce sales tax collections are 12% higher than collections in August 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.

August 2024 Actuals: \$392K

FY 24-25 YTD Actuals: \$788K

FY 24-25 YTD Adopted Budget to Actual Variance of \$50K or 7%

FY 24-25 YTD Actual to FY 23-24 YTD Actual Increase of \$112K or 17%

Year-to-date collections in the communications/utilities category are higher than the adopted FY 24-25 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.

August 2024 Actuals: \$519K

FY 24-25 YTD Actuals: \$1.0M

FY 24-25 YTD Adopted Budget to Actual Variance of \$0 or 0%

FY 24-25 YTD Actual to FY 23-24 YTD Actual Increase of \$87K or 9%

This category is equal to the current year adopted 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.

August 2024 Actuals: \$381K

FY 24-25 YTD Actuals: \$754K

FY 24-25 YTD Adopted Budget to Actual Variance of \$228K or 43%

FY 24-25 YTD Actual to FY 23-24 YTD Actual Increase of \$187K or 33%

This category's collections are above the adopted 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.

August 2024 Actuals: \$112K

FY 24-25 YTD Actuals: \$235K

FY 24-25 YTD Adopted Budget to Actual Variance of \$21K or 10%

FY 24-25 YTD Actual to FY 23-24 YTD Actual Decrease of \$31K or 15%

This category is below prior year actual collections and approximately level with the FY25 adopted 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.

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:

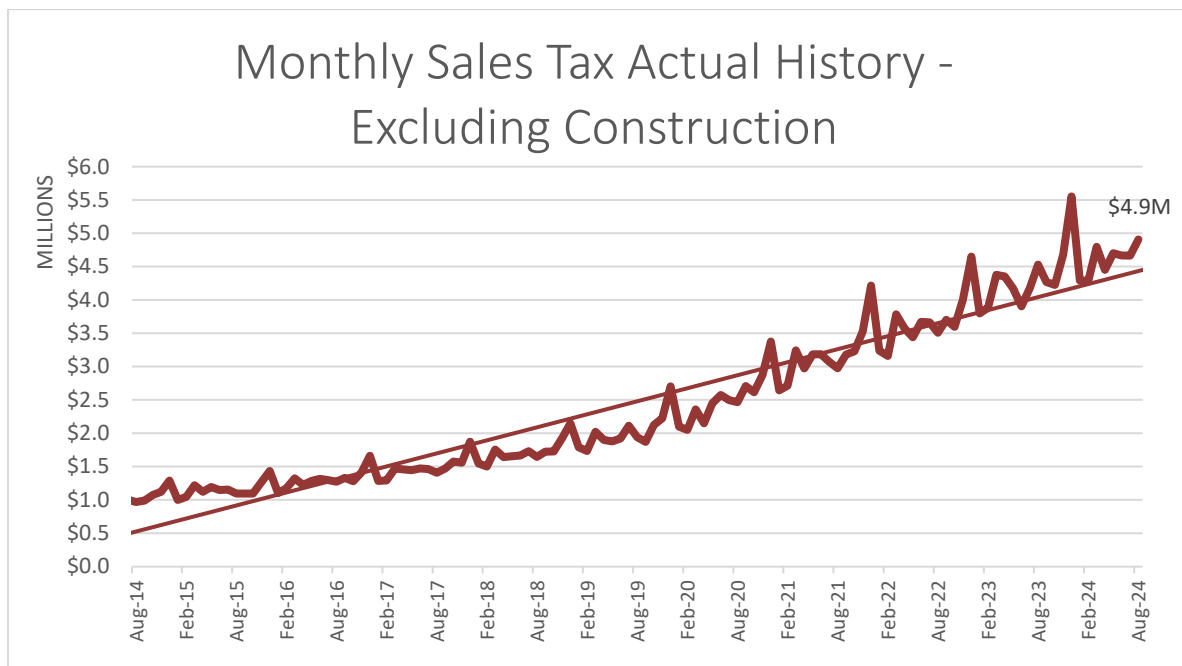
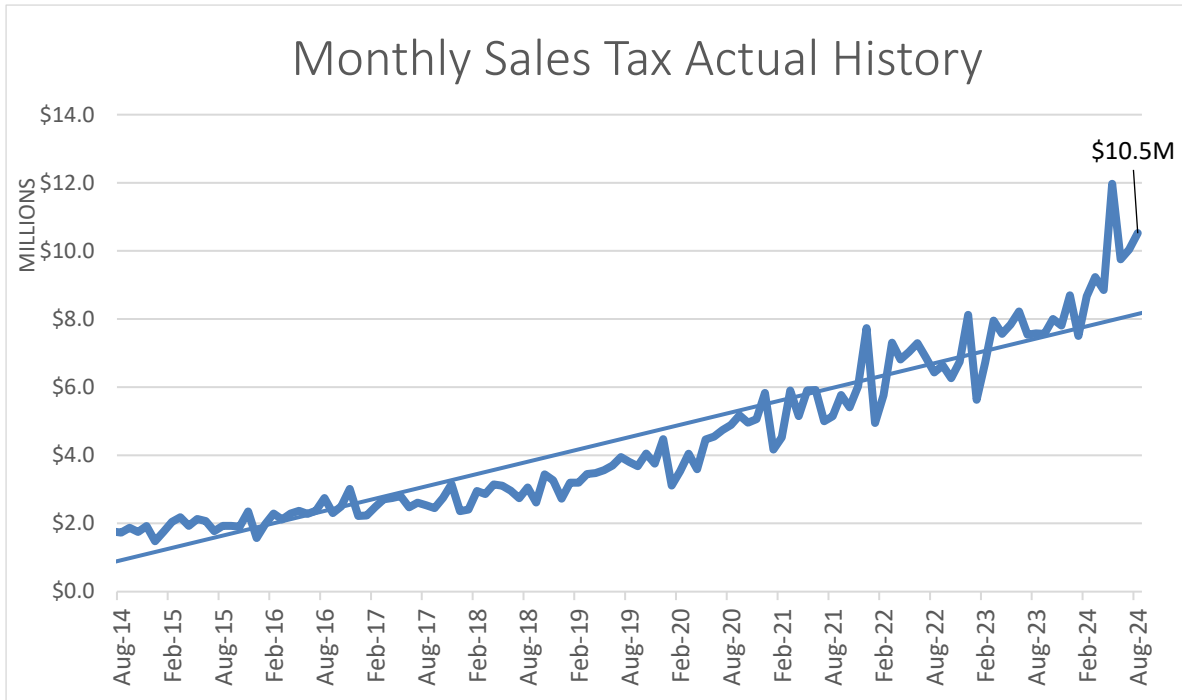
- 2.0% tax rate charged on all taxable activities within Town limits
 - Dedicated to the General Fund for general purpose government operations
- 0.25% tax rate charged on all taxable activities within Town limits
 - Dedicated to the Emergency Services (EMS) Fund to fund law enforcement and fire and 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%

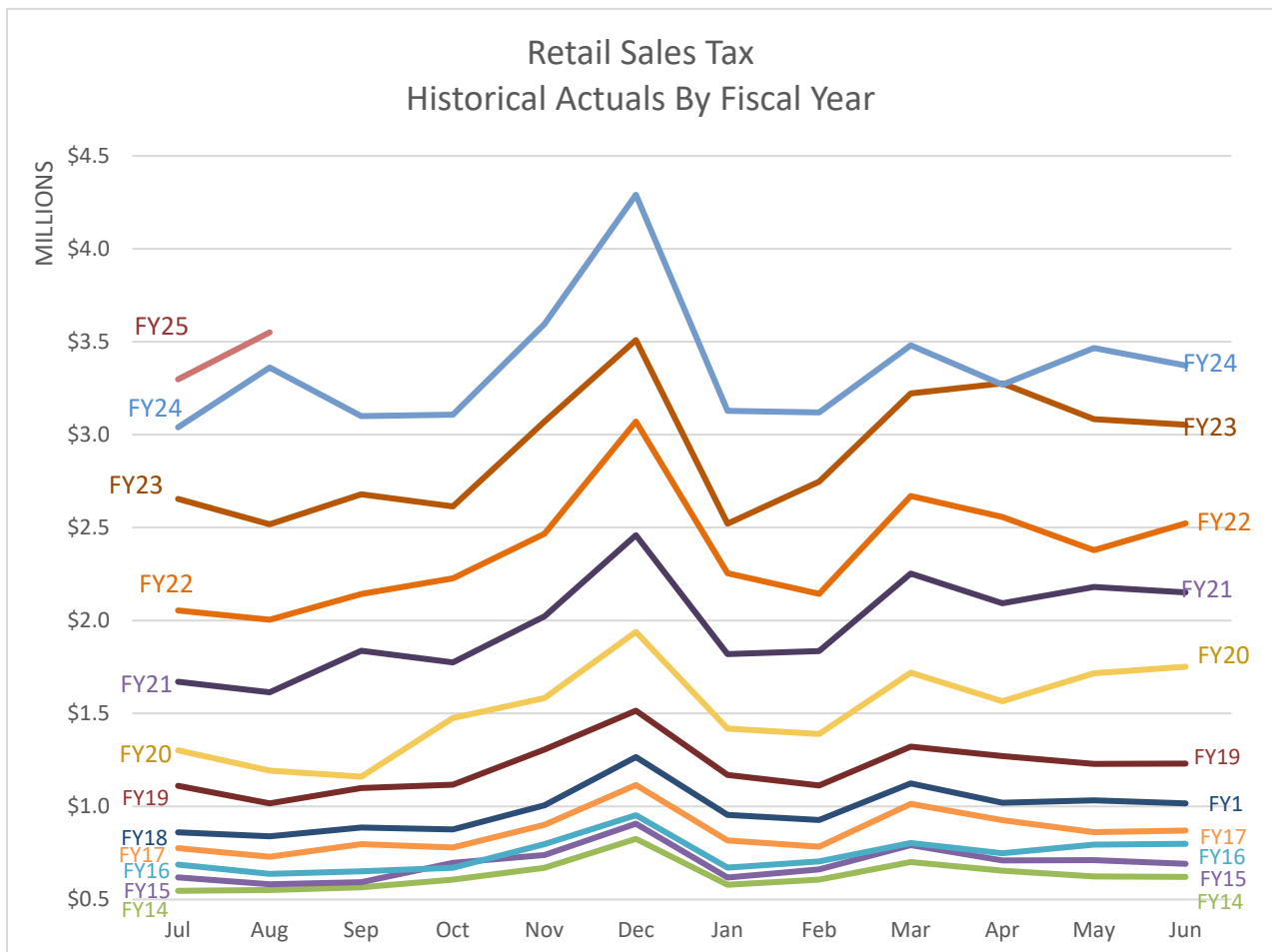
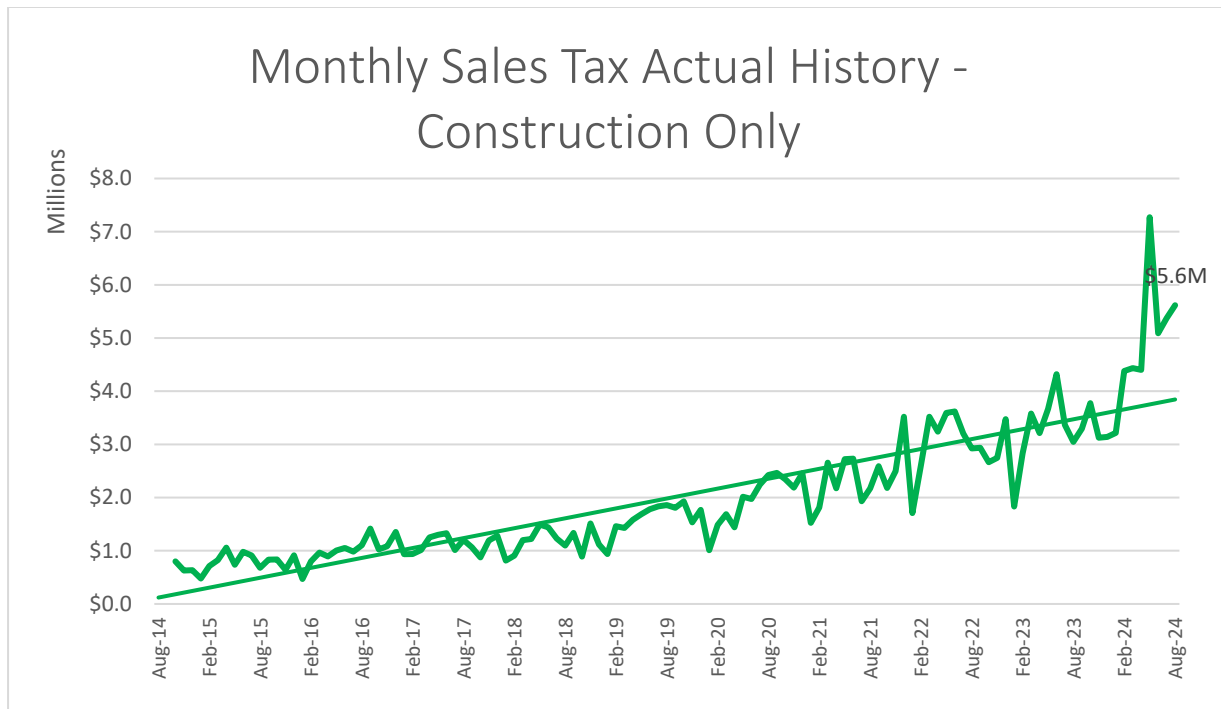
Revenue by Fund	FY25 Actuals YTD		% of Total
General Fund	\$	13,495,392	65.6%
EMS Fund		1,686,924	8.2%
Town Center Fund		205,436	1.0%
Construction Fund		5,171,240	25.2%
Totals	\$	20,558,992	100.0%

Operating Budget	Jul		Aug	FY24-25 YTD		
General Fund	\$	6,580,454	\$	6,914,938	\$	13,495,392
EMS Fund	\$	822,557	\$	864,367	\$	1,686,924
Total Operating Budget	\$	7,403,011	\$	7,779,305	\$	15,182,316

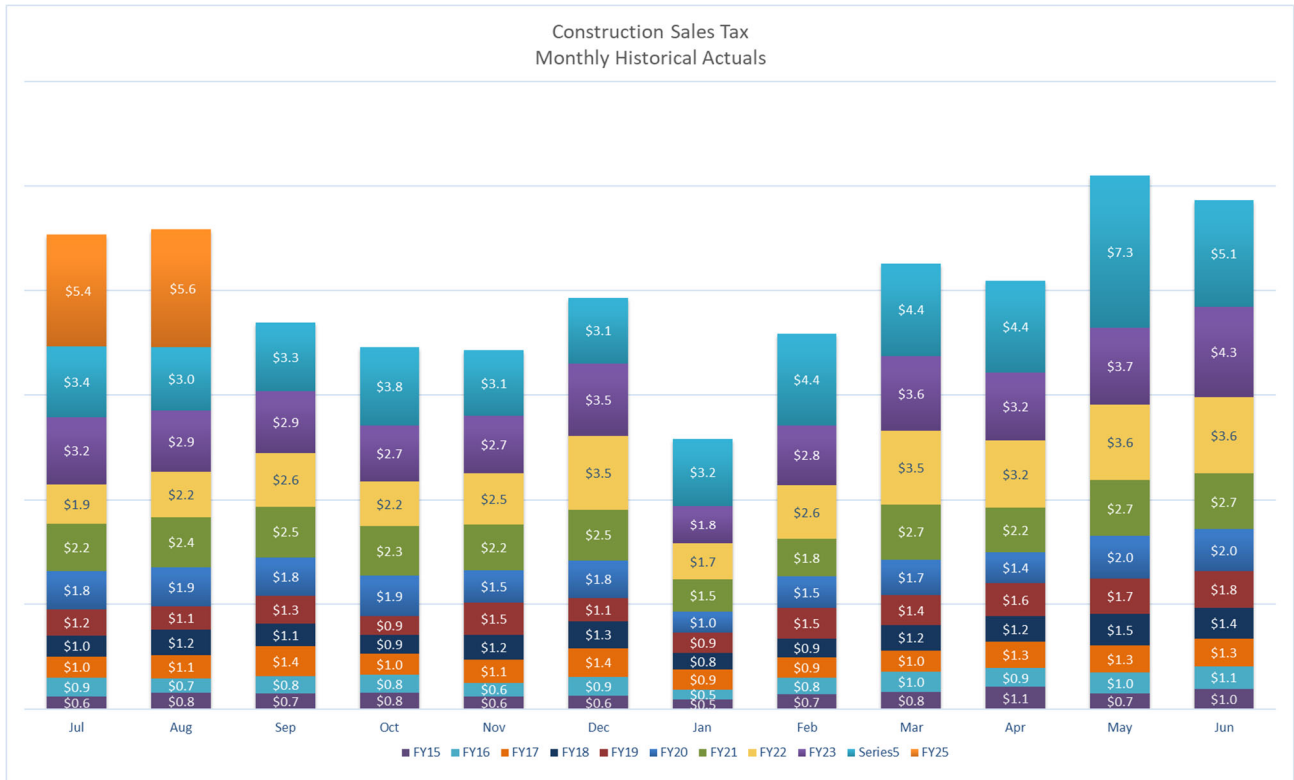
Historical Performance



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