



TOWN OF
QUEEN CREEK
ARIZONA

FY 19-20 Year to Date Financial Report

Operating Budget to Actual Performance
Fiscal Year to Date through October 2019

Issued December 19, 2019

Executive Summary

The Town's budget-to-actual performance through October 2019 showed favorable variances for both revenues and expenses. Actual revenues are performing well with receipts exceeding expectations by \$2.8M, or 15%. This is mostly the result of Construction Sales Tax Revenues continuing to perform well and Community Development, Engineering and Building Permit Revenue performing better than expected due to residential and commercial growth.

Year to date expenses for the fiscal year are less than budget by \$0.8M, or 4%. The variance is driven by a collection of items, such as staffing vacancies, as well as contractual services and capital items being under contract but not yet expended.

Based on the Revised Budget, the Town expected expenses to match revenues as of October 31, 2019. However, both revenues and expenses performed better than anticipated resulting in revenues exceeding expenses by \$3.7M, an improvement of \$3.7M. The overall operating results are favorable and the Town's financial performance exceeds expectations and continues to perform well.

Operating Budget

The Operating Budget includes the Town's activity from the General, Streets (HURF), Emergency Services and Horseshoe Park Equestrian Center Funds. The following schedule is a summary of the FY 19-20 Operating Budget. Revenues are expected to exceed expenses by \$11.2M for the year, with this surplus being transferred out to other funds to cover the non-growth share of debt payments and capital improvements. The ending fund balance is expected to be \$42.1M, of which \$23.9M is reserved for pension funding and \$18.2M is reserved for the Town's 25% reserve policy.

Summary FY 19-20 Operating Budget

	<u>FY 19-20</u> <u>Total Adopted</u> <u>Budget</u>	<u>FY 19-20</u> <u>Total Revised</u> <u>Budget</u>	<u>FY 19-20</u> <u>Year-to-Date</u> <u>Budget</u>	<u>FY 19-20</u> <u>Year-to-Date</u> <u>Actual</u>
Revenues	\$ 66,383,032	\$ 66,815,497	\$ 19,104,784	\$ 21,938,624
Expenses	\$ 54,526,501	\$ 55,621,386	\$ 19,084,916	\$ 18,247,853
Operating Results	\$ 11,856,531	\$ 11,194,111	\$ 19,868	\$ 3,690,772
Transfers Out				
Events/Grants Match/Other	\$ 25,000	\$ 25,000	\$ -	\$ -
Debt Service	6,771,846	5,521,846	-	-
CIP	5,004,200	5,004,200	-	-
Transfers Out	\$ (11,801,046)	\$ (10,551,046)	-	-
Net Operating Results	\$ 55,485	\$ 643,065	\$ 19,868	\$ 3,690,772
Beginning Fund Balance	\$ 36,865,183	\$ 41,455,204		
Ending Fund Balance	\$ 36,920,668	\$ 42,098,269		
MSCO Unfunded Pension Liability Reserve	\$ 18,750,068	\$ 20,938,343		
ASRS Unfunded Pension Liability Reserve	\$ -	\$ 2,989,326		
25% Revenue Reserve	\$ 18,170,600	\$ 18,170,600		
Available Fund Balance	\$ -	\$ -		
Total Fund Balance	\$ 36,920,668	\$ 42,098,269		

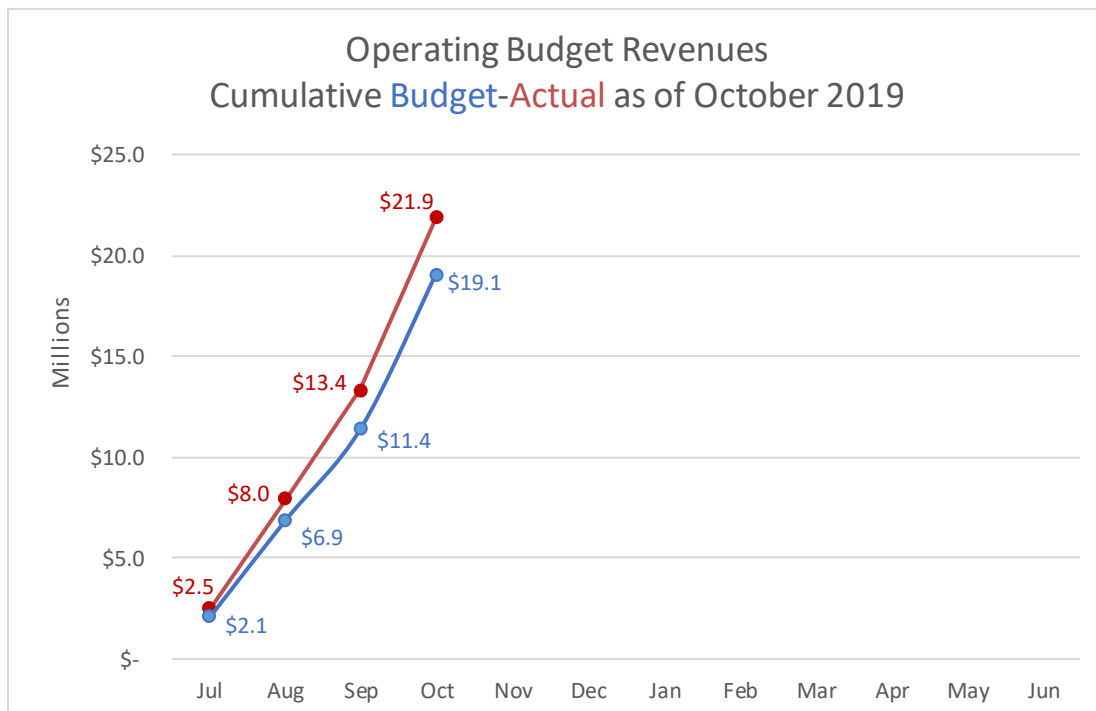
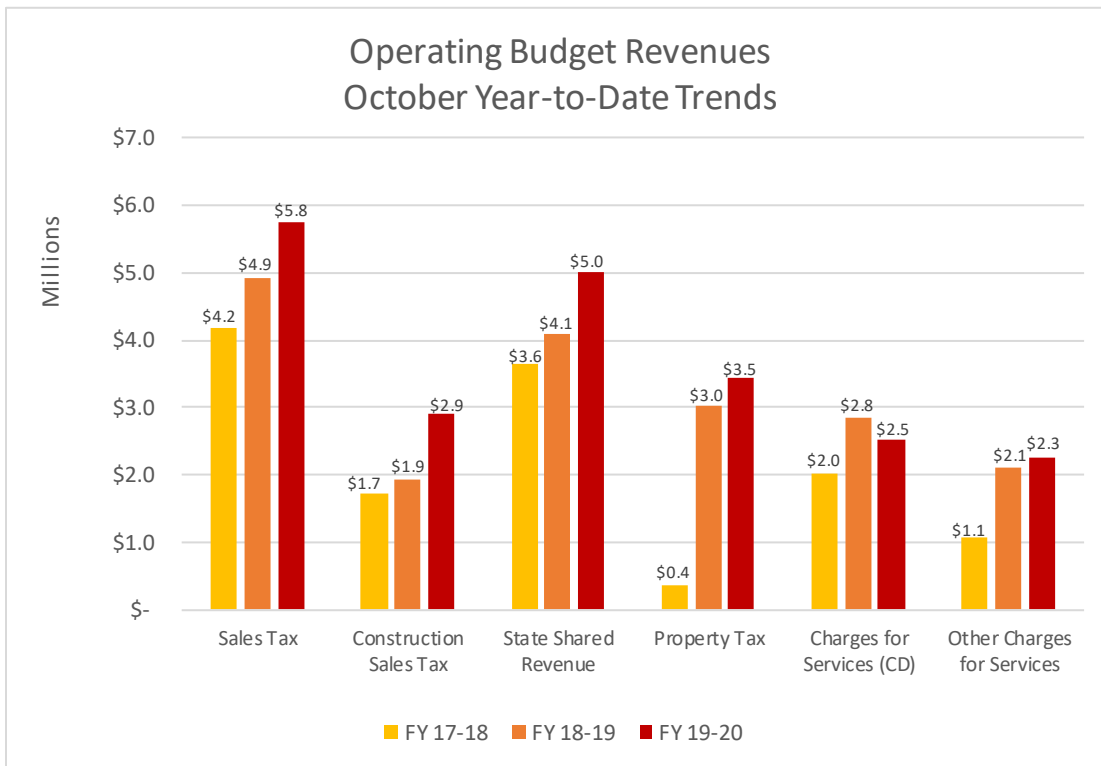
The remainder of this report focuses on revenues and expenses only. It does not include transfers, debt service or infrastructure funding transfers.

October 2020 Year-to-Date Results

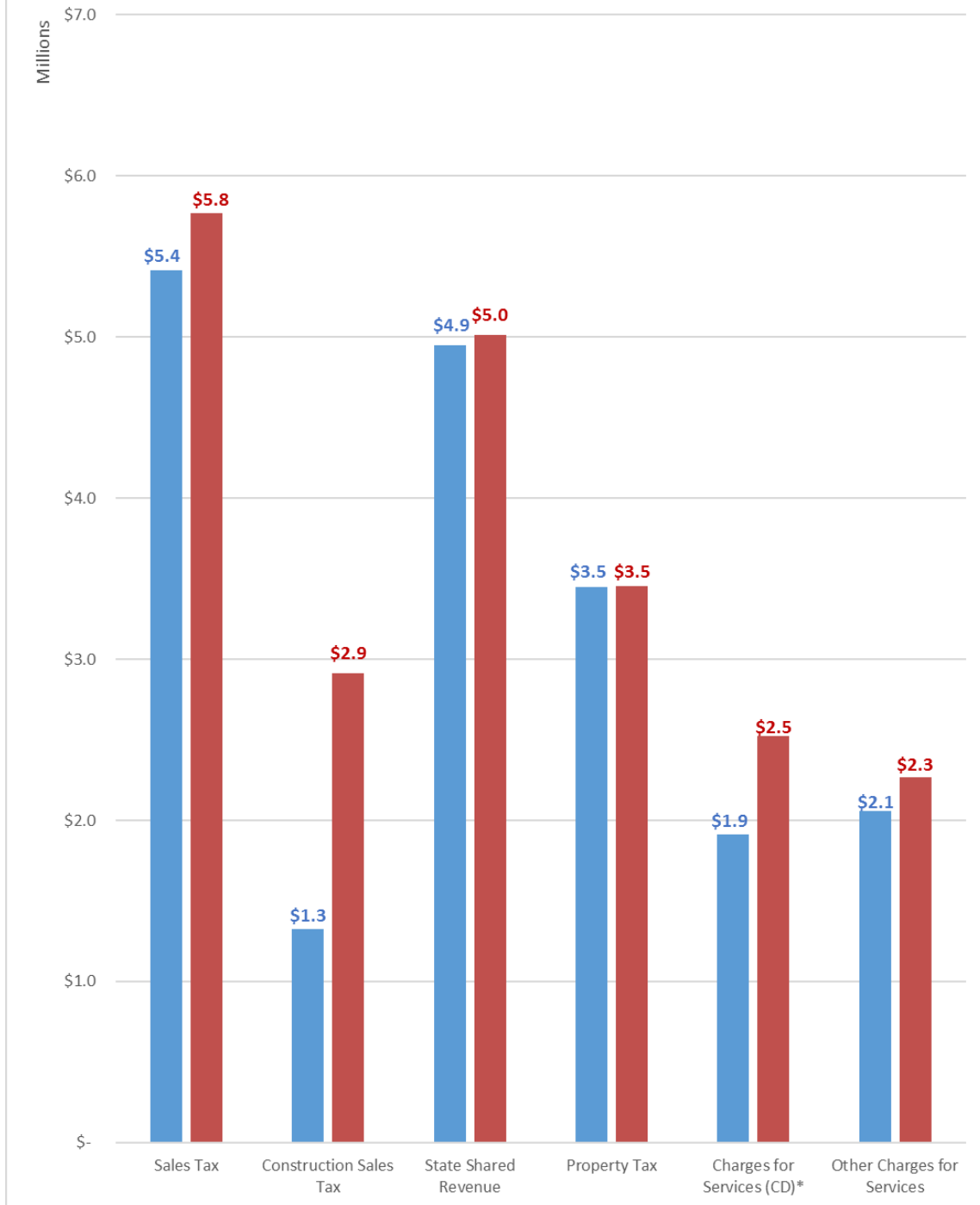
			<u>\$ Variance</u>	<u>% Variance</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable/(Unfavorable)</u>	
Revenues				
Sales Tax	\$ 5,414,421	\$ 5,767,872	\$ 353,451	7%
Construction Sales Tax	1,324,309	2,912,014	1,587,705	120%
State Shared Revenue	4,949,374	5,010,922	61,548	1%
Property Tax	3,450,690	3,455,199	4,509	0%
Charges for Services (CD)*	1,910,450	2,522,893	612,443	32%
Other Charges for Services	2,055,540	2,269,725	214,185	10%
Total Revenues	\$ 19,104,784	\$ 21,938,624	\$ 2,833,840	15%
Expenditures				
Salaries & Benefits	\$ 8,681,978	\$ 8,430,699	\$ 251,279	3%
Supplies & Services	5,654,204	5,498,079	156,124	3%
Maricopa County Sheriff	2,663,586	2,432,055	231,531	9%
Capital Outlay	2,085,148	1,887,019	198,129	10%
Total Expenditures	\$ 19,084,916	\$ 18,247,853	\$ 837,063	4%

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

Revenue Analysis



**Operating Revenue FYTD October: +\$2.8M (+15%)
 \$19.1M FY19-20 Budget to \$21.9M FY19-20 Actual**



Overall, there is a 15% favorable variance between budgeted and actual revenues year to date. The variances of the Revenue Categories are as follows:

Sales Tax

Sales tax revenue has a favorable variance of \$0.4M or 7% year-to-date and is related to increased receipts in communications, as well as strong performance in retail and restaurant activity. Please refer to the Sales Tax Report (Appendix 1) for additional information on this revenue.

Construction Sales Tax

Construction Sales Tax Revenue has a favorable variance of \$1.6M or 120% and is related to ongoing residential and commercial construction activity performing better than anticipated due to continued growth. Please refer to the Sales Tax Report (Appendix 1) for additional information on this revenue.

State Shared Revenue

State Shared Revenue is on target with the budget year-to-date.

Property Tax

Property tax revenue is on target with the budget year-to-date. The main influx of the revenue occurs in October and November, and again in April and May.

Charges for Services (CD)

Charges for Services (CD) accounts for planning, engineering and building permit revenues. Revenue is favorable by \$0.6M or 32%, as presented in the following schedule:

October 2019 YTD Community Development Detailed Revenues

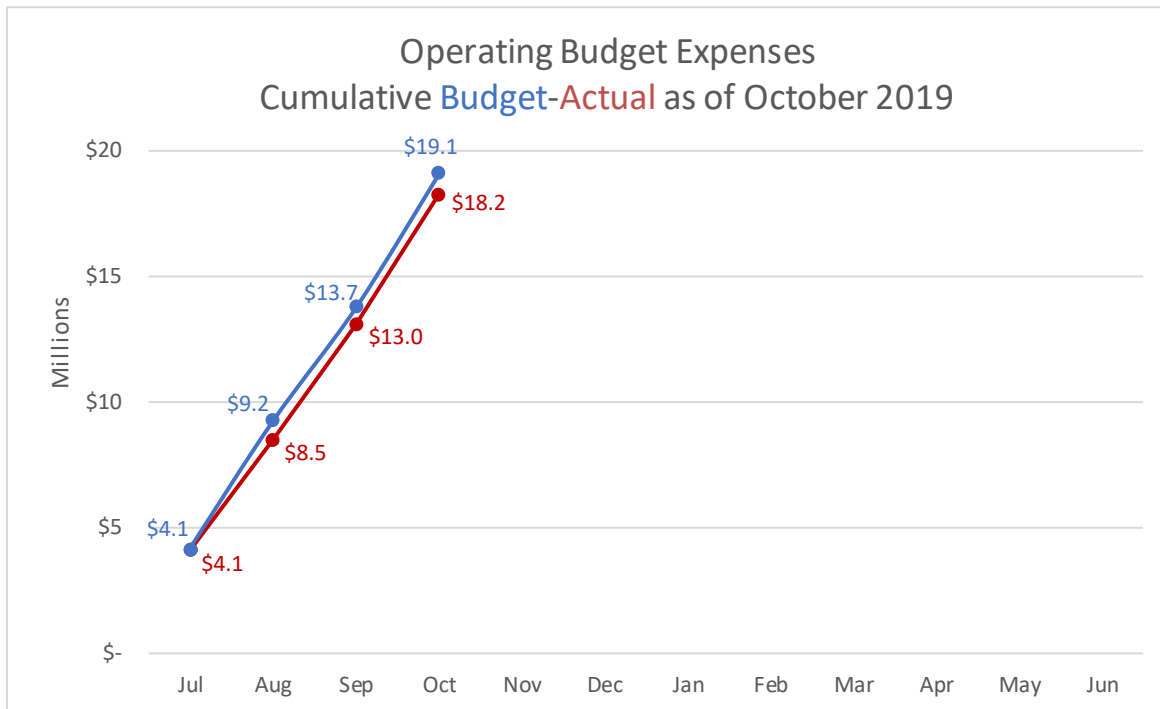
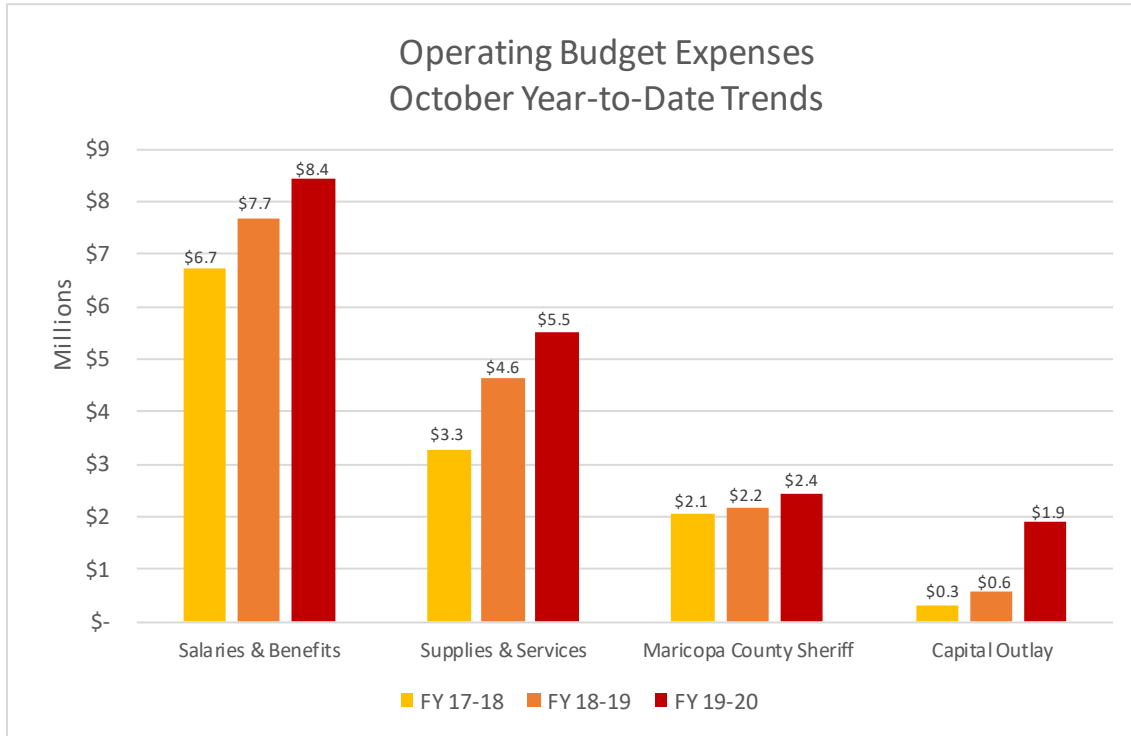
	<u>Budget</u>	<u>Actual</u>	<u>\$ Variance</u>	<u>% Variance</u>
Charges for Services (CD)			Favorable/(Unfavorable)	
Planning Revenue	\$ 147,370	\$ 74,155	\$ (73,215)	(50%)
Engineering Revenue	150,420	370,908	220,488	147%
Building Permit Revenue	<u>1,612,660</u>	<u>2,077,830</u>	<u>465,170</u>	<u>29%</u>
Total Charges for Services (CD)	\$ 1,910,450	\$ 2,522,893	\$ 612,443	32%

Planning revenues are mostly the result of residential development planning permits. Engineering revenues are currently coming from six new subdivisions that are in the engineering phase of development. These subdivisions, along with other residential engineering projects, account for \$315K, or 85% of the engineering revenue received year-to-date. Finally, the large variance in Building Permit revenues is mainly the result of residential (single-family) permitting, which accounts for \$1.9M or 90% of total building permit revenues year-to-date. Through October 31, 2019, the Town has issued 562 new single-family home permits.

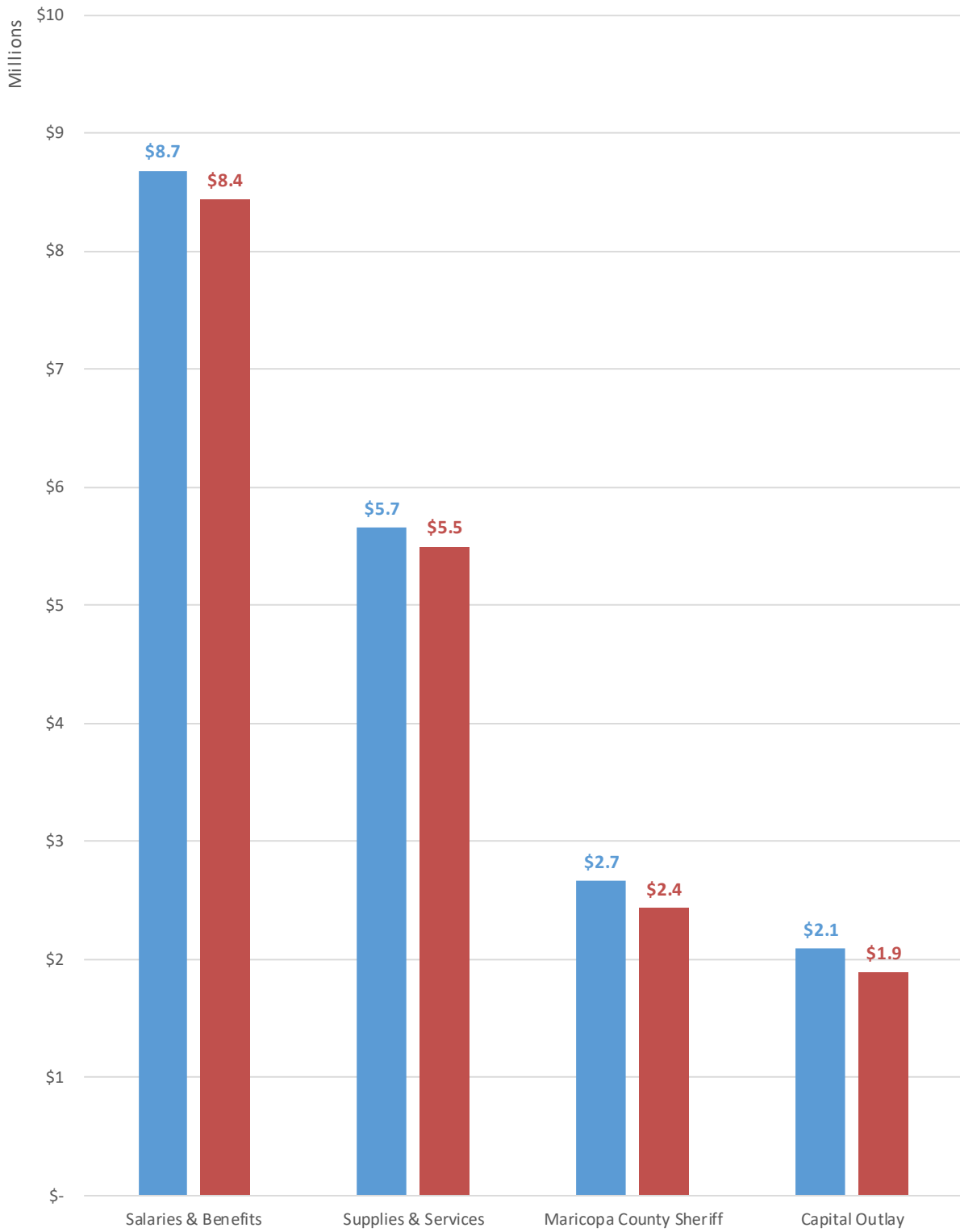
Other Charges for Services

Other Charges for Services is comprised of a number of different sources and has a favorable variance of about \$200K or 10% year-to-date. With the nature of this revenue being a large number of smaller accounts, variances can fluctuate from period to period. The largest revenue group in this category is Utility ROI and Utility Franchise Fees from the Town's Water and Sewer utility operations, which together account for \$0.7M or 33% of the year-to-date revenue. Another large revenue group is Departmental Support Revenue, which accounts for \$0.6M or 25% of the year-to-date revenue.

Expense Analysis



Operating Expense FYTD October: +\$0.8M (+4%)
\$19.1M FY19-20 Budget to \$18.2M FY19-20 Actual



The year to date expenditures for fiscal year 2020 reflect a favorable variance of \$0.8M or 4%.

Salaries and Benefits

Salaries and Benefits expenses through October are \$0.3M or 3% below budget. A majority of this variance is a result of two newly created positions created for FY20 that were not yet filled as of October 31.

Supplies and Services

Supplies and Services expenses are under budget by \$0.2M or 3% to date. Mansel Carter Oasis Park water expenses received a one-time adjustment to water expenses in FY20 due to incorrect billings in previous months, creating a variance in this category. In addition, the newly created \$250K repair and maintenance budget in Facilities Maintenance was evenly spread across 12 months not knowing how repairs would be planned. Staff will continue to monitor expenditures and realign the budget as necessary in future periods.

Maricopa County Sheriff

Maricopa County Sheriff costs reflect a favorable variance by \$0.2 or 9% to date. This is a result of MCSO personnel vacancies for which the Town is now receiving credit on a regular basis.

Capital Outlay

Capital Outlay reflects a favorable variance of \$0.2M or 10% to date. The budgets in this category are for one-time purchases related to major equipment and special projects. A majority of the variance (\$147K) is related to a replacement dump truck that is on order, but has not yet been received.



TOWN OF
QUEEN CREEK
ARIZONA

FY 19-20 Year to Date Sales Tax Report

FY 19-20 Business Activity through September 2019*

Issued December 2019

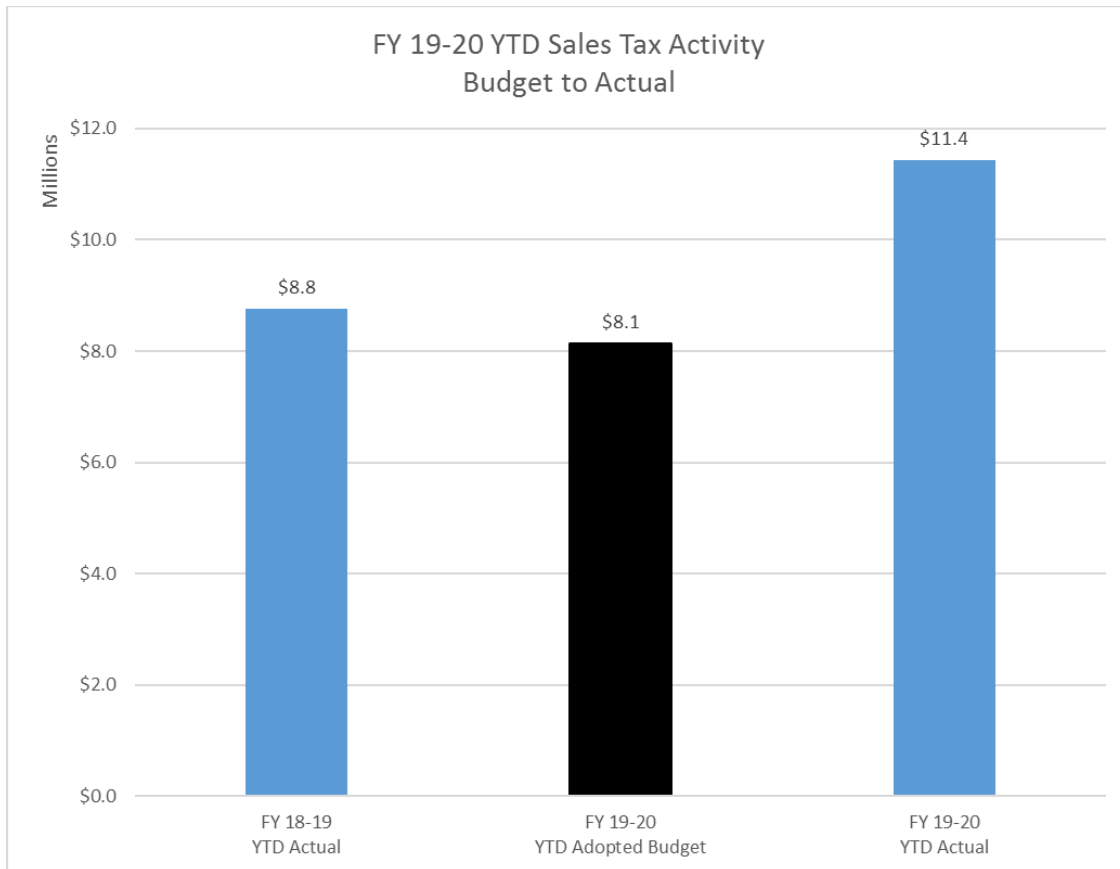
This report contains information regarding the actual revenue collections from the Town's 2.0% sales tax reflected in the General Fund, 0.25% dedicated EMS sales tax, 0.25% Town Center dedicated sales tax and the 2.0% Construction Contracting sales tax dedicated to infrastructure improvements.

*Sales tax activity revenue generated in September is received by the Town in October and included with the October Financial Report.

YEAR-TO-DATE FY 19-20 SALES TAX ACTIVITY

OVERALL PERFORMANCE SUMMARY:

The September 2019 sales tax revenue year-to-date total of \$11.4M exceeds the adopted budget by 40%, or \$3.3M. Relative to the same period in FY 18-19, FY 19-20 actuals are 30%, or \$2.7M higher than the previous year.



Sales Category	FY 18-19 YTD Actual	FY 19-20		FY 19-20 YTD Adopted Budget-To-Actual		FY 18-19 YTD Actual to FY 19-20 YTD Actual	
		YTD Adopted Budget	YTD Actual	\$ Variance	% Variance	\$ Variance	% Variance
Construction	\$ 3,659,705	\$ 2,501,481	\$ 5,500,470	\$ 2,998,989	120%	\$ 1,840,765	50%
Retail Trade	\$ 3,075,618	3,417,612	3,504,164	86,552	3%	428,546	14%
Communications & Utilities	\$ 582,337	516,022	726,394	210,372	41%	144,057	25%
Restaurant & Bar	\$ 705,622	855,450	843,008	(12,442)	(1%)	137,385	19%
Real Estate, Rental & Leasing	\$ 429,732	472,123	482,535	10,412	2%	52,803	12%
All Others**	\$ 304,662	370,020	367,015	(3,005)	(1%)	62,353	20%
Totals	\$ 8,757,676	\$ 8,132,708	\$ 11,423,585	\$ 3,290,877	40%	\$ 2,665,909	30%

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

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

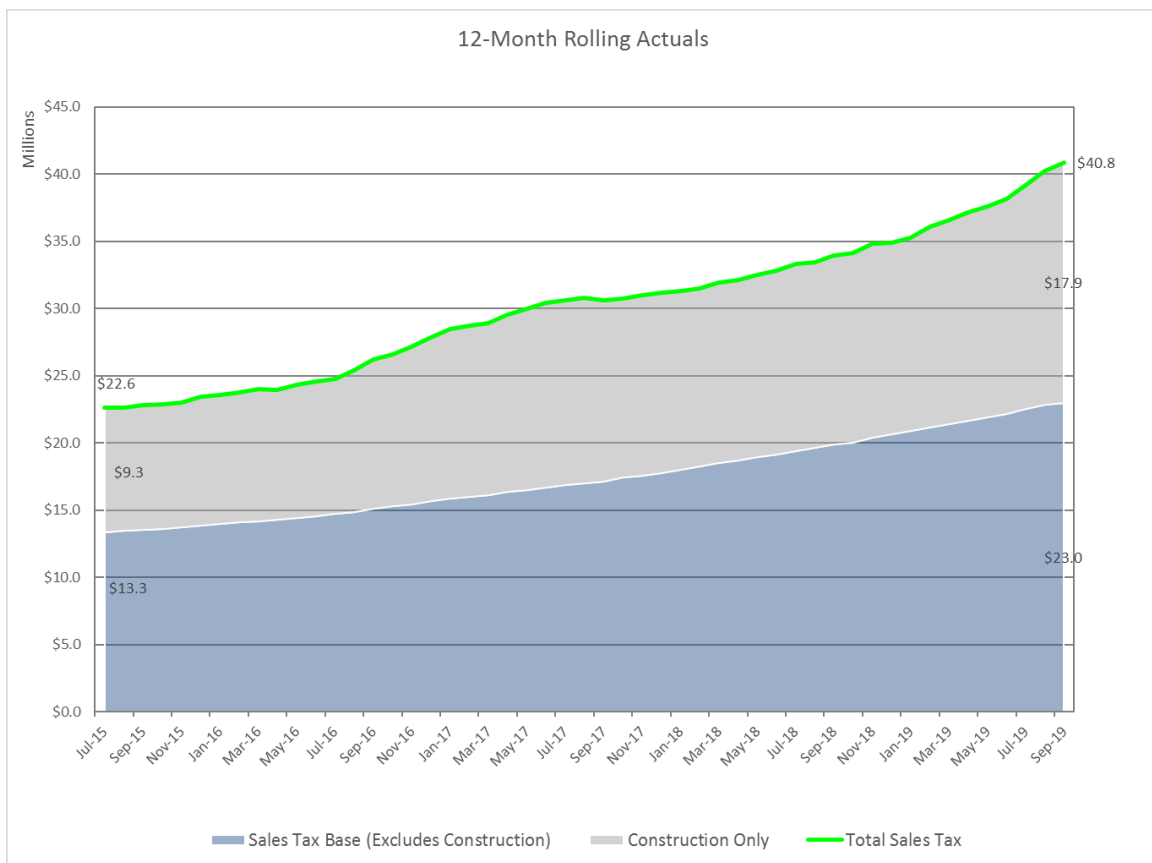
ANALYSIS

The positive budget-to-actual sales tax revenue variance stems largely from strong performance in construction contracting (120% above budget). A year-by-year trend analysis for the Construction category is located in the appendix of this report.

Town of Queen Creek sales tax collections are also positively impacted by the high incomes of Town households. Per the 2017 American Communities Supplemental Survey data provided by the US Census, Queen Creek’s median household income is \$96,802, which is among the highest in the region for full-service cities and towns. Additionally, taxable spending from an estimated 100K+ population from Eastmark master-planned community (Mesa) and unincorporated San Tan Valley has a significant impact on the Town’s sales tax revenues. A recent study from Elliot Pollack & Company estimates that as of FY 17-18, about 38% of sales tax collections in the retail category and about 47% in the restaurant and bar category are from non-Queen Creek resident spending in the Town.

HISTORICAL 12 MONTH ROLLING PERIODS

The following section contains a 12-month rolling historical actuals chart for the sales tax base (everything except construction) and separately for construction contracting sales tax revenues. Together, these categories comprise the total monthly revenue collections for sales tax. This chart is useful to identify the overall data trends since 2015. Of particular note is the continued growth of the sales tax base over time, which signifies that the Town’s commercial sectors are growing, diversifying and maturing since 2015.



YEAR-TO-DATE ANALYSIS BY CATEGORY

CONSTRUCTION CONTRACTING:

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

September 2019 Actuals: \$1.8M

FY 19-20 YTD Actuals: \$5.5M

FY 19-20 YTD Budget to Actual Variance of \$3.0M or 120%

FY 19-20 YTD Actual to FY 18-19 YTD Actual Increase of \$1.8M or 50%

FY 19-20 collections exceed the FY 19-20 budget and the prior fiscal year actuals through September activity. Performance in construction contracting ties mostly to new home sales and in particular, the large-scale homebuilders. Known major homebuilders accounted for the majority of construction contracting sales tax revenues for the month of September. Sales tax paid by homebuilders ties to the sale of a new home, which is dependent on permit completions. The following schedule displays new single-family home (NSF) permits issued and home completions over a rolling 12-month period for the current fiscal year against the previous fiscal year according to Queen Creek’s Development Services Department:

12-Month Rolling NSF Home Permits	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total	Mo. Avg.
FY 18-19 TOQC NSF Permits Issued	55	51	55	79	70	92	108	100	181	167	148	70	1,176	98
FY 19-20 TOQC NSF Permits Issued	97	71	113	84	107	92	126	136	114	158	124	138	1,360	113
12-Month Rolling NSF Home Completions	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total	Mo. Avg.
FY 18-19 TOQC NSF Completions	71	78	69	48	56	63	72	84	83	92	88	74	878	73
FY 19-20 TOQC NSF Completions	79	103	82	84	92	122	106	131	136	135	129	151	1,350	113

The Town utilizes RL Brown Housing Reports, an independent source of housing market information, to track monthly home sales, which are an indicator of construction sales tax receipts for the month. RL Brown’s data indicates that Queen Creek had 143 new home sales close in the month of September with an average sales price of \$455K for these homes. The table on the following page shows the monthly closings by builder, average sale price and estimated gross revenue for the month of September.

Appendix 1: Queen Creek Monthly Sales Tax Report

BUILDER	# CLOSINGS	AVG. SALES PRICE	EST. GROSS REVENUE
Fulton Homes	41	\$ 375,774	\$ 15,406,743
William Lyon Homes	41	365,171	14,972,002
Toll Brothers	11	464,132	5,105,457
Lennar Homes	10	436,516	4,365,160
Shea Homes	10	430,739	4,307,386
Calatlantic Homes	7	469,490	3,286,431
Richmond American	7	451,751	3,162,259
VIP Homes	3	699,380	2,098,141
Rosewood Homes	3	538,951	1,616,852
Cresleigh Homes	3	304,932	914,796
Elliott Homes	2	564,500	1,129,000
Gehan Homes	2	468,378	936,756
Woodside Homes	2	405,051	810,101
Highland Homes	1	400,000	400,000
GRAND TOTAL	143	\$ 455,340	\$ 58,511,084

RETAIL TRADE:

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

September 2019 Actuals: \$1.1M

FY 19-20 YTD Actuals: \$3.5M

FY 19-20 YTD Budget to Actual Variance of \$87K or 3%

FY 19-20 YTD Actual to FY 18-19 YTD Actual Increase of \$430K or 14%

FY 19-20 YTD collections in the retail category exceeded the FY 19-20 budget and prior year actual collections. Compared to the previous fiscal year, new businesses continue to open, but more influentially, retail anchors in the major retail centers in the Town are performing well. The higher-dollar entities drive revenue in this class. In September, the top 20 payers of 2,168 total payers in the retail category delivered 65% of the revenue. The top 10 payers in the category account for 54% of the total.

COMMUNICATIONS/UTILITIES:

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

September 2019 Actuals: \$210K

FY 19-20 YTD Actuals: \$730K

FY 19-20 YTD Budget to Actual Variance of \$210K or 41%

FY 19-20 YTD Actual to FY 18-19 YTD Actual Increase of \$145K or 25%

Year-to-date collections in the communications/utilities category were above the adopted FY 19-20 budget and prior year collections due to higher-than-average temperatures and a less-active monsoon season through September. This caused higher energy consumption levels and a resulting increase in collections relating to utilities.

RESTAURANTS & BARS:

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

September 2019 Actuals: \$300K

FY 19-20 YTD Actuals: \$850K

FY 19-20 YTD Budget to Actual Variance of \$(12K) or (1%)

FY 19-20 YTD Actual to FY 18-19 YTD Actual Increase of \$140K or 19%

This category is flat to the budget and but exceeding previous year actual collections. Performance in this category is tied to several new establishments opening in Queen Creek, continued solid performance from major vendors, and population growth.

RENTAL, REAL ESTATE & LEASES:

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

September 2019 Actuals: \$170K

FY 19-20 YTD Actuals: \$500K

FY 19-20 YTD Budget to Actual Variance of \$10K or 2%

FY 19-20 YTD Actual to FY 17-18 YTD Actual Increase of \$50K or 12%

Collections are above budgeted and prior year levels.

ALL OTHER CATEGORIES:

The categories included here are transportation, manufacturing, wholesale trade, finance and insurance, services, and arts and entertainment. Use tax is also included in this category.

September 2019 Actuals: \$110K

FY 19-20 YTD Actuals: \$370K

FY 19-20 YTD Budget to Actual Variance of \$(3K) or (1%)

FY 19-20 YTD Actual to FY 18-19 YTD Actual Comparison of \$62K or 20%

This category is in line with the current year budget and above the previous year actual collections.

APPENDIX:

SALES TAX BACKGROUND INFORMATION:

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

SALES TAX RATE DETAILS

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

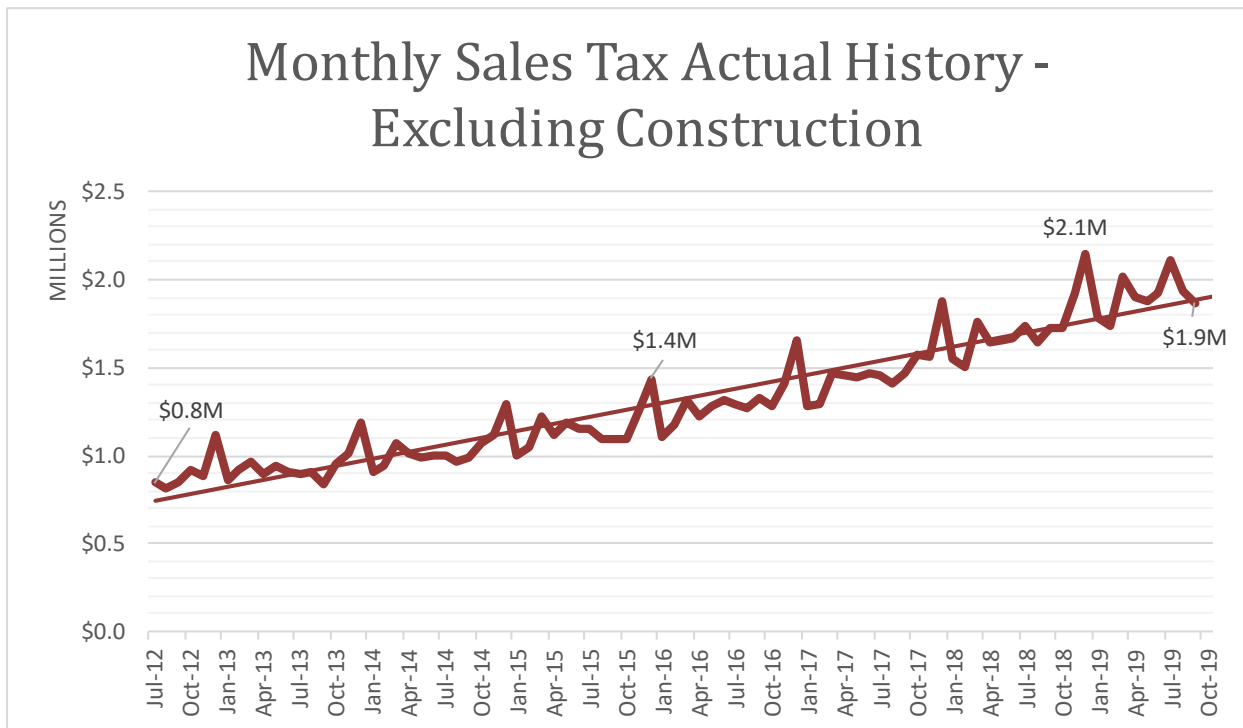
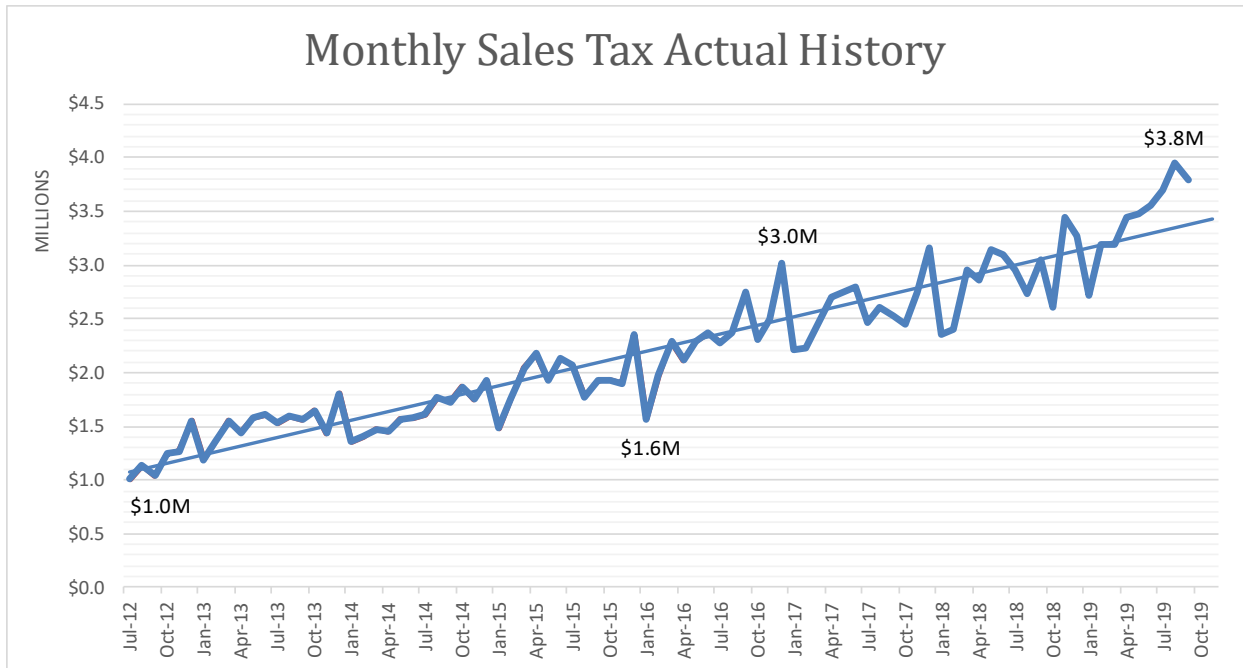
- 2.0% tax rate charged on all taxable activities within Town limits
 - Dedicated to the General Fund for general purpose government operations
- 0.25% tax rate charged on all taxable activities within Town limits
 - Dedicated to the Emergency Services (EMS) Fund to fund law enforcement and fire and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

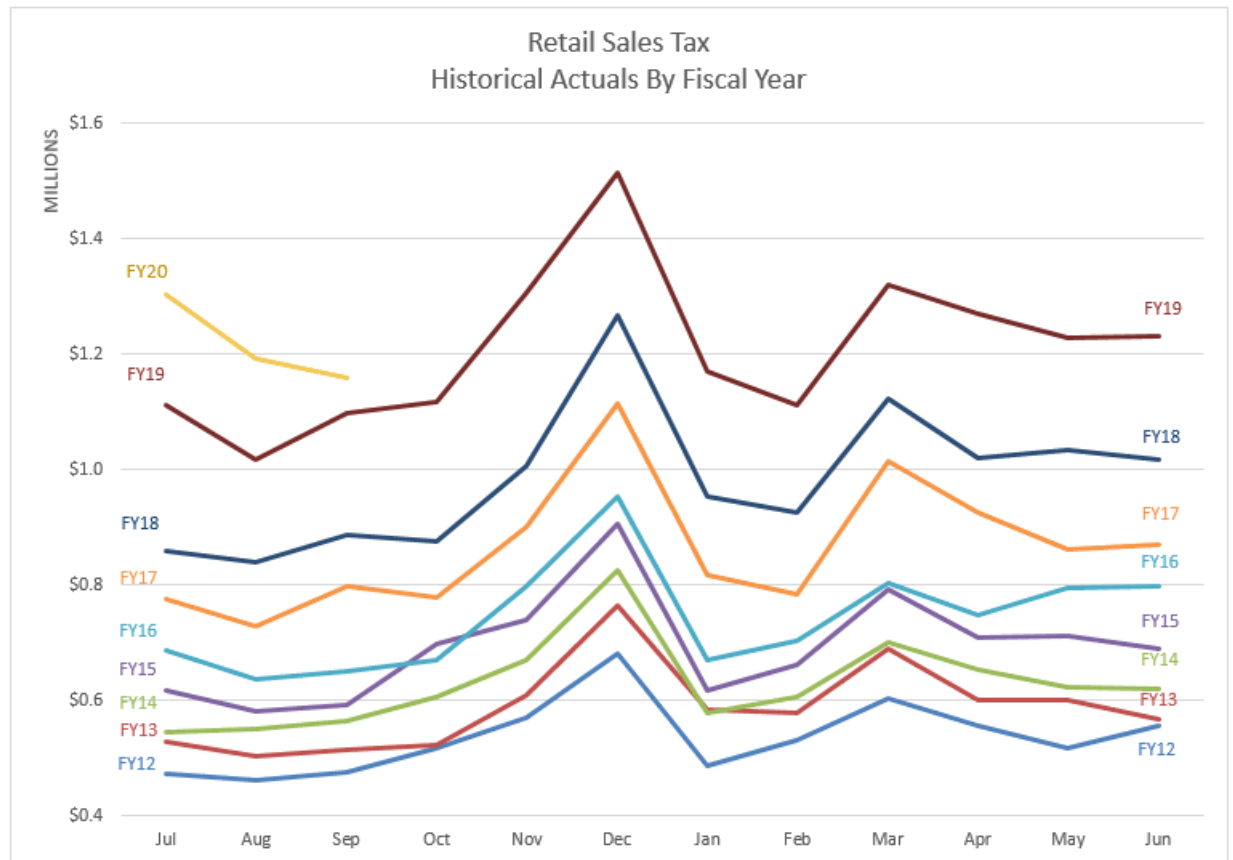
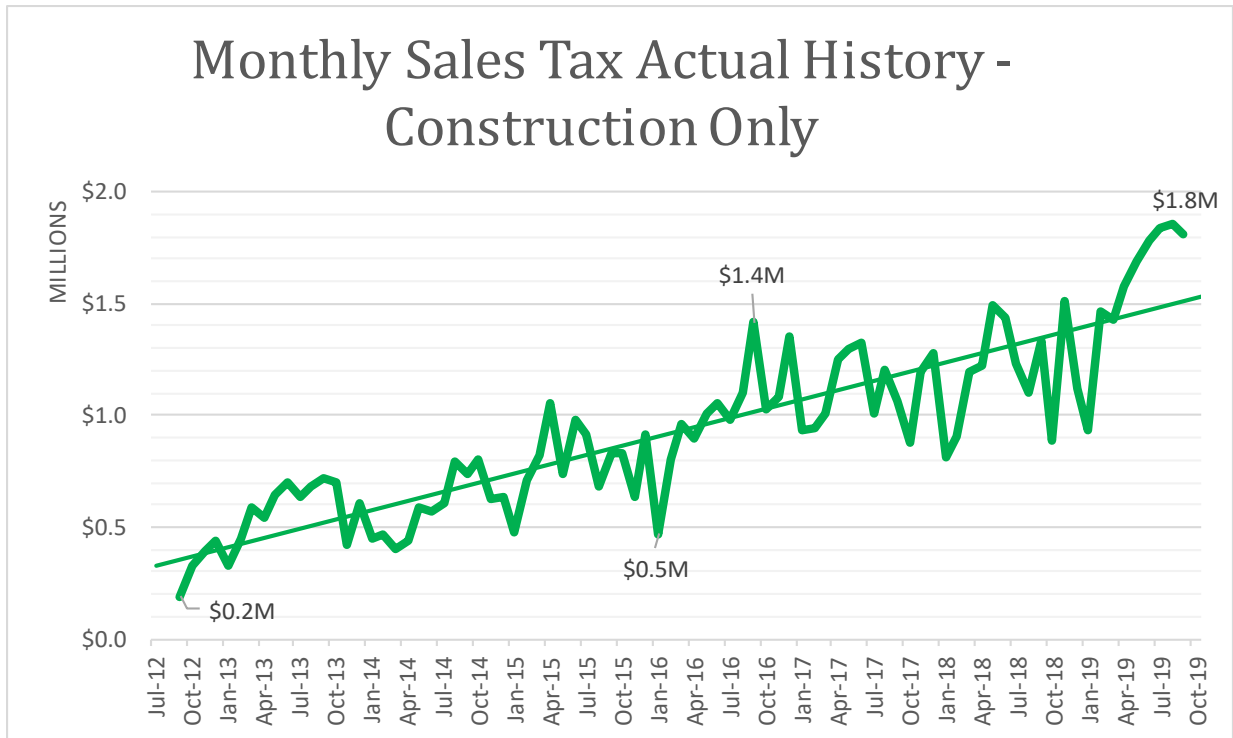
Sales Tax Rate Components					
Queen Creek Rate		Queen Creek Special District Rate (Town Center)		Construction Contracting Rate	
General Fund	2.00%	General Fund	2.00%	General Fund	2.00%
EMS	0.25%	EMS	0.25%	EMS	0.25%
		Town Center	0.25%	Construction Fund	2.00%
Total Rate	2.25%	Total Rate	2.50%	Total Rate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

Revenue by Fund	FY20 Actuals	
	YTD	% of Total
General Fund	\$ 7,715,454	67.5%
EMS Fund	964,432	8.4%
Town Center Fund	155,243	1.4%
Construction Fund	2,588,456	22.7%
Totals	\$ 11,423,585	100.0%

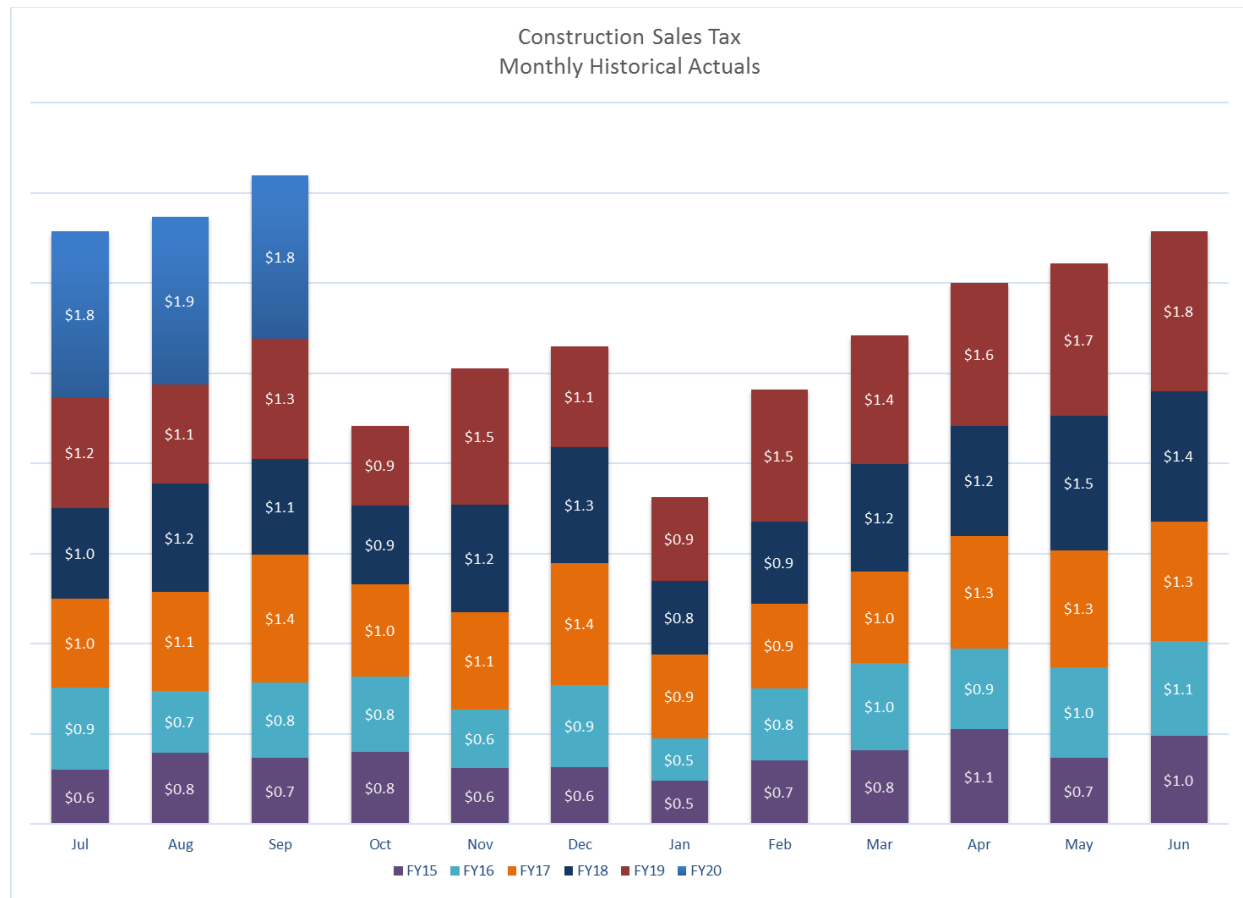
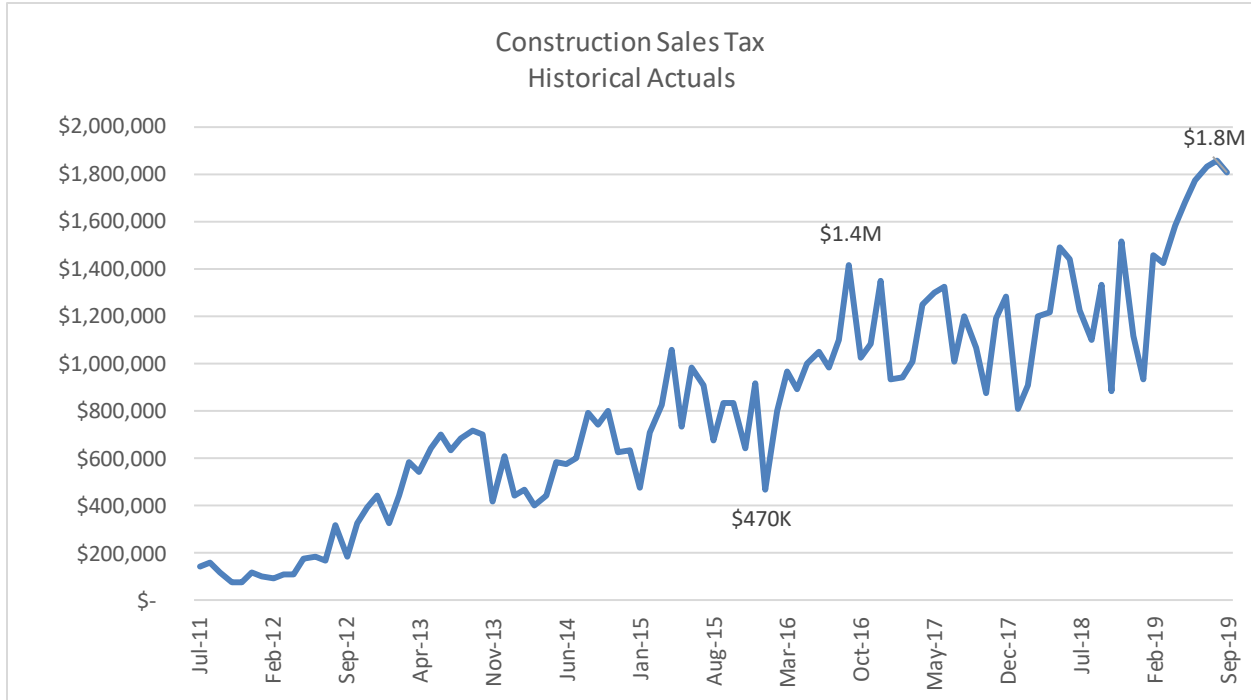
Operating Budget	Jul	Aug	Sept	FY19-20 YTD
General Fund	\$ 2,687,713	\$ 2,559,558	\$ 2,468,183	\$ 7,715,454
EMS Fund	\$ 335,964	319,945	308,523	\$ 964,432
Total Operating Budget	\$ 3,023,679	\$ 2,879,502	\$ 2,776,706	\$ 8,679,886

Historical Performance





Appendix 1: Queen Creek Monthly Sales Tax Report



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

Appendix 1: Queen Creek Monthly Sales Tax Report

TAX RATE CATEGORIES

Town-wide Queen Creek Sales Tax Rates:

CITY/TOWN NAME	REGION CODE	BUSINESS CODE	TAX RATE	COUNTY
QUEEN CREEK	QC			MAR/PNL
Advertising		018	2.25%	
Amusements		012	2.25%	
Contracting – Prime		015	4.25%	
Contracting – Speculative Builders		016	4.25%	
Contracting – Owner Builder		037	4.25%	
Job Printing		010	2.25%	
Manufactured Buildings		027	2.25%	
Timbering and Other Extraction		020	2.25%	
Severance – Metal Mining		019	0.10%	
Publication		009	2.25%	
Hotels		044	2.25%	
Hotel/Motel (Additional Tax)		144	3.00%	
Residential Rental, Leasing, & Licensing for Use		045	2.25%	
Commercial Rental, Leasing, & Licensing for Use		213	2.25%	
Rental, Leasing, & Licensing for Use of		214	2.25%	
Restaurant and Bars		011	2.25%	
Retail Sales		017	2.25%	
Retail Sales Food for Home		062	2.25%	
MRRRA Amount		315	2.25%	
Communications		005	2.25%	
Transporting		006	2.25%	
Utilities		004	2.25%	
Use Tax Purchases		029	2.25%	
Use Tax From Inventory		030	2.25%	

Queen Creek Special District Tax Rates (Town Center):

CITY/TOWN NAME	REGION CODE	BUSINESS CODE	TAX RATE	COUNTY
QUEEN CREEK SPECIAL DISTRICT	QD			MAR
Amusements		012	2.5%	
Job Printing		010	2.5%	
Publication		009	2.5%	
Hotels		044	2.5%	
Restaurant and Bars		011	2.5%	
Retail Sales		017	2.5%	
Retail Sales for Food Home Consumption		062	2.5%	
MRRRA Amount		315	2.5%	
Communications		005	2.5%	
Utilities		004	2.5%	