



**Agenda**  
**Budget Committee**  
Town of Queen Creek  
22358 S. Ellsworth Road, Queen Creek, AZ 85142  
Saguaro Conference Room  
February 12, 2014  
4 p.m.

**1. Call to Order**

**2. Items for Discussion and Possible Action**

- A. Consideration and Possible Approval of May 6, May 7 and May 13, 2013 minutes
- B. Discussion and Possible Action on FY12/13 Auditor Report; Recommendations and Management Responses
- C. Discussion and Possible Action on Funding Options for Financing Growth in the Town
- D. Discussion and Possible Action on the Local Home Rule Expenditure Limit Including Election Timetable
- E. Review of Building Fees (Budget item)
- F. Review of FY14/15 Budget Calendar

**3. Announcements**

**4. Adjournment**



**Minutes**  
**Budget Committee**  
Town of Queen Creek  
22350 S. Ellsworth Road, Queen Creek, AZ 85142  
Town Hall, Council Chambers  
May 6, 2013  
6 p.m.

**1. Call to Order**

The meeting was called to order by Chair Oliphant at 6:04 p.m. The following people were in attendance:

Committee Members: Chair Oliphant, Craig Barnes, Robin Benning

Town Staff: John Kross, Town Manager; Patrick Flynn, Assistant Town Manager/CFO; Samantha McPike, Budget Administrator

**2. Items for Discussion and Possible Action**

A. Consideration and possible approval of the March 27, 2013 minutes

Motion: Council Member Barnes                      2<sup>nd</sup>: Council Member Oliphant

**To approve the minutes of March 27, 2013.**

Motion carried unanimously

B. Discussion and possible approval of the Queen Creek FY2013/14 Operating and Capital Improvement budget

- 1) Background information including possible brief review of the 5 year financial plan
- 2) Operating budgets by department/cost center (General Fund) including not-for-profit budgets
- 3) Enterprise fund budgets by department/cost center including associated capital improvement projects
- 4) Other Capital Improvement and Development fund budgets

5) Other Town fund budgets

The committee reviewed the FY13/14 operating budget and capital improvements program budget. The Development Services department budget will be reviewed on May 7. The not-for-profit budgets will be reviewed on May 13.

Town Council recommended base budget is \$199,935 and includes

- Compensation
- Professional development at \$5,000 per person

Council member Barnes asked to include a place marker in this budget for raising the pay for the Vice Mayor position. The process would include presenting a resolution and council approval.

Town Clerk recommended base budget is \$233,000

- Major cost is the election cycle

Town Manager recommended base budget is \$797,597

- this department will go from 5 to 7 employees next year
- recommended supplements include
  - service delivery optimization (\$30,000)
  - comp & class study (\$40,000)

Workforce & Technology recommended base budget is \$443,000

- supplemental request includes
  - business analyst to assist with complex software programs
  - virtual desktop

Economic Development recommended base budget is \$544,122

- department is comprised of
  - Communications & Marketing
  - Horseshoe Park & Equestrian Centre
  - Economic Development
- Communications & Marketing supplemental requests
  - Branding events & festivals for \$15,000
    - Help offset traffic control and other items to attract events
  - Part-time Media Specialist for \$35,000
    - Increase position from part-time to full time
- Horseshoe Park & Equestrian Centre (enterprise fund)
  - Contractual services includes
    - Temp labor
    - Legal services
    - Custodial services

- Implementing new system to charge back IT time at HPEC
- Fees and services includes
  - Liability insurance
  - Marketing for HPEC
- HPEC materials includes
  - Bedding
  - Stall mats
  - Fuel
- Other includes equipment rental
- Repair and Maintenance includes
  - Erosion control
  - Panel replacements
- Supplemental requests for HPEC include
  - Full time maintenance & operations technician
    - Safety
    - Quick turn around time to shift events
  - Sound for shed rows/barns

In the future staff may need to look at the main sound system.

- QC Inc
  - Transitioned to old parks building
  - In lieu of paying rent, the Chamber provides front desk coverage
  - Supplement request brings the part-time person to full time at the front desk
- Economic Development
  - Supplemental Requests include
    - Hotel feasibility study
    - Economic development analyst for demographic research

Recessed at 7:37 p.m. and reconvened at 7:47 p.m.

#### Management Services

- Department is comprised of
  - Budget
  - Finance administration
  - Recreational programs
- Budget – recommended base budget is \$176,000
- Finance & Administration – recommended base budget is \$562,000 - includes
  - Payroll
  - Accounts payable

- Financial statements
- Recreational Programs – recommended base budget is \$566,000

**Legal Services**

- The Town contracts for these services

**Utility**

- The 6% increase in utilities is from SRP

**Non-Departmental – recommended base budget is \$2.8 million**

- Sales tax revenue is \$1.8 million  
This is 50% sales tax refund from Cornerstone and Vestar for the repayment of Ellsworth Loop road
- Other of \$335,000 is the base for the not-for-profits and vacation payouts
- Fees & Services of \$387,000 is for contractual services
  - Primarily for lobbyist and development fee study
  - The independent audit and sales tax audit is also included

The Budget Committee reviewed the enterprise funds expenditures and supplemental requests.

**EMS**

- Revenues of \$5.8 million are from Town sales tax and property tax, and the new fire district
- Expenditures of \$8.1 million
  - The deficit is from the recession and lower property tax
  - There is a 3 year payment to Rural Metro from the fire district
  - Suggesting a school resource officer (SRO), some capital needs, and a new piece of apparatus which will be leased
- Supplemental requests include
  - 2 Fire Fighter positions
  - Fire apparatus. This new truck will be stationed at 412
  - Resource Office for Higley Middle School

The Committee asked that the Maricopa County Sheriff Resource Officer (MCSRO) discussion be brought back for discussion with the full Town Council at a future meeting.

**Solid Waste recommended base budget is \$1.7 million**

- Supplemental requests include
  - Part-time Inspector
  - Part-time Admin

### Sewer/Waste Water

- \$3.2 million is debt service on the Greenfield reclamation plan and other buy-ins
  - Starting to look at improvements in the Greenfield plant. There will be some replacement costs.
- Supplemental requests include
  - Waste Water CIP - includes odor control program

### Water

- Supplemental requests include
  - Water truck
  - Management Assistant position
- Caveat, there is no H2O in this budget
  - If the election in May is successful, there will be a ceiling of \$100m added to the budget.
- Will be installing 34 additional fire hydrants into the system
- The water main line agreements will be reissued

This concludes the enterprise funds.

### Drainage & Transportation

- LGIP-Construction Sales Tax in 2014 is \$1.3m
- The projects include
  - freeway directional signs
  - Transportation Study at \$150k
- The debt service payment includes the Town's share of Ellsworth Loop Road and other bonds for our transportation program
- One suggested change is to build the traffic signal on Chandler Heights at Sossaman which includes a turn lane and widening the intersection. This change would move the project from the unfunded projects.

### Other Capital Project Recommendations

- Supplemental requests include
  - Splash Pad
  - Dog Park
- Added projects
  - Monument signs – Welcome to Queen Creek (5 signs @ \$20,000)
  - Shade Structure
  - Flashing yellow light to turn left at specific times during the day
  - Crosswalk

HURF - Highway User Fund

- There are some unfunded street maintenance/repair projects

Other Funds

- Town Center
- Community Events
  - This is where Trunk or Treat or Passport to Discovery is funded because we do not always receive the money needed
- Special Assessment
  - Pays for Ellsworth Loop Road – Debt service is \$3.9m/year
- Street Light Improvement Districts
  - The Town has 62 improvement districts
  - The Town is the collection agency and pays the bill to SRP

3. **Announcements**

4. **Adjournment**

Meeting adjourned at 9:45 p.m.

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TOWN OF QUEEN CREEK

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Council Member Oliphant, Chair

Prepared by:

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Marsha Hunt  
Sr. Administrative Assistant

I, Marsha Hunt, do hereby certify that, to the best of my knowledge and belief, the foregoing minutes are a true and correct copy of the minutes of the May 6, 2013 Budget Committee Meeting. I further certify that the meeting was duly called and that a quorum was present.

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Marsha Hunt  
Sr. Administrative Assistant

Passed and approved on: \_\_\_\_\_



## **Minutes**

### **Budget Committee**

Town of Queen Creek

22350 S. Ellsworth Road, Queen Creek, AZ 85142

Town Hall, Council Chambers

May 7, 2013

6 p.m.

#### **1. Call to Order**

The meeting was called to order by Chair Oliphant at 6:13 p.m. The following people were in attendance:

Committee Members: Chair Oliphant, Craig Barnes, Robin Benning

Town Staff: John Kross, Town Manager; Patrick Flynn, Assistant Town Manager/CFO; Samantha McPike, Budget Administrator

#### **2. Items for Discussion and Possible Action**

A. Consideration and possible approval of the March 27, 2013 minutes

Approved at the May 6, 2013 Budget Committee meeting

Minutes were approved at the May 6, 2013 Budget Committee meeting.

B. Discussion and possible approval of the Queen Creek FY2013/14 Operating and Capital Improvement budget

1) Background information including possible brief review of the 5 year financial plan

2) Operating budgets by department/cost center (General Fund) including not-for-profit budgets

The Budget Committee reviewed the Development Services department operating budget. Chris Anaradian, Development Services Director, reviewed a hybrid approach with a balance of staff and contract services. The divisions within the Development Services Department include:

- Building Safety
- Development Services Admin
- Engineering
- Facilities Maintenance
- Fleet Maintenance



- Neighborhood Preservation
- Parks & Ground Maintenance
- Planning
- Public Works
- Street Maintenance
- Traffic

Some of the recommended supplemental expenditures include:

- General Plan Update
  - required to have done in 2018
- Principal Planner
  - based on service needs
  - pursue grant opportunities
  - manage high profile projects through entitlements
- Planning Administrative Assistant
  - track outcome data (projects in process, completed, types, amounts)
  - document review and coordination
- Transportation Study
  - existing study dates from May 2007
- Traffic Engineer
  - review goals for Town's build out
  - attend agency meetings
- Plans Examiner
- Part-Time Neighborhood Preservation Coordinator (2 FTE)
  - primary focus will be signs, weeds and parking
  - part-time staff can work weekends
- Maintenance and Operations Assistance (2FTE)
  - position is to get caught up on the increase in our pavement infrastructure, sidewalks, storm drains and basins, and bridges
- Part-Time Park Ranger
  - for customer service during peak hours and weekends
- Case 570 NXT Tractor w/Cab
  - tractors are shared with 3 divisions
  - HPEC has increased events since 2009
  - wash clean up – safety for bee attacks

One additional capital item was discussed. They would like to add Ocotillo Road between Power and Recker which does not exist today. There is another school that would like to develop in this area.

- 3) Enterprise fund budgets by department/cost center including associated capital improvement projects
- 4) Other Capital Improvement and Development fund budgets
- 5) Other Town fund budgets

**3. Announcements**

The Budget Committee will review not-for-profit budget requests at the May, 13, 2013 meeting.

**4. Adjournment**

The meeting adjourned at 8:29 p.m.

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TOWN OF QUEEN CREEK

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Council Member Oliphant, Chair

Prepared by:

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Marsha Hunt  
Sr. Administrative Assistant

I, Marsha Hunt, do hereby certify that, to the best of my knowledge and belief, the foregoing minutes are a true and correct copy of the minutes of the May 7, 2013 Budget Committee Meeting. I further certify that the meeting was duly called and that a quorum was present.

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Marsha Hunt  
Sr. Administrative Assistant

Passed and approved on: \_\_\_\_\_



Motion carried unanimously.

Friends of Horseshoe Park – Roots N’ Boots

Motion: Council Member Benning 2<sup>nd</sup>: Council Member Barnes

**To approve \$20,000 as a monetary loan and \$25,000 in in-kind services to the Friends of Horseshoe Park.**

Motion carried unanimously.

Child Crisis – Arizona Adoption and Foster Care

Motion: Council Member Benning 2<sup>nd</sup>: Council Member Barnes

**To approve monetary funding of \$2,500 for the Child Crisis – Arizona Adoption and Foster Care.**

Motion carried unanimously.

Child Crisis - Family Resource Center

Motion: Council Member Barnes 2<sup>nd</sup>: Council Member Benning

**To approve monetary funding of \$5,000 requested by the Child Crisis – Family Resource Center.**

Motion carried unanimously.

Pan De Vida Foundation – Community Fair

Motion: Council Member Barnes 2<sup>nd</sup>: Council Member Benning

**To fund \$5,500 of which \$3,000 is monetary funding and \$2,500 is in-kind services to Pan De Vida Foundation.**

Motion carried unanimously.

Queen Creek 4H

Motion: Council Member Barnes 2<sup>nd</sup>: Council Member Benning

**To fund \$4,748 of which \$1,540 is monetary funding and \$3,208 for in-kind services.**

Motion carried unanimously.

Queen Creek Schools Education Foundation – Golf Outing

Motion: Council Member Benning 2<sup>nd</sup>: Council Member Barnes

**To approve monetary funding of \$1,000 for the Queen Creek Schools Education Foundation - Golf Outing.**

Motion carried unanimously.

Queen Creek Schools Education Foundation – Zombie Run

Motion: Council Member Barnes 2<sup>nd</sup>: None

**To approve monetary funding of \$1,000 for the Queen Creek Schools Education Foundation Zombie Run.**

Motion failed due to a lack of a second.

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Budget Committee

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Kiwanis Club of Queen Creek – 4<sup>th</sup> of July Celebration

Motion: Council Member Barnes                      2<sup>nd</sup>: Council Member Benning

**To approve \$5,000 of in-kind services to the Kiwanis Club of Queen Creek – 4<sup>th</sup> of July Celebration.**

Motion carried unanimously

Holiday Festival & Parade

Motion: Council Member Benning                      2<sup>nd</sup>: Council Member Barnes

**To approve not to exceed \$5,000 of in-kind services to the Holiday Festival & Parade.**

Motion carried unanimously.

Hoofbeats with Heart – Jump for a Cause

Motion: Council Member Benning                      2<sup>nd</sup>: Council Member Barnes

**To provide \$5,000 of in-kind services to Hoofbeats with Heart-Jump for a Cause dedicated to the lease of the arena from the Town of Queen Creek at Horseshoe Park & Equestrian Centre.**

Motion carried unanimously.

American Legion – 9/11 Memorial & Rent for a Post.

Motion: Council Member/Chair Oliphant                      2<sup>nd</sup>: Council Member Benning

**To provide \$1,430 in monetary funds for the 9/11 Memorial and \$1,500 for in-kind services to the American Legion.**

Motion carried.

Recessed at 8:48 p.m. and reconvened at 8:53 p.m.

B. Final discussion and recommendations on the FY13/14 Operating and Capital Improvement Budget

The Higley School District will be withdrawing the request for a resource officer. This item was suggested to be a Town Council retreat item.

Any adjustments to accommodate the vote of the H2O Water Department acquisition will be made to the budget.

Motion: Council Member Benning                      2<sup>nd</sup>: Council Member Barnes

**To approve the FY13/14 Operating and Capital Improvement Budget.**

Motion carried unanimously.

The Town Council will review the budget for final decision on June 5 and 19, 2013.

**3. Announcements**

None

**4. Adjournment**

Meeting adjourned at 8:57 p.m.

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TOWN OF QUEEN CREEK

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Council Member Oliphant, Chair

Prepared by:

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Marsha Hunt  
Sr. Administrative Assistant

I, Marsha Hunt, do hereby certify that, to the best of my knowledge and belief, the foregoing minutes are a true and correct copy of the minutes of the May 13, 2013 Budget Committee Meeting. I further certify that the meeting was duly called and that a quorum was present.

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Marsha Hunt  
Sr. Administrative Assistant

Passed and approved on: \_\_\_\_\_

Requesting Department:  
Town Manager



**TO: TOWN COUNCIL BUDGET COMMITTEE**

**FROM: PATRICK FLYNN, ASSISTANT TOWN MANAGER/CFO** *PF*  
**JOHN KROSS, TOWN MANAGER**

**RE: DISCUSSION AND POSSIBLE ACTION ON THE FY 12/13**  
**AUDITOR REPORT AND RECOMMENDATIONS**

**DATE: FEBRUARY 12, 2014**

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Staff Recommendation

Staff recommends accepting the auditor's report, associated recommendations, and staff response to these recommendations.

Proposed Motion

Motion to accept as outlined in staff's recommendation above.

Discussion

The Town's financial records are audited annually by an independent certified public accounting firm. The firm of Clifton Larson Allen (CLA) performed the audit of Town financial records for the fiscal year ending June 30, 2013. Several weeks ago I distributed the Town's Comprehensive Annual Financial Report (CAFR) to the Town Council and made the document available on our website for the public. You will find as part of the CAFR, an "unmodified" audit opinion issued by the auditors on our financial records. Audit opinions range from "unmodified", the highest opinion, to "adverse" or "no opinion" on the other end of the spectrum. By having the highest audit rating, we maintain our strength in the financial community, especially with our bond and debt program.

In addition, as part of the CAFR, you will also find the Town is in sound financial condition. Our financial reserves and balances grew over the past year primarily because of careful budgeting but also because of the significant building uptick that has occurred since spring, 2012. As you know, we experienced some very difficult financial times during the Great Recession, but by "living within our means" and by taking appropriate budget action throughout this period, we were able to preserve a sound financial condition for the Town.

Further, as part of the annual audit, the auditors not only examine your financial records but also look at your townwide financial operations and internal controls as best possible to see if there is any potential deficiencies and areas in which improvement can be made.

Attached Exhibit A is the auditor's findings and management response to these findings. The Town received 5 findings from the auditor, one each from Finance, Development Services and Information Technology and two from our HPEC operation. In general, you will see findings ranging from issues of separation of duties (handling cash and accounting by the same person) to an issue about computer access control. We of course take these findings very seriously and to that end we have provided our response to them. Although we strive not to have a finding, we appreciate the auditor's work and look at it as part of our "continuous improvement" program. I can safely say and the auditors would agree that we have made substantial strides in all of our programs from a year ago, given the impacts from the "Great Recession." Moreover, we were able to eliminate the finding on "Financial Reporting" found in previous audits of the Town, following a comprehensive program to make improvements in this area (part of our management response from a year ago).

In addition to the Auditor's findings and our responses, we have included for your information an overview of the audit (Exhibit B) and what the Auditor encountered during the audit. As you can see, they encountered no difficulties in performing and completing the audit. Moreover Exhibit C is the formal letter from the auditors regarding the findings (without management responses).

In conclusion, the Town is in sound financial condition. We again achieved an "unmodified" audit opinion on our FY 12/13 CAFR. However, we have some improvement to make in our Town operations and internal control and as you can see, we are in a position to make them and move forward.



## **FY 12/13 Auditor Findings & Management Responses**

### **Auditor Finding #1 – Material Audit Adjustments - Finance**

As part of the audit, we proposed journal entries to accrue additional revenue, allocate interest and change in fair market value of investments to the governmental and proprietary funds based on average cash balances, properly state interfund loan balances and recognize related interest income and expense, and eliminate loan principal expense and adjust the loan liability to actual in the Wastewater Fund and Water Fund. These entries indicate lack of controls over the year-end close-out process and the financial reporting process. A lack of controls over the year-end close-out process could result in a material misstatement in the financial statements that would not be prevented or detected.

### **Management Response #1 – Material Audit Adjustments - Finance**

We concur with the auditor's finding. Frankly, a year ago, we had 7 audit findings from the auditor pertinent to the Town's financial operation; this year we are down to one finding in this area. While I don't condone this finding, we have made such substantial progress from a year ago that we have to make note of this. I am sure the auditor concurs as well.

Regarding this finding, accounting staff did not make several accounting adjustments in the closing of the books. On page 3 of Exhibit B is a listing of these accounting adjustments that the auditors made in this course of auditing the financial records of the Town.

While we always strive for having no auditor adjustments and we will add these types of adjustments to our annual checklist for closing the books, the accounting group processes thousand of financial transactions per year in order to arrive at the year-end financial report. We look at this as part of "continuous improvement" in our financial operation, and the audit finding is noted and part of our annual checklist.

### **Auditor Finding #2 - Segregation of Duties – Development Services**

Duties over the collecting, recording, reconciling and voiding of building permit cash receipts are not properly segregated. One employee is responsible for setting up the permit record, collecting the cash receipt, entering the cash receipt into the Munis system, updating the permit record with the cash receipt information, and reconciling the cash received for the day to the Munis system. In addition, this employee also has the ability to void or reverse a cash receipt transaction in the Munis system. In order to strengthen internal controls over cash receipting, management should analyze the personnel resources available and reassign duties to establish the segregation the duties recommended. We recommend an employee separate from the cash receipting process reconcile the cash receipts for the day to the Munis system and employees involved in collecting and inputting of cash receipts or reconciling the cash receipts should not have the ability to void or reverse the transaction. In addition, an individual independent of the cash receipt process should reconcile the revenues from the permit system to the general ledger on a regular basis.

**Management Response #2 – Segregation of Duties – Development Services**

Since the audit was performed, Development Services (Building group) has added one additional Permit Technician. This allows for two separate people to handle the processing of permit records, collection of cash receipts, entering cash receipts into Munis, updating permit records with cash receipt information, and reconciling the cash received for the day to the Munis system.

Permit Technician staff under the direction of the Building Official implemented a specific plan that identifies which team member handles each step in the process so that the same person is not performing all the steps.

**Auditor Finding #3 - Recordkeeping – Horseshoe Park and Equestrian Centre**

The park does not have adequate procedures in place to account for and track the number of units sold for non-contract based revenues such as RV parking, bedding and stall rentals. Without such procedures and tracking mechanisms in place, mishandling of cash could go

undetected. We recommend the Town implement procedures to track units sold and reconcile the units sold to cash collections.

**Management Response #3 – Recordkeeping - HPEC**

Over the course of the last couple of years HPEC staff and management has worked to improve procedures for the tracking of units of non-contract based revenues. Staff is currently working on phasing out any contracts where staff is responsible for collecting individual payments for each of the barn stalls, RV stalls and bedding sales. All new contracts will put the responsibility on the show or event promoter and staff will only be responsible for spot checking inventory levels. Contracts will outline the estimated number of stall rentals and bags of bedding needed to ensure inventory will be available. Staff will be responsible for verifying the number of stalls rented and bags of bedding sold and invoice the customer for the correct amount. The event promoter will be responsible for making one payment to HPEC for these expenses.

Transitioning the contracts in this manner will drive business activity to the show office and greatly reduce the need for cash handling on-site.

In some circumstances staff is forced to handle cash outside of the show office. Staff has tried to correct this by implementing mobile devices (Ipad, tablets) but due to the spotty wireless connection in the park this was not a good solution. Staff also evaluated mobile credit card devices, including “the Square” and these were not considered effective solutions by the auditors due to electronic security issues.

One solution that staff has looked into is the use of ActiveNet software to track rentals and receipt customers on-site. This solution would cost \$20,000 with on-going annual charges of approximately \$6,000. This will be evaluated more closely in the coming months.

**Auditor Finding #4 - Contract Administration – Horseshoe Park and Equestrian Centre**

The HPEC enters into various contracts with companies for events at the HPEC. There are some contracts that provide significant recreation fees and other contracts that provide terms of

property transferred in lieu of cash as payment for the services. These contracts are reviewed and approved by the HPEC General Manager. One of eleven contracts tested was revised after initial approval however documentation of the revision was not maintained. In addition, an in lieu of cash transaction was not properly recorded in the Town's general ledger system for one of eleven contracts tested. We recommend the town ensure that contract revisions are documented and retained. Contract revisions should be reviewed and approved by management and evidence of this approval should be indicated on the contract. All in lieu of cash transactions should be reported to the finance department to ensure the revenue is properly recognized.

**Management Response #4 – Contract Administration - HPEC**

The one contract that did not reflect revised documentation for the "in lieu of cash transaction" was due to the very recent change in the contract. Unfortunately the revision was not recorded as promptly as it should have been.

Moving forward staff will be more diligent in recording the revisions to all contracts that include the in lieu of cash transactions and will be reported to the finance department to ensure the revenue is properly recognized.

**Auditor Finding #5 - Implementation of Logical Access Controls – Information Technology**

Periodic reviews of end-user access rights are not performed, which creates a potential situation for abuse. We recommend that the Town perform a review of all user access permissions across all systems at least every six months as most systems are compromised from within (excessive permissions, user error, disgruntled employees). The reviews should be performed by the departmental supervisors/managers of all of the involved users and should cover new hires, temporary employees, terminated employees, and management access. A clearly documented trail should be retained for each review of end-user's permissions, including signature approval and date of access review.

**Management Response #5 – Implementation of Logical Access Controls – IT**

In response to the internal control finding regarding MUNIS Logical Access Controls, the following will be performed in the next 90 days:

1. Bruce Gardner, Workforce & Technology Director, and Kim Clark, Business Analyst, will perform an end-user access permission audit across all MUNIS systems.
2. A form will be created by the Supervisor and Department Director of each end-user with access permissions to the MUNIS system will be required to sign-off approval of the associated permissions, including date of access review. The form will be placed within the employee's file.
3. Future reviews will be completed every six months. Kim Clark will identify an electronic form for future permission approvals to automate the process.



Honorable Mayor and Members of the Town Council  
Town of Queen Creek, Arizona  
Queen Creek, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Queen Creek, Arizona for the year ended June 30, 2013, and have issued our report thereon dated November 19, 2013. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

**Significant audit findings**

***Qualitative aspects of accounting practices***

**Accounting policies**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town of Queen Creek, Arizona are described in Note 1 to the financial statements.

For the year ended June 30, 2013, the financial statements include the impact of adoption of Governmental Accounting Standards Board statement numbers 62, 63 and 65.

*GASBS 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, supersedes GASBS 20. GASBS 20 gave governments the choice to elect to follow only GASB's authoritative literature, or to follow FASB and AICPA pronouncements that did not conflict with GASB pronouncements. Upon adoption of GASBS 62, all governmental accounting guidance is codified into the GASB literature.

*GASBS 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides guidance on deferred outflows and inflows of resources. It also renames the residual amounts from "net assets" to "net position". These financial statements include the statement of net position, which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

*GASB 65, Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Management's estimate of the estimated useful lives and remaining useful lives of capital assets was based on proper experience and the condition of the assets. We evaluated the key factors and assumptions used to develop the estimated useful lives and remaining useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the advances in aid of construction liability is based on historical water usage through applicable water lines and a projection of that usage and estimated increases in usage through the remaining terms of the outstanding contracts. We evaluated the key factors and assumptions used to develop the advances in aid of construction liability in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the land held for investment is based on an appraisal of the property for commercial use in a commercial district. We evaluated the key factors and assumptions used to develop the appraisal in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the allowance for sales tax is based on historical collections and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the compensated absence liability is based on employees who have currently vested and those employees who are expected to vest. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.
- The public safety personnel retirement information reported in the notes to the financial statements is based on actuarial figures and assumptions of a third-party actuary. We reviewed the assumptions and qualifications of the actuary in determining their qualifications and assumptions were reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

***Difficulties encountered in performing the audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.



***Uncorrected misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

***Corrected misstatements***

The following material misstatements detected as a result of audit procedures were corrected by management:

- An adjustment was recorded in the General Fund totaling \$95,173 to accrue revenue.
- An adjustment in the amount of \$226,604 was recorded in the General Fund to properly state interfund loan balances and recognize related interest income and expense.
- Adjustments were recorded to allocate interest income and the change in fair market value to the governmental and proprietary funds based on average cash balances.
- An adjustment in the amount of \$107,604 was recorded in the Drainage and Transportation Fund to properly state interfund loan balances and recognize related interest income and expense.
- An adjustment in the amount of \$118,870 was recorded in the Water Fund to recognize intergovernmental revenue.
- An adjustment to properly state interfund loan balances and recognize related interest income and expense for \$119,000 was posted to the Solid Waste Fund.
- An adjustment to eliminate loan principal expense and adjust the liability to actual totaling \$1,864,187 in the Wastewater Fund and \$1,567,590 in the Water Fund.
- Adjustments were proposed and subsequently recorded to convert the governmental fund financial statements from the modified account basis of accounting to the full accrual basis of accounting for government-wide presentation.

***Disagreements with management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

***Management representations***

We have requested certain representations from management that are included in the management representation letter dated November 19, 2013.



***Management consultations with other independent accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Town’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Significant issues discussed with management prior to engagement***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the Town’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

***Other audit findings or issues***

We have provided a separate letter to you dated November 19, 2013, communicating internal control related matters identified during the audit.

***Audits of group financial statements***

We noted no matters related to the group audit that we consider to be significant to the responsibilities of those charged with governance of the group.

***Limitations on the group audit***

There were no restrictions on our access to information of components or other limitations on the group audit.

***Other information in documents containing audited financial statements***

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management’s responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the combining statements and schedules (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated November 19, 2013.

The introductory and statistical section accompanying the financial statements, which is of a nonaccounting nature and which is the responsibility of management, was prepared for purposes of additional analysis and is not a required part of the financial statements. Such information was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we did not express an opinion or provide any assurance on it.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

\* \* \*

This information is intended solely for the use of the Town Council and management of the Town of Queen Creek, Arizona and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Larson Allen LLP*

Phoenix, Arizona  
November 19, 2013

Town of Queen Creek, Arizona  
 Schedule of Uncorrected Misstatements  
 June 30, 2013

Account	Description	Debit	Credit
<b>Emergency Services Fund</b>			
To properly state beginning fund balance for 2012 property tax revenue.			
447-420-0627-00000-335415	Property Tax Revenue	\$ 55,661	
447-000-0000-00000-900100	Fund Balance		\$ 55,661
<b>Total</b>		<b>\$ 55,661</b>	<b>\$ 55,661</b>
<b>Governmental Activities</b>			
To properly state beginning net position for 2012 property tax revenue.			
999-000-0000-00000-500000	Property Tax Revenue	\$ 55,661	
999-000-0000-00000-900100	Net Position		\$ 55,661
<b>Total</b>		<b>\$ 55,661</b>	<b>\$ 55,661</b>



CliftonLarsonAllen LLP  
www.CLAconnect.com

Honorable Mayor, Members of Town Council  
and Management of the Town of Queen Creek, Arizona  
Queen Creek, Arizona

In planning and performing our audit of the financial statements of the Town of Queen Creek, Arizona as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected, on a timely basis.

#### **Material weaknesses**

We consider the following deficiency in the Town's internal control to be a material weakness.

##### **Material Audit Adjustments**

As part of the audit, we proposed journal entries to accrue additional revenue, allocate interest and change in fair market value of investments to the governmental and proprietary funds based on average cash balances, properly state interfund loan balances and recognize related interest income and expense, and eliminate loan principal expense and adjust the loan liability to actual in the Wastewater Fund and Water Fund. These entries indicate lack of controls over the year-end close-out process and the financial reporting process. A lack of controls over the year-end close-out process could result in a material misstatement in the financial statements that would not be prevented or detected.

### **Significant deficiencies**

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Town's internal control to be significant deficiencies:

#### **Segregation of Duties**

Duties over the collecting, recording, reconciling and voiding of building permit cash receipts are not properly segregated. One employee is responsible for setting up the permit record, collecting the cash receipt, entering the cash receipt into the Munis system, updating the permit record with the cash receipt information, and reconciling the cash received for the day to the Munis system. In addition, this employee also has the ability to void or reverse a cash receipt transaction in the Munis system. In order to strengthen internal controls over cash receipting, management should analyze the personnel resources available and reassign duties to establish the segregation the duties recommended. We recommend an employee separate from the cash receipting process reconcile the cash receipts for the day to the Munis system and employees involved in collecting and inputting of cash receipts or reconciling the cash receipts should not have the ability to void or reverse the transaction. In addition, an individual independent of the cash receipt process should reconcile the revenues from the permit system to the general ledger on a regular basis.

#### **Recordkeeping – Horseshoe Park and Equestrian Centre**

The park does not have adequate procedures in place to account for and track the number of units sold for non-contract based revenues such as RV parking, bedding and stall rentals. Without such procedures and tracking mechanisms in place, mishandling of cash could go undetected. We recommend the Town implement procedures to track units sold and reconcile the units sold to cash collections.

#### **Contract Administration – Horseshoe Park and Equestrian Centre**

The HPEC enters into various contracts with companies for events at the HPEC. There are some contracts that provide significant recreation fees and other contracts that provide terms of property transferred in lieu of cash as payment for the services. These contracts are reviewed and approved by the HPEC director. One of eleven contracts tested was revised after initial approval however documentation of the revision was not maintained. In addition, an in lieu of cash transaction was not properly recorded in the Town's general ledger system for one of eleven contracts tested. We recommend the Town ensure that contract revisions are documented and retained. Contract revisions should be reviewed and approved by management and evidence of this approval should be indicated on the contract. All in lieu of cash transactions should be reported to the finance department to ensure the revenue is properly recognized.

None of the identified significant deficiencies are considered to be material weaknesses.

### **Other deficiencies in internal control and other matters**

During our audit, we became aware of other deficiencies in internal control and other matters that are opportunities for strengthening internal control and operating efficiency. While the nature and magnitude of the other deficiencies in internal control were not considered important enough to merit the attention of council, they are considered of sufficient importance to merit management's attention and are included herein to provide a single, comprehensive communication for both those charged with governance and management.

**Implementation of Logical Access Controls**

Periodic reviews of end-user access rights are not performed, which creates a potential situation for abuse. We recommend that the Town perform a review of all user access permissions across all systems at least every six months as most systems are compromised from within (excessive permissions, user error, disgruntled employees). The reviews should be performed by the departmental supervisors/managers of all of the involved users and should cover new hires, temporary employees, terminated employees, and management access. A clearly documented trail should be retained for each review of end-user's permissions, including signature approval and date of access review.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Town personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

\* \* \*

This communication is intended solely for the information and use of management, Town Council, and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Clifton Larson Allen LLP*

Phoenix, Arizona  
November 19, 2013

Requesting Department:  
Town Manager



**TO: TOWN COUNCIL BUDGET COMMITTEE**

**FROM: PATRICK FLYNN, ASSISTANT TOWN MANAGER/CFO**

**THROUGH: JOHN KROSS, TOWN MANAGER**

**RE: DISCUSSION AND POSSIBLE ACTION ON FINANCING  
GROWTH IN THE TOWN (WITH EMPHASIS ON ROADS AND  
PUBLIC SAFETY)**

**DATE: FEBRUARY 12, 2014**

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**-This is a Retreat Follow-up Item-**

**Discussion**

Financing growth in the Town is a timely topic given the significant building uptick we are seeing in the community. Addressing needed public safety facilities (Fire and Sheriff) plus the never ending road improvements needed to service a growing population will be paramount as we go forward. Additionally, our current park facilities are virtually at capacity and with added residents we will need to address this aspect in future capital programs.

Given the backdrop of the above, our plan for the Budget Committee meeting is to review our options for financing growth in the community. We will among others discuss using current funds, developer monies, review our debt capacity, given current debt outstanding but most of all, the Committee will see all the different financing options. We will also discuss potential means for paying for them, always the key question.

To this end, staff had our bond and capital financing advisor, RBC Capital Market, prepare the attached funding options for financing growth in the Town. Nick Dodd, managing director of RBC, and I plan to review the material with you and get your thoughts on addressing this topic going forward. We first want to vet this issue with the Committee, prior to taking the issue to the full Council.

Again our hope is to have a good discussion on the topic with the Committee.

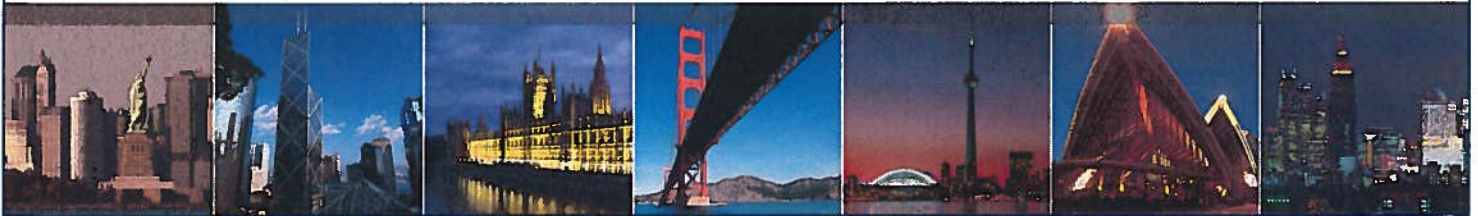
Attachments-Financing Growth Material





# Funding Options for Financing Growth in the Town of Queen Creek

February 2014



RBC Capital Markets®





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# Introduction

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This book has been prepared for the Town of Queen Creek, Arizona (the "Town") to provide summaries of the Town's current debt outstanding and the Town's potential capacity for the issuance of additional debt. It also contains a general summary of financing options available to cities and towns in Arizona, as well as summaries of rating categories.

The Town's interest payments on existing debt are generally made semi-annually and occur on January 1 and July 1. Unless noted otherwise, all outstanding bonded debt figures have been calculated as of July 2, 2013.

In the following sections are summaries of the Town's outstanding bonded debt obligations. The Town currently has the following three types of debt outstanding:

- Excise Tax Bonds
- Improvement District Bonds
- Loans with the Water Infrastructure Financing Authority of Arizona (WIFA)

# Financing Options

## SECTION I



# Summary of Financing Options

---

The Town has numerous options available for financing its capital needs. On the following pages are summaries of each of the financing options listed below:

- Pay-as-you-go funding
- General obligation bonds
- Revenue bonds
  - Utility revenue bonds
  - Street and highway revenue bonds
- Excise Tax Bonds
- Improvement District Bonds
- State Agency Options



# Summary of Financing Options

---

## PAY-AS-YOU-GO FUNDING

### Legal Purposes(s)

---

- Any lawful or necessary purposes

### Characteristics

---

- Least costly funding method
- No debt incurred

### Limitation

---

- Available funds

### Types of Projects Financed

---

- All projects are possible
- Given municipalities' finances, this approach is usually most applicable for smaller maintenance and improvement projects



# Summary of Financing Options

---

## GENERAL OBLIGATION BONDS

### Legal Purpose(s)

---

- Any lawful or necessary purpose

### Characteristics

---

- "Full faith and credit" bonds
- Secured by unlimited property tax pledge
- Debt service can be paid from property taxes or enterprise revenues, e.g. water and sewer system revenues, highway user revenues
- Generally lowest cost financing approach

### Limitations

---

- Subject to voter authorization
- Pursuant to Arizona Constitution, principal outstanding may not exceed:
- 20% of net secondary assessed value for water, sewer, lighting, parks, open spaces, recreational purposes, public safety, law enforcement, fire and emergency facilities and streets and transportation facilities and an additional 6% of net secondary assessed value for all other purposes.

### Types of Projects Financed

---

- All projects are possible
- Projects with strong public support
- Non-revenue supported projects such as:
  - Flood control projects
  - Parks improvements
  - Administrative buildings
- Where bonding capacity allows:
  - water and sewer projects
  - major street projects



# General Obligation Debt Capacity



The ability of the Town to incur general obligation debt is governed by constitutional and statutory provisions of Arizona law, including the requirement of a vote of the electorate to authorize such bonds. Under the provisions of the Arizona Constitution, as amended in 1980 and 2006, outstanding general obligation bonded debt for water, sewer, lighting, parks, open space/recreational purposes, acquisition and development of public safety, law enforcement, fire/emergency facilities and streets/transportation facilities may not exceed 20% of a municipality's net secondary assessed valuation. Outstanding general obligation bonded debt for all other purposes may not exceed an additional 6% of a municipality's net secondary assessed valuation.

## Town of Queen Creek Net Direct G.O. Debt Capacity

Based on the Town's Net Secondary Assessed Valuation for fiscal year 2013-14 of \$188,229,704, the Town has the following general obligation bond capacity in the 6% and 20% categories:

Water, Sewer, Light, Parks and Open Space, Transportation and Public Safety Purpose Bonds		All Other General Obligation Bonds	
<b>2013-14 Net Secondary Assessed Valuation</b> <sup>(1)</sup>	\$188,229,704	<b>2013-14 Net Secondary Assessed Valuation</b> <sup>(1)</sup>	\$188,229,704
<b>20% Constitutional Limitation</b>	37,645,941	<b>6% Constitutional Limitation</b>	11,293,782
<b>Net Direct General Obligation Bonded Debt Outstanding</b>	0	<b>Net Direct General Obligation Bonded Debt Outstanding</b>	0
<b>Unused 20% Limitation Borrowing Capacity</b>	<u>\$37,645,941</u>	<b>Unused 6% Limitation Borrowing Capacity</b>	<u>\$11,293,782</u>

(1) Fiscal year 2013-14 SAV is actual, as reported by the Maricopa County Assessor's Office. Includes \$185,170,156 portion located in Maricopa County and \$3,059,548 portion located in Pinal County.

General obligation debt margins change each year due to changes in net secondary assessed valuation and the retirement of the Town's outstanding debt, if any.

## Town of Queen Creek Net Direct Overlapping G.O. Debt

Overlapping Jurisdiction	2013-14 Secondary Assessed Valuation	Net Outstanding Bonded Debt	Proportion Applicable to the Town of Queen Creek		2013-14 Combined Tax Rate Per \$100 Assessed (a) (b)
			Approx. Percent	Amount	
State of Arizona	\$52,594,377,492	None	0.36%	None	None
Maricopa County	32,229,006,810	None	0.57%	None	\$2.3220
Pinal County	2,005,343,534	None	0.15%	None	4.7880
Maricopa County Community College District	32,229,006,810	\$712,735,000	0.57%	\$4,094,984	1.5340
Pinal County Community College District	2,005,343,534	91,340,000	0.15%	\$139,357	2.2507
Higley Unified S.D. No. 60	421,985,256	61,195,000	10.04%	6,144,800	7.7132
Chandler Unified S.D. No. 80	2,005,024,947	193,825,000	0.36%	690,354	6.4602
Queen Creek Unified S.D. No. 95	225,793,747	36,565,000	60.04%	21,953,388	8.1626
Town of Queen Creek	<b>188,229,704</b>	<b>0</b>	<b>100.00%</b>	<b>0</b>	<b>1.9500</b>
Total Direct and Overlapping General Obligation Bonded Debt				<u>\$32,883,525</u>	

Source: State of Arizona Department of Revenue and Arizona Tax Research Association





# General Obligation Debt Capacity

## Town of Queen Creek Debt Burden

Direct and overlapping net debt are compared to the net secondary assessed valuation and full cash value of all taxable property to calculate debt burden. The Town's estimated full cash value for 2013-14 is \$1,644,069,812 (\$1,615,460,427 net full cash value from the Maricopa County portion of the Town, and \$28,609,385 net full cash value from the Pinal County portion of the Town). Additionally, the net debt figures can be compared to population to determine net debt per capita.

Town of Queen Creek Debt Burden			
	% of 2013-14 Net Secondary Assessed Valuation	% of 2013-14 Full Cash Value	Per Capita
	\$188,229,704	\$1,644,069,812	27,708
<b>Direct Debt (\$0)</b>	0.00%	0.00%	\$0.00
<b>Direct and Overlapping Debt (\$32,883,525)</b>	17.47%	2.00%	\$1,186.79

An aspect of debt analysis that relates to debt burden is tax base. A strong tax base permits a municipality to issue property tax supported General Obligation bonds without unduly burdening taxpayers. Shown below are the Town's Net Secondary Assessed Valuations since fiscal year 2009-10.

## Town of Queen Creek Net Secondary Assessed Valuation

Fiscal Year	Net Secondary Assessed Value	% Change
2013-14	\$188,229,704	-3.24%
2012-13	194,542,093	-10.75%
2011-12	217,963,181	-25.52%
2010-11	292,649,346	-17.85%
2009-10	356,236,370	-0.11%

Source: Arizona Tax Research Association

# General Obligation Debt Capacity



Shown below are the Town's Primary and Secondary Tax Rates since fiscal year 2009-10.

## Town of Queen Creek Primary and Secondary Tax Rates

Fiscal Year	Primary Tax Rate per \$100 Assessed Valuation	Secondary Tax Rate per \$100 Assessed Valuation	Total Combined Tax Rate
2013-14	\$1.9500	\$0.0000	\$1.9500
2012-13	1.9500	0.0000	1.9500
2011-12	1.9500	0.0000	1.9500
2010-11	1.9500	0.0000	1.9500
2009-10	1.9500	0.0000	1.9500

Source: *Arizona Tax Research Association*

# General Obligation Debt Capacity



The table below shows a hypothetical \$10 million financing over a 20 year term at a 5% interest rate and the additional tax rate required to support such a financing.

Town of Queen Creek, Arizona  
 Projected: General Obligation Bonds  
 \$10,000,000 - 20 Year Term - 5% Interest

Fiscal Year Ending June 30	Net Secondary Assessed Value (1)	Percent Change	Existing Primary Tax Rate per \$100 Assessed Valuation	\$10,000,000 Dated: 7/1/2014			Estimated Town Revenues @ 95% Collection Rate (2)	Additional Debt Tax Rate (2)
				Principal	Interest	Total		
2014	\$188,229,704	-3.24%	\$1.9500					
2015	190,112,001	1.00%		\$305,000	\$500,000	\$805,000	\$805,000	\$0.4457
2016	192,013,121	1.00%		315,000	484,750	799,750	799,750	0.4384
2017	193,933,252	1.00%		335,000	469,000	804,000	804,000	0.4364
2018	195,872,585	1.00%		350,000	452,250	802,250	802,250	0.4311
2019	197,831,311	1.00%		365,000	434,750	799,750	799,750	0.4255
2020	199,809,624	1.00%		385,000	416,500	801,500	801,500	0.4222
2021	201,807,720	1.00%		405,000	397,250	802,250	802,250	0.4185
2022	203,825,797	1.00%		425,000	377,000	802,000	802,000	0.4142
2023	205,864,055	1.00%		445,000	355,750	800,750	800,750	0.4094
2024	207,922,696	1.00%		470,000	333,500	803,500	803,500	0.4068
2025	210,001,923	1.00%		490,000	310,000	800,000	800,000	0.4010
2026	212,101,942	1.00%		515,000	285,500	800,500	800,500	0.3973
2027	214,222,961	1.00%		545,000	259,750	804,750	804,750	0.3954
2028	216,365,191	1.00%		570,000	232,500	802,500	802,500	0.3904
2029	218,528,843	1.00%		600,000	204,000	804,000	804,000	0.3873
2030	220,714,131	1.00%		630,000	174,000	804,000	804,000	0.3834
2031	222,921,273	1.00%		660,000	142,500	802,500	802,500	0.3789
2032	225,150,485	1.00%		695,000	109,500	804,500	804,500	0.3761
2033	227,401,990	1.00%		730,000	74,750	804,750	804,750	0.3725
2034	229,676,010	1.00%		765,000	38,250	803,250	803,250	0.3681
<b>Totals</b>				<b>\$10,000,000</b>	<b>\$6,051,500</b>	<b>\$16,051,500</b>		

Average Tax Rate \$0.4049

(1) Secondary assessed valuations through fiscal year 2014 are actual, as provided by the Arizona Tax Research Association. Fiscal years 2015 and thereafter assume 1% growth.  
 (2) FY 2014 and thereafter assumes 95% tax collection rate.

# General Obligation Debt Capacity



## RESIDENTIAL PROPERTY (Assessed at 10% of full cash value)

Value for Tax Purposes (a)	Assessment Ratio	Assessed Value	Estimated Average Annual Cost (b)	Estimated Average Monthly Cost (b)
\$200,000	10%	\$20,000	\$80.99	\$6.75
300,000	10%	30,000	121.48	10.12

The tax impact over the term of the bonds on an owner-occupied residence valued by the County Assessor at \$200,000 is estimated to be \$80.99 per year for 20 years. (c)

## COMMERCIAL AND INDUSTRIAL PROPERTY (Assessed at 19.5% of full cash value) (e)

Value for Tax Purposes (a)	Assessment Ratio (d)	Assessed Value	Estimated Average Annual Cost (b)	Estimated Average Monthly Cost (b)
\$2,500,000	19.5%	\$487,500	\$1,974.10	\$164.51

The tax impact over the term of the bonds on a commercial or industrial property valued by the County Assessor at \$2,500,000 is estimated to be \$1,974.10 per year for 20 years. (c)

## AGRICULTURAL AND OTHER VACANT PROPERTY (Assessed at 16% of full cash value) (f)

Value for Tax Purposes (a)	Assessment Ratio (e)	Assessed Value	Estimated Average Annual Cost (b)	Estimated Average Monthly Cost (b)
\$100,000	16%	\$16,000	\$64.79	\$5.40

The tax impact over the term of the bonds on an agricultural or vacant land parcel valued by the County Assessor at \$100,000 is estimated to be \$64.79 per year for 20 years. (c)

- (a) Value for tax purposes is the value of your property as it appears on your tax bill and does not necessarily represent the market value. Beginning with fiscal year 2015-2016, this value cannot increase by more than 5% from the prior year if the property has not changed. For commercial and industrial property, only locally-assessed property is subject to this limit.
- (b) Cost based on the estimated average tax rate over the life of the bond issue and other financing assumptions which are subject to change.
- (c) Assumes the assessed valuation of the property grows or declines at half the rate of the District's total assessed value shown on the projected debt service schedule.
- (d) Assessment ratio will phase down to 19% in tax year 2014 and will be further reduced one-half of one percent for each year to 18% for tax year 2016 and thereafter.
- (e) Assessment ratio will be reduced to 15% in tax year 2016 and thereafter.



# Summary of Financing Options

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## UTILITY REVENUE BONDS

### Legal Purpose(s)

- Acquiring, constructing or improving "utility undertaking"
- Utility undertakings include water, sewer, gas, electric light or power, and garbage disposal systems; airport buildings and facilities

### Characteristics

- Not a general or "full faith and credit" obligation of Town
- Secured by revenues of the applicable utility undertaking
- Debt service paid from above revenues

### Limitations

- Certain categories of expenditures are not subject to voter authorization
- Prior year's net revenues must exceed maximum annual debt service by a specific factor

### Types of Projects Financed

- Water and sewer projects
- Airport projects

# Summary of Financing Options

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## STREET AND HIGHWAY REVENUE BONDS

### Legal Purposes(s)

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- Improving, constructing or maintaining Town streets and highways
- Acquisition of necessary rights of way

### Characteristics

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- Not a general or "full faith and credit" obligation of Town
- Secured by Town's receipts of state-shared gas taxes and other highway user fees and charges
- Debt service paid from above receipts

### Limitations

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- Subject to voter authorization
- Maximum annual debt service for Junior Lien and Senior Lien Bonds may not exceed 66.6% of most recent year's receipts (e.g., one and one-half times coverage ratio of receipts to maximum annual debt service)

### Types of Projects Financed

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- Street and highway improvement projects





## HURF Revenue Bonds Capacity

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Highway User Revenue Fund ("HURF") Bonds are secured by an irrevocable lien on and first pledge of all revenues received by the Town from taxes, fees, charges and other moneys collected by the State of Arizona and returned to the Town for street and highway purposes pursuant to Title 28, Chapter 18, Article 2, Arizona Revised Statutes. Although the Arizona Revised Statutes do not place a limitation on the principal amount of such bonds that may be issued, the legal documents governing their issuance will contain a debt service coverage test that must be met in order to issue bonds.

The Town of Queen Creek does not currently have any HURF Bonds outstanding. Based on the Town's 2012 CAFR, HURF revenues were \$1,338,258, and HURF expenditures were \$1,329,358. In order to support any level of debt service, the operating expenditures would have to be reduced.

The table on the following page assumes a debt service coverage requirement of 1.5x and shows the estimated capacity for HURF Bonds.

The table on the following page demonstrates Maximum Bonded Debt to 1.5x coverage. As such, fiscal year 2011-12 revenues of \$1,338,258 could support an annual debt service amount of approximately \$888,000 at 1.5x coverage. Translated into a borrowing for 20 years at a TIC of 4.32%, the Town would be able to issue approximately \$11 million of HURF Revenue Bonds.

# HURF Revenue Bonds Capacity



## TOWN OF QUEEN CREEK, ARIZONA HURF Revenue Debt

Scenario: Maximum Bonded Debt, Down to 1.5x Debt Service Coverage - 20 Years

Fiscal Year	Revenues Available for HURF Bonds Debt Service (1)	Proposed: HURF Revenue Bonds Series 2014 Dated: 7/1/2014			Debt Service Coverage Ratio
		Principal	Interest	Debt Service	
2010	\$953,762				
2011	1,013,104				
2012	1,338,258				
2013	1,338,258				
2014	1,338,258				
2015	1,338,258	\$365,000	\$523,700	\$888,700	1.51
2016	1,338,258	375,000	516,400	891,400	1.50
2017	1,338,258	385,000	505,150	890,150	1.50
2018	1,338,258	400,000	489,750	889,750	1.50
2019	1,338,258	415,000	473,750	888,750	1.51
2020	1,338,258	435,000	457,150	892,150	1.50
2021	1,338,258	450,000	439,750	889,750	1.50
2022	1,338,258	470,000	417,250	887,250	1.51
2023	1,338,258	495,000	393,750	888,750	1.51
2024	1,338,258	520,000	369,000	889,000	1.51
2025	1,338,258	545,000	343,000	888,000	1.51
2026	1,338,258	575,000	315,750	890,750	1.50
2027	1,338,258	600,000	287,000	887,000	1.51
2028	1,338,258	630,000	257,000	887,000	1.51
2029	1,338,258	665,000	225,500	890,500	1.50
2030	1,338,258	695,000	192,250	887,250	1.51
2031	1,338,258	730,000	157,500	887,500	1.51
2032	1,338,258	770,000	121,000	891,000	1.50
2033	1,338,258	805,000	82,500	887,500	1.51
2034	1,338,258	845,000	42,250	887,250	1.51
		<b>\$11,170,000</b>	<b>\$6,609,400</b>	<b>\$17,779,400</b>	

(1) Represents actual revenues in 2010, 2011, and 2012 as of the respective Town of Queen Creek CAFRs. Revenues thereafter assume 0% growth.





# Summary of Financing Options

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## EXCISE TAX REVENUE BONDS

### Legal Purpose(s)

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- Any lawful or necessary purposes

### Characteristics

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- May be secured by a pledge of specific revenues (e.g., excise taxes, enterprise revenues, state-shared revenues, etc.) or by annual appropriations
- If rated, generally one category below general obligation rating

### Limitations

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- No legal limitations
- Limited by existing legal documents which provide for minimum debt service coverage ratio of 2.0x
- Limited by general creditworthiness of Town and existing debt burden

### Types of Town Projects Financed

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- General projects for municipal buildings and improvements on land owned by the Town



# Excise Tax Debt Capacity

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Excise Tax Bonds issued by the Town may be secured by a pledge of Excise Taxes and State Shared Sales Taxes. The bonds do not constitute a general obligation of the Town and are not backed by general taxing power. Although the Arizona Revised Statutes do not place a limitation on the principal amount of such bonds that may be issued, the legal documents governing their issuance will contain a debt service coverage test that must be met in order to issue bonds.

The table on the following page shows the estimated capacity for Excise Tax Bonds assuming a pledge of Excise Taxes and State Shared Sales Taxes.

A borrowing supported by Excise Taxes and State Shared Sales Taxes for the Town of Queen Creek has a debt service coverage requirement of 2.0x of total revenues. Issuing additional debt down to 3.0x of total revenues may potentially risk a rating downgrade.

The table on the following page shows the debt currently supported by Excise Taxes and State Shared Sales Taxes and the remaining capacity for new debt, while maintaining 4.0x coverage. As such, fiscal year 2011-12 revenues of \$19,723,522 could support an aggregate annual debt service amount of approximately \$4.9 million at 4.0x coverage. Translated into a borrowing for 25 years at a TIC of 5.55%, the Town would be able to issue approximately \$32.8 million of Excise Tax Bonds secured by Excise Taxes and State Shared Sales Taxes.

# Excise Tax Debt Capacity



## TOWN OF QUEEN CREEK, ARIZONA Excise Tax Revenue Debt

Scenario: Maximum Bonded Debt, Down to 4.0x Debt Service Coverage - 25 Years

Fiscal Year	Revenues Available for Excise Tax Debt Service (1)	Existing Debt Service		Proposed: Excise Tax and State Shared Revenue Series 2014 Dated: 1/2/2014		Total Net New Debt Service		Debt Service Coverage Ratio
		Principal	Interest	Principal	Interest	Principal	Interest	
2011	\$15,975,899	\$1,155,000	\$1,862,647	\$870,000	\$1,035,791	\$1,155,000	\$1,862,647	5.29
2012	19,723,522	1,210,000	1,814,210	135,000	1,766,738	1,210,000	1,814,210	6.52
2013	19,723,522	1,255,000	1,762,942	145,000	1,762,688	1,255,000	1,762,942	6.54
2014	19,723,522	\$1,315,000	\$1,708,704	\$870,000	\$1,035,791	\$2,185,000	\$2,744,495	4.00
2015	19,723,522	1,375,000	1,651,599	135,000	1,766,738	1,510,000	3,418,336	4.00
2016	19,723,522	1,430,000	1,591,260	145,000	1,762,688	1,575,000	3,353,948	4.00
2017	19,723,522	1,490,000	1,523,823	160,000	1,756,888	1,650,000	3,280,710	4.00
2018	19,723,522	1,570,000	1,452,904	155,000	1,750,488	1,650,000	3,203,391	4.00
2019	19,723,522	1,640,000	1,382,249	160,000	1,744,288	1,725,000	3,126,536	4.00
2020	19,723,522	1,710,000	1,307,884	170,000	1,737,888	1,800,000	3,045,771	4.00
2021	19,723,522	1,795,000	1,224,911	180,000	1,729,388	1,975,000	2,954,299	4.00
2022	19,723,522	1,885,000	1,137,006	185,000	1,720,388	2,070,000	2,857,394	4.00
2023	19,723,522	1,980,000	1,044,519	190,000	1,711,138	2,170,000	2,755,656	4.00
2024	19,723,522	2,065,000	952,813	210,000	1,701,638	2,275,000	2,654,450	4.00
2025	19,723,522	2,165,000	855,650	215,000	1,692,188	2,380,000	2,547,838	4.00
2026	19,723,522	2,275,000	746,363	225,000	1,682,513	2,500,000	2,428,875	4.00
2027	19,723,522	2,385,000	631,525	240,000	1,671,825	2,625,000	2,303,350	4.00
2028	19,723,522	2,515,000	509,975	245,000	1,660,425	2,760,000	2,170,400	4.00
2029	19,723,522	2,235,000	381,800	665,000	1,648,175	3,005,000	2,029,975	4.00
2030	19,723,522	1,810,000	267,500	1,235,000	1,614,925	3,045,000	1,882,425	4.00
2031	19,723,522	1,725,000	192,000	1,475,000	1,550,088	3,200,000	1,727,088	4.00
2032	19,723,522	1,815,000	90,750	1,550,000	1,472,650	3,365,000	1,563,400	4.00
2033	19,723,522			3,540,000	1,387,400	3,540,000	1,387,400	4.00
2034	19,723,522			3,735,000	1,192,700	3,735,000	1,192,700	4.00
2035	19,723,522			3,940,000	987,275	3,940,000	987,275	4.00
2036	19,723,522			4,165,000	760,725	4,165,000	760,725	4.00
2037	19,723,522			4,405,000	521,238	4,405,000	521,238	4.00
2038	19,723,522			4,660,000	267,950	4,660,000	267,950	4.00
		<b>\$35,180,000</b>	<b>\$18,638,233</b>	<b>\$32,855,000</b>	<b>\$36,527,391</b>	<b>\$68,035,000</b>	<b>\$55,165,624</b>	<b>\$123,200,624</b>

(1) Represents actual revenues in 2011 and 2012 dedicated to the payment of Debt Service for the specified Excise Tax Bonds, as listed in the most recent Continuing Disclosure Filing. Revenues thereafter assume 0% growth.



# Summary of Financing Options

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## IMPROVEMENT DISTRICT BONDS

### Legal Purpose(s)

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- Numerous governmental purposes specified in statute
- Includes financing streets, curbs, gutters, sidewalks, sewers, waterworks, docks, levees, street lights, etc.

### Characteristics

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- Secured by assessments levied against property located within the district
- Backed by a contingent liability of Town's general fund
- Not subject to voter authorization, but may be rejected by a majority of property owners within the district
- Improvements to be made cannot be of general benefit to the Town as a whole

### Limitations

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- No legal limitations
- Limited by value of property within district
- Limited by general creditworthiness of Town and existing debt burden

### Types of Projects Financed

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- Local improvements



# Summary of Financing Options

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## COMMUNITY FACILITIES DISTRICTS

### Legal Purpose(s)

- A community facilities district is a political subdivision separate from a city or town and utilized for numerous governmental purposes as specified in the statutes, including financing for public infrastructure

### Characteristics

- May issue general obligation, revenue and assessment bonds
- May be formed within the boundaries of a city, town or county
- May have a separate board of directors or the Town Council may act as board (as specified in statutes)
- General obligation bonds must be voter approved
- Formation is initiated by petition of the landowners in the district
- Once formed, CFDs have many of the same powers of a City or Town

### Limitations

- Given "raw land" nature of most CFDs, value of land will determine amount of debt that can be issued

### Types of Projects Financed

- "Public Infrastructure" as defined in Arizona Statutes
- Most projects which can be dedicated to a municipal entity



# Summary of Financing Options

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## STATE AGENCY OPTIONS

There are several State Agencies in Arizona that have loan and/or grant programs that were designed to assist local governments in Arizona with financing their capital projects. They are:

- **The Water Infrastructure Finance Authority of Arizona (“WIFA”)**
- **Greater Arizona Development Authority (“GADA”)**
- **The Arizona Department of Transportation (“ADOT”) Help Loan Program**
- **The Arizona Department of Transportation Aeronautics Loan Program**

For specific information regarding any of the State Agencies listed above and more detailed information regarding their programs, please contact the respective agencies.



# Existing Debt

## SECTION II





## General Obligation Bonds

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The Town does not currently have any General Obligation Bonds outstanding. The Town's General Obligation Bonds are "full faith and credit" bonds, secured by ad valorem taxes levied without limit against all taxable property within the Town. The issuance of General Obligation Bonds, and the projects funded by General Obligation Bonds require voter approval.





## Excise Tax Debt

The Town of Queen Creek, Arizona may issue debt secured by a pledge of excise taxes and state shared sales taxes. The Town's current Excise Tax bond documents require a 2.0 times debt service coverage for existing Excise Tax debt and any additional Bonds to be secured by the Excise Tax and State Shared Sales Tax pledge. Current debt service coverage on Excise Tax debt outstanding is approximately 6.5 times.

The Town currently has four outstanding bond issues which are secured by a pledge of Excise Taxes and State Shared Sales Taxes. The table below shows the Excise Taxes and State Shared Sales Taxes for the past two fiscal years.

Table 1 – Actual Excise Tax and State Shared Revenue for the Fiscal Years Ended June 30		
Revenue Source	2011	2012
Transaction Privilege Sales Tax	\$11,170,005	\$12,794,246
State Shared Sales Tax	1,321,605	2,068,235
State Shared Income Tax	1,597,620	2,224,888
Licenses and Permits	1,085,361	1,434,909
Franchise Fees	201,515	258,266
Charges for Other Services	599,792	942,980
<b>Total</b>	<b>\$15,975,899</b>	<b>\$19,723,522</b>

Source: Town of Queen Creek Continuing Disclosure Annual Report – July 22, 2013

The Town's level of receipts from State shared sales taxes are determined by statutory formulae and no assurances can be given that the amount of those components will not be reduced or eliminated by the State legislature in the future. The other revenue sources are levied by the Town and, while not guaranteed, are not subject to the level of legislative change that the State shared sales taxes are.



## **Excise Tax Debt**

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### **Greater Arizona Development Authority Infrastructure Revenue Bonds, Series 2003A**

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\$5,530,000 of the total \$11,230,000 bond issue was loaned to the Town of Queen Creek. This portion of the issue has a final maturity date in 2028. The Town of Queen Creek used these funds for Wastewater system improvements.

### **Greater Arizona Development Authority Infrastructure Revenue Bonds, Series 2004B**

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\$7,700,000 of the total \$10,360,000 bond issue was loaned to the Town of Queen Creek. This portion of the issue has a final maturity date in 2029. The Town of Queen Creek used these funds for construction of a development services building and the acquisition of land for municipal purposes.

### **Greater Arizona Development Authority Infrastructure Revenue Bonds, Series 2005B**

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\$2,470,000 of the total \$64,100,000 bond issue was loaned to the Town of Queen Creek. This portion of the issue has a final maturity date in 2030. The Town of Queen Creek used these funds for the acquisition of land for a library and other municipal purposes.

### **Town of Queen Creek, Arizona Excise Tax and State Shared Revenue Obligations, Series 2007**

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The Town issued the Series 2007 Bonds for the purpose of providing funds for certain street intersection improvements, library improvements, park improvements and Town Hall improvements as well as to refinance and repay in full certain outstanding lease-purchase obligations. The bonds were issued with a final maturity in 2033.

# Excise Tax Debt



In addition, the Town has two bond issues which are supported by a different pledge of revenues.

## **Greater Arizona Development Authority Infrastructure Revenue Bonds, Series 2006A**

\$11,555,000 of the total \$52,060,000 bond issue was loaned to the Town of Queen Creek. This portion of the issue has a final maturity date in 2036. The Town of Queen Creek used these funds for the construction of a library. The Queen Creek revenues pledged to this bond issue are State Transaction Privilege Taxes, State Urban Revenue Sharing and Library Development Fee Revenues.

## **Greater Arizona Development Authority Infrastructure Revenue Bonds, Series 2008A**

\$2,045,000 of the total \$27,760,000 bond issue was loaned to the Town of Picture Rocks. The Town of Queen Creek subsequently entered into a loan agreement with the Greater Arizona Development Authority to take over Picture Rocks' portion of the Series 2008A bonds. This portion of the issue has a final maturity date in 2023. The Town of Queen Creek used these funds for their HPEC Facility. The Queen Creek revenues pledged to this bond issue are a first lien pledge upon such amounts of the revenues from the Park Development fee and a third lien pledge upon such amounts of the State Shared Revenues.

Summary of Existing Queen Creek Excise Tax Debt				
Issue Date	Bond Issue	Original Principal	Outstanding Principal	Redemption Date
10/07/2003	GADA - Infrastructure Revenue Bonds, Series 2003A	\$5,530,000	\$4,210,000	08/01/2013 at 100
06/27/2004	GADA - Infrastructure Revenue Bonds, Series 2004B	7,700,000	5,795,000	08/01/2014 at 100
08/31/2005	GADA - Infrastructure Revenue Bonds, Series 2005B	2,470,000	1,980,000	08/01/2015 at 100
03/02/2006	GADA - Infrastructure Revenue Bonds, Series 2006A	11,555,000	10,060,000	08/01/2016 at 100
06/28/2007	Excise Tax and State Shared Revenue Obligations, Series 2007	27,135,000	23,195,000	08/01/2017 at 100
08/31/2008	GADA - Infrastructure Revenue Bonds, Series 2008A	2,045,000	1,370,000	08/01/2018 at 100
Total		<u>\$56,435,000</u>	<u>\$46,610,000</u>	

Listed below are schedules of the outstanding principal amount for the above-described Excise Tax bond issues.

# Excise Tax Debt



**Town of Queen Creek, Arizona**  
**Aggregate Excise Tax Debt**

*Remaining Principal and Interest Payments as of August 2, 2013 (1)*

Period Ending	Principal	Interest	Debt Service	Annual Debt Service
02/01/2014		\$1,125,964	\$1,125,964	
08/01/2014	\$1,675,000	1,125,964	2,800,964	\$3,926,929
02/01/2015		1,089,899	1,089,899	
08/01/2015	1,750,000	1,089,899	2,839,899	3,929,799
02/01/2016		1,051,330	1,051,330	
08/01/2016	1,825,000	1,051,330	2,876,330	3,927,660
02/01/2017		1,008,361	1,008,361	
08/01/2017	1,905,000	1,008,361	2,913,361	3,921,723
02/01/2018		963,177	963,177	
08/01/2018	2,000,000	963,177	2,963,177	3,926,354
02/01/2019		917,099	917,099	
08/01/2019	2,095,000	917,099	3,012,099	3,929,199
02/01/2020		869,154	869,154	
08/01/2020	2,185,000	869,154	3,054,154	3,923,309
02/01/2021		816,337	816,337	
08/01/2021	2,290,000	816,337	3,106,337	3,922,674
02/01/2022		760,478	760,478	
08/01/2022	2,410,000	760,478	3,170,478	3,930,956
02/01/2023		701,509	701,509	
08/01/2023	2,525,000	701,509	3,226,509	3,928,019
02/01/2024		642,444	642,444	
08/01/2024	2,465,000	642,444	3,107,444	3,749,888
02/01/2025		583,863	583,863	
08/01/2025	2,585,000	583,863	3,168,863	3,752,725
02/01/2026		518,719	518,719	
08/01/2026	2,715,000	518,719	3,233,719	3,752,438
02/01/2027		451,675	451,675	
08/01/2027	2,845,000	451,675	3,296,675	3,748,350
02/01/2028		380,838	380,838	
08/01/2028	2,995,000	380,838	3,375,838	3,756,675
02/01/2029		305,950	305,950	
08/01/2029	2,740,000	305,950	3,045,950	3,351,900
02/01/2030		237,438	237,438	
08/01/2030	2,335,000	237,438	2,572,438	2,809,875
02/01/2031		180,375	180,375	
08/01/2031	2,275,000	180,375	2,455,375	2,635,750
02/01/2032		124,875	124,875	
08/01/2032	2,390,000	124,875	2,514,875	2,639,750
02/01/2033		65,125	65,125	
08/01/2033	605,000	65,125	670,125	735,250
02/01/2034		50,000	50,000	
08/01/2034	635,000	50,000	685,000	735,000
02/01/2035		34,125	34,125	
08/01/2035	665,000	34,125	699,125	733,250
02/01/2036		17,500	17,500	
08/01/2036	700,000	17,500	717,500	735,000
	\$46,610,000	\$25,792,470	\$72,402,470	\$72,402,470

(1) Includes Series 2007 Bonds, and GADA loans Series 2003A, Series 2004B, Series 2005B, Series 2006A, and Series 2008A Bonds.



## Improvement District Bonds

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Improvement District Bonds issued by the Town are secured by special assessments levied upon the real property included within the improvement district. These bonds do not constitute a general obligation of the Town and are not backed by general taxing power, but the Town is contingently liable for their payment in the event that property owners within the District do not make payments. Statutory provisions require that improvement district bonds bear a single interest rate, have a final maturity no longer than twenty-five years and three months, and pay principal on January 1. The Town currently has one outstanding issue of Improvement District Bonds that

### Improvement District No. 001: Improvement Bonds

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The \$54,080,000 Ellsworth Road Improvement District Bonds were issued on October 5, 2006, with an interest rate of 5.00% and a final maturity of January 1, 2032. The Bonds were issued to provide funds for improvement costs such the construction and installation of certain street improvements, railroad facilities relocation, storm drain facilities and pump station, water and sanitary sewer facilities, landscaping, lighting, irrigation, and related improvements and related appurtenances. The Bonds have \$47,365,000 of principal outstanding and are currently callable as of July 1, 2011.

Listed below is the semi-annual schedule of the outstanding principal amount for the above-described Improvement District bond issue.



# Improvement District Bonds

**\$54,080,000**  
**Town of Queen Creek, Arizona**  
**Improvement District No. 001**  
**Improvement Bonds**  
**(Elsworth Road ID)**

*Remaining Principal and Interest Payments as of July 2, 2013*

Period Ending	Principal	Interest	Debt Service	Annual Debt Service
01/01/2014	\$1,550,000	\$1,184,125	\$2,734,125	\$2,734,125
07/01/2014		1,145,375	1,145,375	
01/01/2015	1,630,000	1,145,375	2,775,375	3,920,750
07/01/2015		1,104,625	1,104,625	
01/01/2016	1,710,000	1,104,625	2,814,625	3,919,250
07/01/2016		1,061,875	1,061,875	
01/01/2017	1,795,000	1,061,875	2,856,875	3,918,750
07/01/2017		1,017,000	1,017,000	
01/01/2018	1,885,000	1,017,000	2,902,000	3,919,000
07/01/2018		969,875	969,875	
01/01/2019	1,980,000	969,875	2,949,875	3,919,750
07/01/2019		920,375	920,375	
01/01/2020	2,080,000	920,375	3,000,375	3,920,750
07/01/2020		868,375	868,375	
01/01/2021	2,180,000	868,375	3,048,375	3,916,750
07/01/2021		813,875	813,875	
01/01/2022	2,290,000	813,875	3,103,875	3,917,750
07/01/2022		756,625	756,625	
01/01/2023	2,405,000	756,625	3,161,625	3,918,250
07/01/2023		696,500	696,500	
01/01/2024	2,525,000	696,500	3,221,500	3,918,000
07/01/2024		633,375	633,375	
01/01/2025	2,655,000	633,375	3,288,375	3,921,750
07/01/2025		567,000	567,000	
01/01/2026	2,785,000	567,000	3,352,000	3,919,000
07/01/2026		497,375	497,375	
01/01/2027	2,925,000	497,375	3,422,375	3,919,750
07/01/2027		424,250	424,250	
01/01/2028	3,070,000	424,250	3,494,250	3,918,500
07/01/2028		347,500	347,500	
01/01/2029	3,225,000	347,500	3,572,500	3,920,000
07/01/2029		266,875	266,875	
01/01/2030	3,385,000	266,875	3,651,875	3,918,750
07/01/2030		182,250	182,250	
01/01/2031	3,555,000	182,250	3,737,250	3,919,500
07/01/2031		93,375	93,375	
01/01/2032	3,735,000	93,375	3,828,375	3,921,750
	<b>\$47,365,000</b>	<b>\$25,917,125</b>	<b>\$73,282,125</b>	<b>\$73,282,125</b>

Callable Bonds:  
 Call Dates:

7/1/11 @ 100%





## Water Infrastructure Finance Authority Loans

The Water Infrastructure Finance Authority of Arizona (WIFA) is an independent agency of the state of Arizona that is authorized to finance the construction, rehabilitation and/or improvement of drinking water, wastewater, wastewater reclamation, and other water quality facilities/projects. Generally, WIFA offers borrowers below market interest rates on loans for up to one hundred percent of eligible project costs.

The loans are secured by a pledge of the net revenues of the respective Water and Wastewater Funds.

Listed below is a table of the outstanding principal amount of WIFA Loans as of July 2, 2013.

Summary of Existing Queen Creek Excise Tax Debt			
Issue Date	Bond Issue	Original Principal	Outstanding Principal
08/15/1998	WIFA Loan 1998	\$4,400,000	\$1,481,232
03/28/2005	WIFA Loan 2005	34,000,000	28,222,460
03/27/2008	WIFA Loan 2008	40,000,000	32,747,247
11/01/2013	WIFA Loan 2013	16,000,000	16,000,000
Total		\$94,400,000	\$78,450,939

*Note: The 2013 WIFA Loan includes the \$16 million WIFA Loan portion of the H2O Water Company Acquisition only. This does not include the subordinate lien Seller Carry-back portion of this transaction.*



# Bond Ratings

## SECTION III





# Bond Ratings

## Town of Queen Creek Bond Ratings

Type of Bond	Most Recent Issue	Moody's	S&P	Fitch
General Obligation	-	-	-	-
Excise Tax	Series 2007	-	A+	A+
Improvement District	Series 2006	A3	BBB+	A-
HURF Revenue	-	-	-	-

## Key to Municipal Ratings

### Aaa/AAA

Bonds which are rated Aaa/AAA are judged to be of the best quality. They carry the smallest degree of investment risk and interest payments are protected by a large or by an exceptionally stable margin and principal is secure.

### Aa/AA

Bonds which are rated Aa/AA are judged to be of high quality by all standards. Margins of protection are slightly less than Aaa/AAA securities.

### A/A

Bonds which are rated A/A possess many favorable investment attributes and are considered to be upper medium grade obligations. Factors giving security to principal and interest are considered adequate.

### Baa/BBB

Bonds which are rated Baa/BBB are considered medium grade obligations; they are neither highly protective nor poorly secured. Interest payments and principal security appear adequate for the present but may not be reliable over any great length of time.



## Underlying Debt Ratings of Select Issuers

Below are debt ratings for select jurisdictions within the State of Arizona. When available, the general obligation ("GO") rating is shown. If the issuer does not have a GO rating, the highest rating of the issuer is shown.

Entity	County	Population	Rating Type	Moody's	S&P	Fitch
Sierra Vista	Cochise	45,794	*	Aa3	AA	AA-
Flagstaff	Coconino	66,322	GO	Aa2	AA	-
Avondale	Maricopa	76,870	GO	-	AA-	-
Gilbert	Maricopa	219,666	GO	Aa1	AA	-
Goodyear	Maricopa	69,018	GO	Aa2	AA-	-
Queen Creek	Maricopa	27,708	*	-	A+	A+
Surprise	Maricopa	119,530	*	-	A	A+
Tempe	Maricopa	164,659	GO	Aa1	AAA	AAA
Bullhead City	Mohave	39,516	*	A1	A+	A+
Kingman	Mohave	28,335	*	-	AA-	AA-
Oro Valley	Pima	41,275	*	-	AA-	AA-
Apache Junction	Maricopa	36,928	*	A2	-	-
Casa Grande	Pinal	50,296	GO	-	AA-	AA
Chino Valley	Yavapai	10,783	*	-	A+	-
Prescott	Yavapai	39,865	GO	Aa2	AA-	AA
Prescott Valley	Yavapai	38,964	*	Aa3	AA-	AA-
Sedona	Yavapai	9,981	*	-	A	-

\* Reflects Senior Most Rating(s) of the Issuer.

Requesting Department:  
Town Manager's Office



**TO: TOWN COUNCIL BUDGET COMMITTEE**  
**FROM: SAMANTHA MCPIKE, BUDGET ADMINISTRATOR**  
**THROUGH: PATRICK FLYNN, ASSISTANT TOWN MANAGER/CFO**  
**RE: CONSIDERATION AND POSSIBLE ACTION ON THE LOCAL HOME RULE (ALTERNATIVE EXPENDITURE) LIMITATION OPTION AND THE TIMETABLE FOR THE REQUIRED TOWN ELECTION**

**DATE: FEBRUARY 12, 2014**

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**Staff Recommendation:**

Staff recommends approval of moving forward with the Local Home Rule (Alternative Expenditure) limitation option and the timetable for the required Town election.

**Relevant Council Goal(s):**

KRA #5: Financial Management / Internal Services and Sustainability, Goal 1: Maintain long-term financial sustainability for local government operations.

**Proposed Motion:**

Motion to approve the staff's recommendation as outlined above.

**Discussion:**

The State imposed expenditure limits on local government came about nearly 3 decades ago. These laws and regulations were a result of property taxes increasing at a greater rate than personal incomes and the Proposition 13 activity that came out of California at the time. The State imposed expenditure limit uses base year fiscal year 1979/1980 to establish how much a local entity can spend each year. The expenditure limit changes annually based on population growth in the community and an inflation factor. The State annually publishes these expenditure limit levels for each community, draft limits come out the first of February with finals published April 1.

As part of the law, certain exclusions are allowed from the state-imposed expenditure limit. Monies received from interest income, bond proceeds, and grants are excluded as well as HURF revenues in excess of those received in

fiscal year 1979/1980. In addition, debt service payments are excluded from this law. The law assumes that your government programs did not change from the base year (very difficult for a community like Queen Creek). With just inflation and population growth as a factor, bringing on any new program would create a serious challenge for any community when dealing with the state-imposed expenditure limit requirements.

Because of differences in communities and underlying programs, the State allows various options to community to override the state-imposed expenditure limits. These options include:

- A Local Home Rule (Alternative Expenditure)
- A Permanent Base Adjustment
- A Capital Projects Accumulation Fund
- A one-time override (after the fact)

All these options require voter approval.

The Town has used the Local Home Rule (Alternative Expenditure) option in the past. We recommend using it again over the four year period the next Local Home Rule covers; Fiscal Years 2015/2016-2018/2019. The Local Home Rule options basically states that the budget adopted by the Town Council each year is the expenditure limit for that year. Control of the budget is with your local representatives and given the nuances in each community, this is where oversight should be. There are 55 communities throughout the State that utilize the local home rule option to override the state-imposed expenditure limits.

As indicated, each of the expenditure limit options requires voter approval. Such a vote must be staged during a regular Primary or General election. Our current home rule option ceases at the end of fiscal year 2014/2015 and therefore a new local home rule vote must be taken as part of the upcoming Primary or General election.

#### **Fiscal Impact:**

The state imposed expenditure limits are challenging. Limits are based on population growth, inflation factors and expenditure exclusions, our state imposed expenditures limit for fiscal year 2015/2016 would be in the range of \$48 million.

Based on our long range projections, we would anticipate a budget in fiscal year 2015/2016 to be in the range of \$91.4 million, excluding any possible capital project carry-forward, inter-fund transfers, or monies we place in the budget ceiling for potential grants and/or emergencies. If the Home Rule option would fail at the polls, the Town would revert to the state imposed expenditure limit for at least the two years 2015/2016 and 2016/2017. We could take the Home Rule options back to the voter in two years. Any gap between budget and state imposed expenditure limits would have to be closed, placing a financial challenge on the Town and its underlying programs. It is not an issue of revenue's, under

the state-imposed limits one would be unable to expend the monies.

**Alternatives:**

Council could decide to not move forward with a Home Rule election. This option would severely limit the expenditures in fiscal years 2015/2016-2018/2019.

**Attachments:** Calendar of events in Home Rule election process.



Town of Queen Creek  
2014 Home Rule Calendar

<b>Date</b>	<b>Activity</b>	<b>Responsible Party</b>
<b>February 1, 2014</b>	Town receives estimated state imposed expenditure limitation	State Economic Estimates Commission
<b>March 4, 2014</b>	Publish first notice of public hearing	Clerk
<b>March 11, 2014</b>	Publish second notice of public hearing	Clerk
<b>March 19, 2014</b>	Hold first public hearing on proposed home rule option	Budget Office / Council
<b>April 1, 2014</b>	Town receives actual state imposed expenditure limitation	State Economic Estimates Commission
<b>April 2, 2014</b>	Hold second public hearing on proposal and Council votes on proposal immediately after second hearing in a special meeting	Budget Office / Council
<b>April 3, 2014</b>	Publish record of vote. If approved, also publish amount in excess of state imposed limitation and purposes for excess.	Clerk
<b>Mid April</b>	Submit summary and detailed analyses to Auditor General's Office	Budget Office
<b>Early May</b>	Receive reviewed detailed and summary analyses from auditor	State Auditor General's Office
<b>Mid May</b>	Draft arguments for or against expenditure limit for publicity pamphlet	Clerk
<b>June 1, 2014</b>	Complete preparation of publicity pamphlet, send draft to Auditor General	Clerk
<b>Late June</b>	Send publicity pamphlet to printer	Clerk
<b>Early July</b>	Distribute publicity pamphlets	Clerk
<b>July 24, 2014</b>	Latest date possible to make early ballots available	Clerk
<b>July 31, 2014</b>	Latest date possible to distribute early ballots	Clerk
<b>August 26, 2014</b>	Election Day	
<b>Late August</b>	Canvass vote and notify Auditor General Office and Economic Estimates Commission of election outcome	Clerk / Budget Office

Requesting Department:  
Town Manager



**TO: TOWN COUNCIL BUDGET COMMITTEE**  
**FROM: PATRICK FLYNN, ASSISTANT TOWN MANAGER/CFO**  
**JOHN KROSS, TOWN MANAGER**  
**RE: REVIEW OF TOWN BUILDING FEES**  
**DATE: FEBRUARY 12, 2013**

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*Handwritten initials*

Included in the FY14 Town Budget was a proposed 10% increase in building fees that would have been effective at mid-year (1/1/14) following Council approval. The estimated revenue expected for FY14 was \$125,000; total annual revenue \$250,000. Given the additional resources (personnel & contractual service monies) plus the technology project that's was approved for Development Services in the FY14 budget, we felt a fee increase was in order given the demand for building services.

However following the analysis of our fee structure with other surrounding cities (Mesa & Gilbert etal) we felt our fees were competitive with other communities and should therefore remain unchanged. Staff is not planning to move forward with a proposed fee modification at this time.

Regarding the revenues anticipated in the current year budget, we are fortunately well ahead of budget estimates because of the building uptick. At the six month mark, we have collected almost \$2.1 million in revenues or 83% of our FY14 budget – well ahead of expectations. This memo is sent for information purposes only.





**TO: TOWN COUNCIL BUDGET COMMITTEE**

**FROM: SAMANTHA MCPIKE, BUDGET ADMINISTRATOR**

**THROUGH: PATRICK FLYNN, ASSISTANT TOWN MANAGER/CFO**

**RE: TOWN OF QUEEN CREEK BUDGET CALENDAR FOR FISCAL YEAR 2014/2015**

**DATE: FEBRUARY 12, 2014**

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**Discussion:**

Annually the Town of Queen Creek produces an operating budget and a 5-year CIP. The following calendar outlines the proposed dates for this year's budget adoption process.

January 8	Budget Kick Off
January 14	CIP meeting
February 6	Base budgets due to Budget Office
February 20	Supplemental requests and CIP due to Budget Office
February 6 – March 1	Budget Office review and department collaboration
Mid March	Budgets returned to departments for review prior to Town Manger meetings
March 25	All Supplemental requests shared at department head meeting
March 31 – April 3	Department meetings with Town Manager
Mid April	Budgets returned to departments for review prior to Budget Committee meetings
April 28 & May 5	Budget Committee Meetings
May 21	Tentative Budget Adopted
June 4	Final Budget Adoption and Public Hearing on Tax Levies
June 18	Adoption of Tax Levies