



TOWN OF
QUEEN CREEK
ARIZONA

FY 19-20 Year to Date Financial Report

Operating Budget to Actual Performance
Fiscal Year to Date through January 2020

Issued March 6, 2020

Executive Summary

The Town's budget-to-actual performance through January 2020 showed favorable variances for both revenues and expenses. Actual revenues are performing well with receipts exceeding expectations by \$6.3M, or 18%. 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 \$1.1M, or 3%. The variance is driven by a collection of items, such as staffing vacancies, as well as contractual services that are coming in under budget. Most notable is a \$0.5M or 10% savings in the MSCO police services contract due to vacancies at the Sheriff's Office for which the Town is now receiving a credit.

Based on the Revised Budget, the Town expected revenues to exceed expenses by \$3.5M at January 31, 2020. However, both revenues and expenses performed better than anticipated resulting in revenues exceeding expenses by \$10.9M, an improvement of \$7.4M. 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, and \$10.6M is expected to be transferred out to other funds to cover the non-growth share of debt payments and capital improvements. Any amount remaining after these transfers is used to fund the Town's reserves for operations and pensions. The FY 19-20 ending fund balance is projected 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>FY 19-20</u> <u>Total Revised</u>	<u>FY 19-20</u> <u>Year-to-Date</u>	<u>FY 19-20</u> <u>Year-to-Date</u>
	<u>Budget</u>	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>
Revenues	\$ 66,383,032	\$ 66,815,497	\$ 35,420,214	\$ 41,758,377
Expenses	54,526,501	55,621,386	31,888,488	30,837,195
Operating Results	\$ 11,856,531	\$ 11,194,111	\$ 3,531,726	\$ 10,921,182
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	\$ 3,531,726	\$ 10,921,182
Beginning Fund Balance	\$ 36,865,183	\$ 41,455,204		
Ending Fund Balance	<u>\$ 36,920,668</u>	<u>\$ 42,098,269</u>		
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	<u>\$ 36,920,668</u>	<u>\$ 42,098,269</u>		

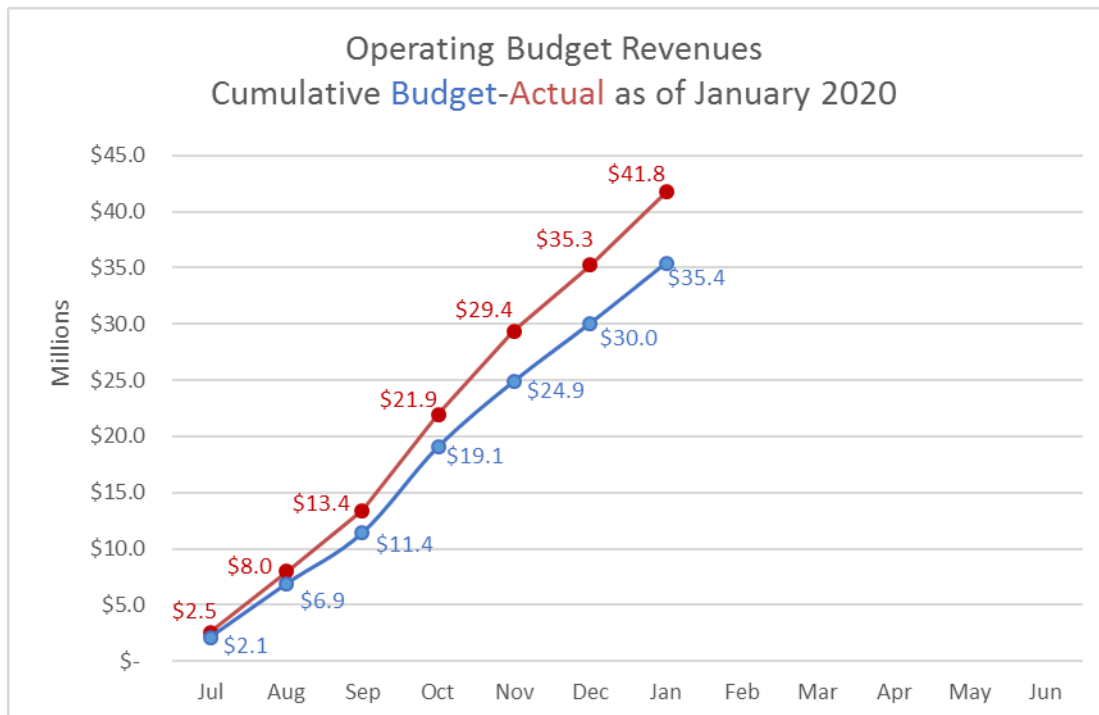
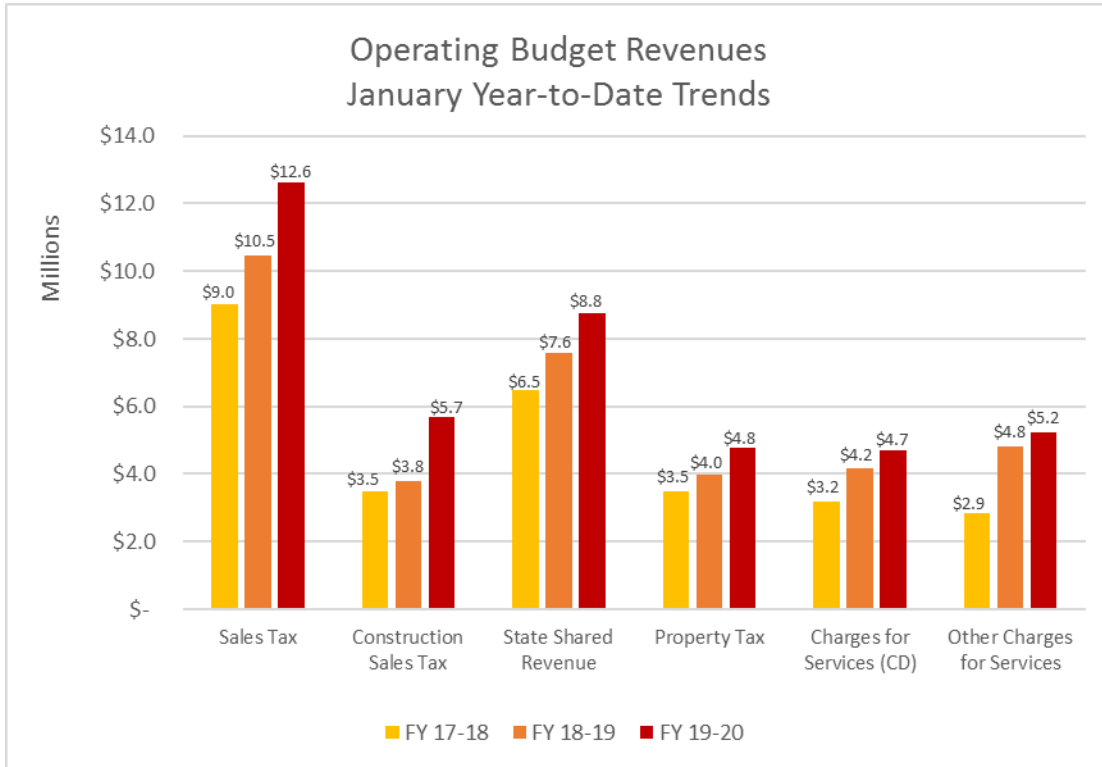
The remainder of this report focuses on revenues and expenses only. It does not include transfers, debt service or infrastructure funding transfers.

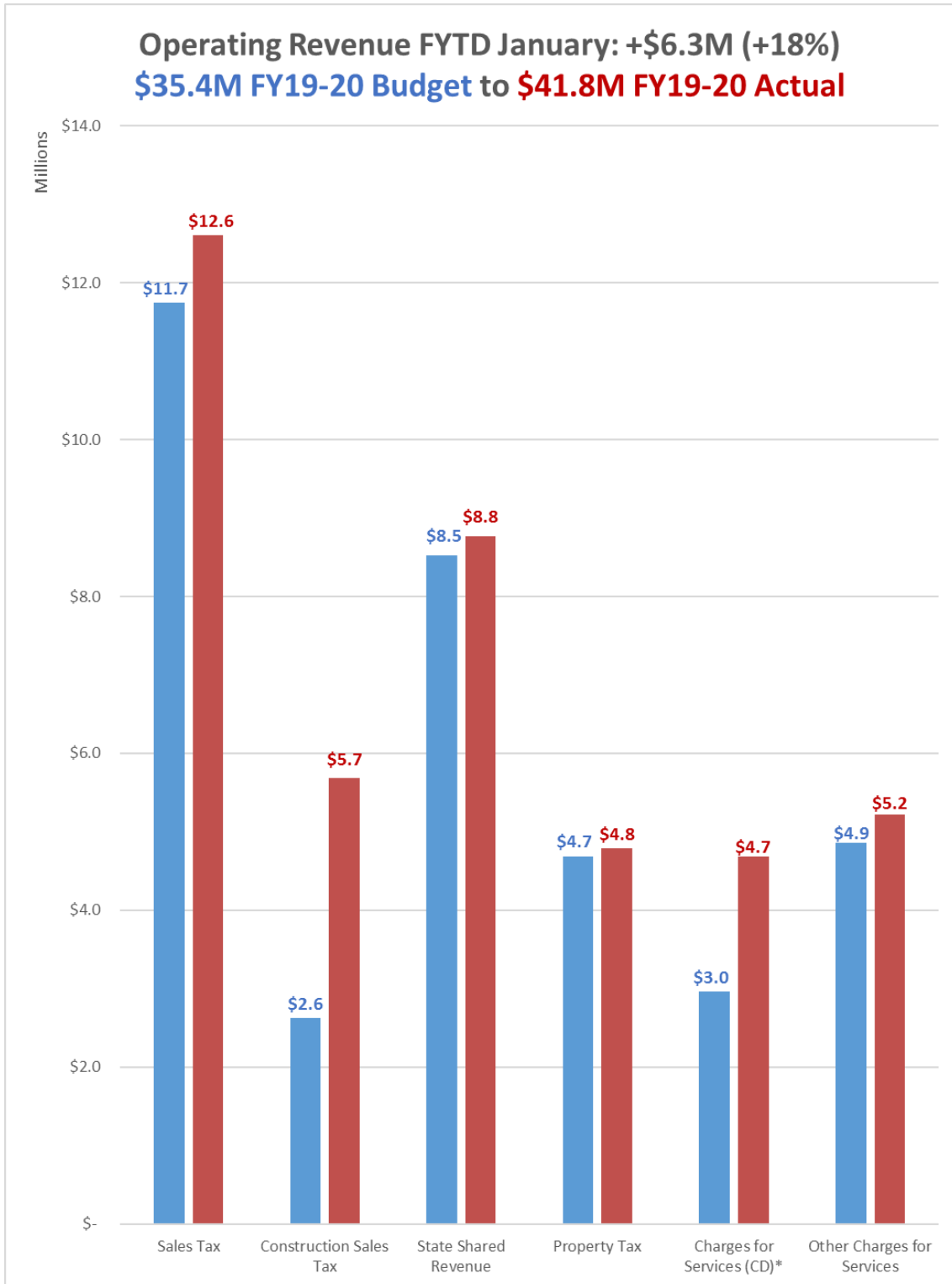
January 2020 Year-to-Date Results

	<u>YTD</u>	<u>YTD</u>	<u>\$ Variance</u>	<u>% Variance</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable/(Unfavorable)</u>	
Revenues				
Sales Tax	\$ 11,747,340	\$ 12,609,442	\$ 862,102	7%
Construction Sales Tax	2,627,890	5,680,670	3,052,780	116%
State Shared Revenue	8,527,454	8,769,881	242,427	3%
Property Tax	4,689,480	4,791,973	102,493	2%
Charges for Services (CD)*	2,964,030	4,686,806	1,722,776	58%
Other Charges for Services	4,864,020	5,219,605	355,585	7%
Total Revenues	\$ 35,420,214	\$ 41,758,377	\$ 6,338,163	18%
Expenditures				
Salaries & Benefits	\$ 15,419,665	\$ 15,058,243	\$ 361,422	2%
Supplies & Services	9,321,929	9,138,331	183,598	2%
Maricopa County Sheriff	4,783,603	4,285,811	497,792	10%
Capital Outlay	2,363,291	2,354,810	8,481	0%
Total Expenditures	\$ 31,888,488	\$ 30,837,195	\$ 1,051,293	3%

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

Revenue Analysis





Overall, actual revenues show an 18% favorable variance compared to the revised budget. The variances of the Revenue Categories are as follows:

Sales Tax

Sales tax revenue has a favorable variance of \$0.9M or 7% year-to-date and is related to increased receipts in communications, as well as strong performance in retail 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 \$3.1M or 116% and is related to ongoing residential and commercial construction activity performing much 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 with a favorable variance of \$0.2M or 3%.

Property Tax

Property tax revenue is on target with the budget year-to-date with a favorable variance of \$0.1M or 2%. The main influx of property tax 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 \$1.7M or 58%, as presented in the following schedule:

January 2020 YTD Community Development Detailed Revenues

	<u>Budget</u>	<u>Actual</u>	<u>\$ Variance</u>	<u>% Variance</u>
Charges for Services (CD)				
Planning Revenue	\$ 159,320	\$ 160,415	\$ 1,095	1%
Engineering Revenue	205,680	786,425	580,745	282%
Building Permit Revenue	2,599,030	3,739,966	1,140,936	44%
Total Charges for Services (CD)	\$ 2,964,030	\$ 4,686,806	\$ 1,722,776	58%

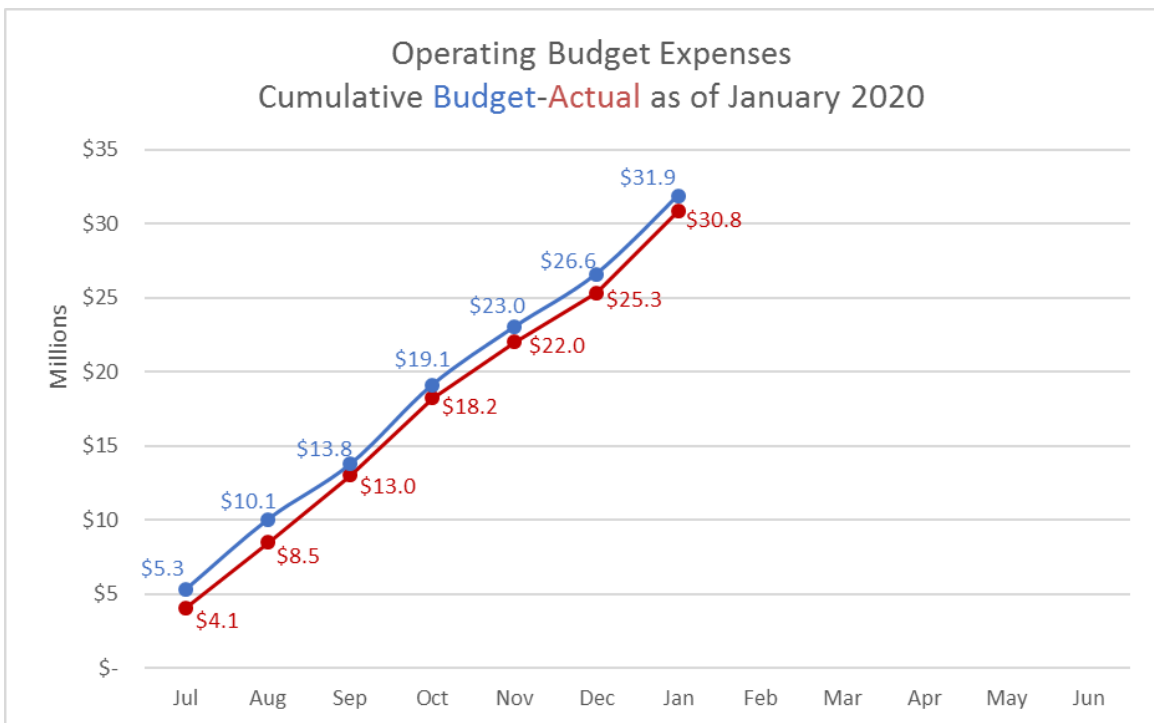
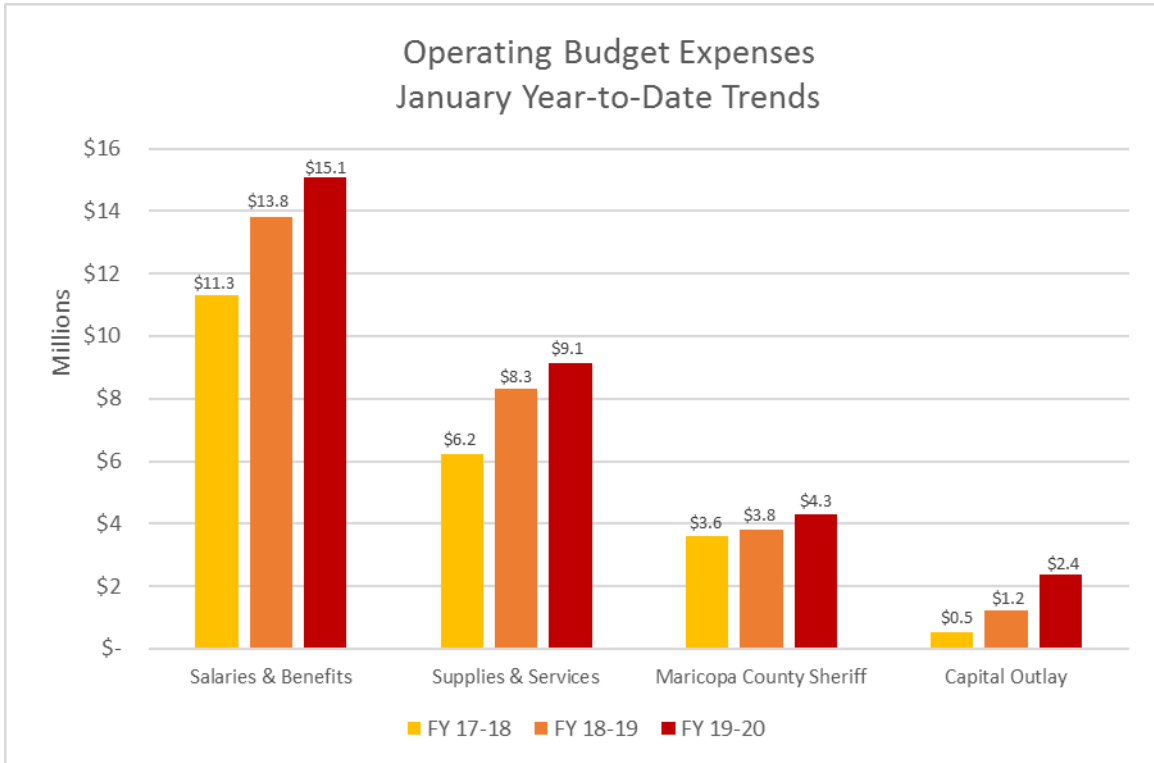
Planning revenues are mostly the result of residential development planning permits. Engineering revenues are currently coming mostly from six new subdivisions that are in the engineering phase of development. These subdivisions, along with other residential engineering projects, account for \$680K, or 86% 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 \$3.3M or 87% of total building permit revenues year-to-date. Through January 31, 2020, the Town has issued 975 new single-family home permits this fiscal year.

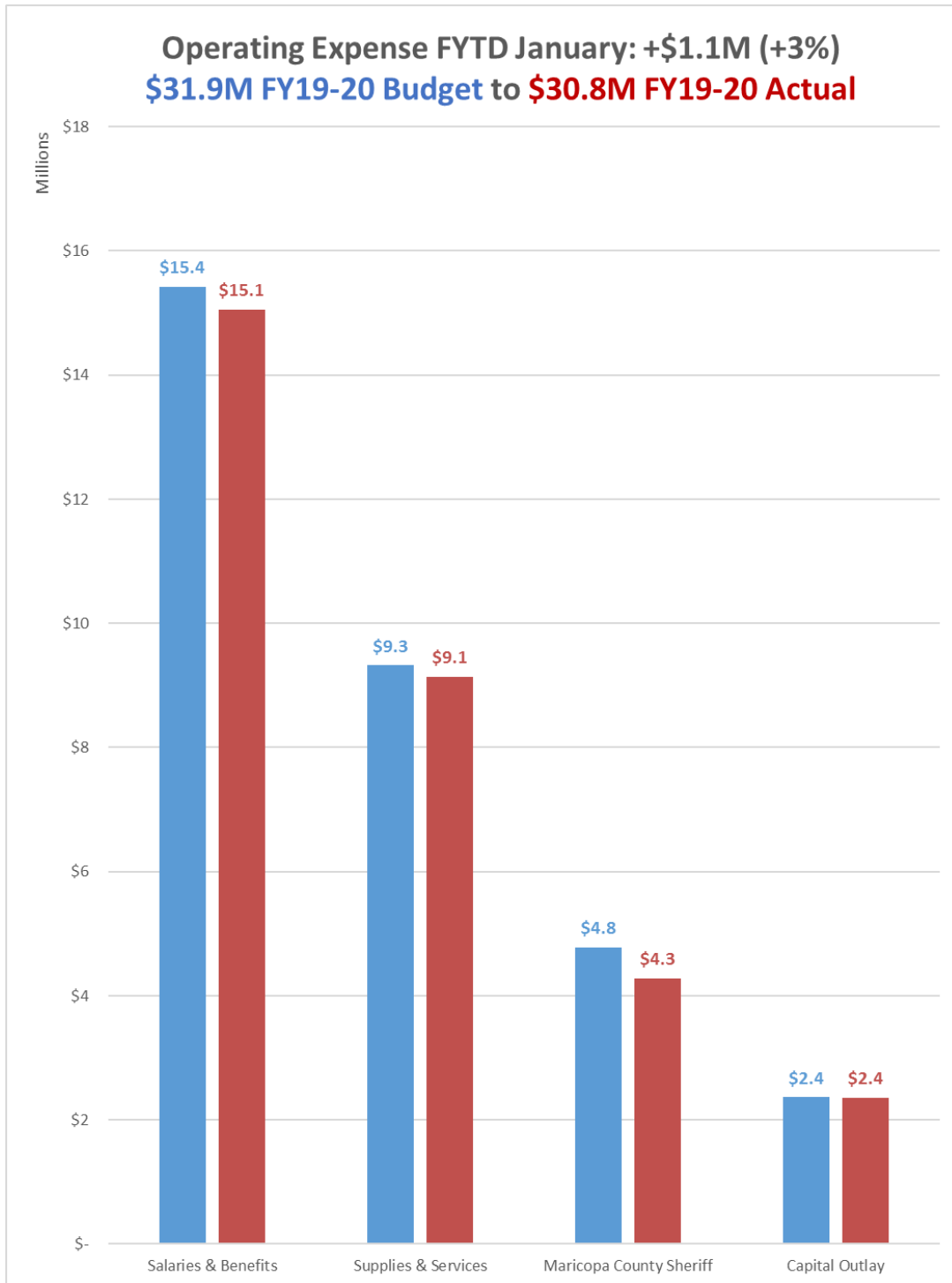
Other Charges for Services

Other Charges for Services is comprised of a number of different sources and has a favorable variance of \$0.4M or 7% 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

\$1.8M or 34% of the year-to-date revenue. Departmental Support Revenue accounts for another \$1.0M or 19% of the year-to-date revenue in this category. Investment income makes up another \$419K or 8% of the year-to-date revenue.

Expense Analysis





The year to date expenditures for fiscal year 2020 reflect a favorable variance of \$1.1M or 3%.

Salaries and Benefits

Salaries and Benefits expenses through January are \$0.4M or 2% below budget. This variance is due to the lead time required to fill vacancies and new positions. The FY 19-20 budget included six new positions, one of which was still vacant at the end of January.

Supplies and Services

Supplies and Services expenses are under budget by \$0.2M or 2% through January. Year-to-date unfavorable budget variances in credit card fees, fleet maintenance, and liability insurance are being offset by savings in legal services, building and grounds maintenance, and streetlight electricity and maintenance costs.

Maricopa County Sheriff

Maricopa County Sheriff costs reflect a favorable variance by \$0.5M or 10% to date. This is a result of MCSO personnel vacancies for which the Town is now receiving a credit on a regular basis.

Capital Outlay

Capital Outlay expenses are nearly equal to the budgeted amount, with a favorable variance of only \$8,500 through January. The budgets in this category are for one-time purchases related to major equipment and special projects.



TOWN OF
QUEEN CREEK
ARIZONA

FY 19-20 Year to Date Sales Tax Report

FY 19-20 Business Activity through December 2019*

Issued February 2020

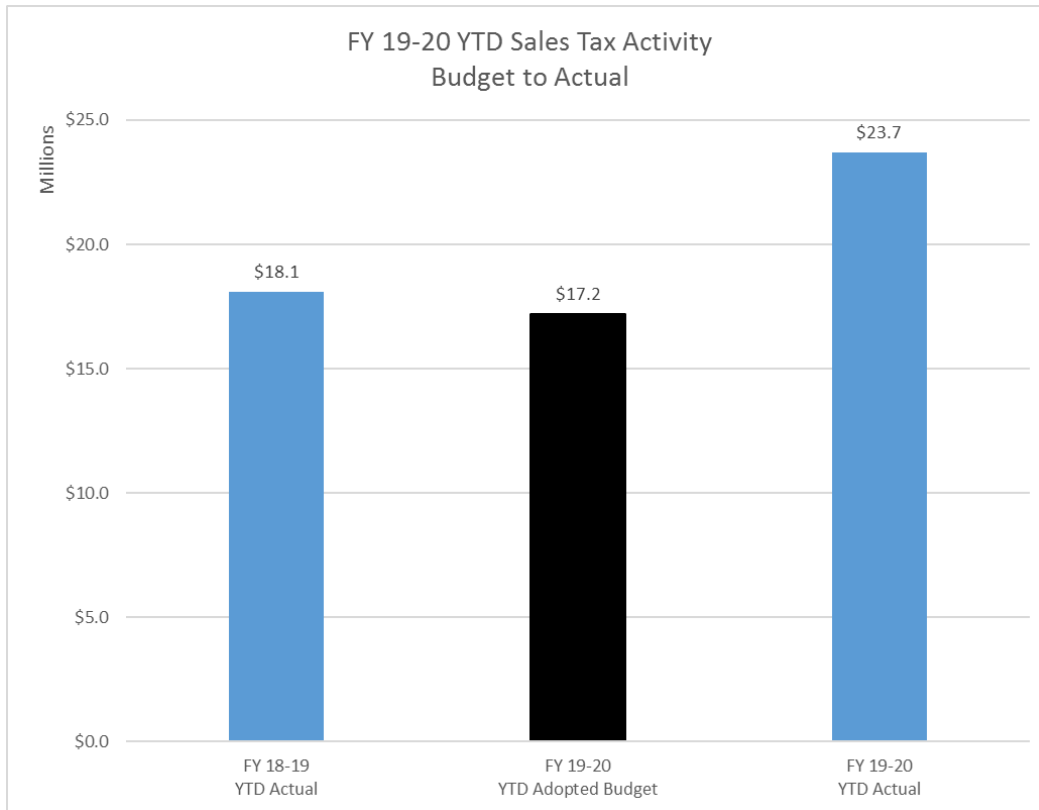
This report contains information regarding the actual revenue collections from the Town's 2.0% sales tax reflected in the General Fund, 0.25% dedicated EMS sales tax, 0.25% Town Center dedicated sales tax and the 2.0% Construction Contracting sales tax dedicated to infrastructure improvements.

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

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

OVERALL PERFORMANCE SUMMARY:

The December 2019 sales tax revenue year-to-date total of \$23.7M exceeds the adopted budget by 38%, or \$6.5M. Relative to the same period in FY 18-19, FY 19-20 actuals are 31%, or \$5.6M higher than the previous year.



Sales Category	FY 18-19 YTD Actual	FY 19-20 YTD Adopted Budget	FY 19-20 YTD Actual	FY 19-20 YTD Adopted Budget-To-Actual		FY 18-19 YTD Actual to FY 19-20 YTD Actual	
				\$ Variance	% Variance	\$ Variance	% Variance
Construction	\$ 7,177,819	\$ 4,963,807	\$ 10,730,199	\$ 5,766,392	116%	\$ 3,552,381	49%
Retail Trade	\$ 6,862,969	7,702,170	8,351,791	649,621	8%	1,488,822	22%
Communications & Utilities	\$ 934,087	888,632	1,100,734	212,102	24%	166,647	18%
Restaurant & Bar	\$ 1,490,789	1,839,021	1,748,254	(90,767)	(5%)	257,465	17%
Real Estate, Rental & Leasing	\$ 915,729	982,634	1,004,782	22,148	2%	89,053	10%
All Others**	\$ 694,002	804,637	766,517	(38,120)	(5%)	72,515	10%
Totals	\$ 18,075,395	\$ 17,180,901	\$ 23,702,278	\$ 6,521,377	38%	\$ 5,626,882	31%

**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.

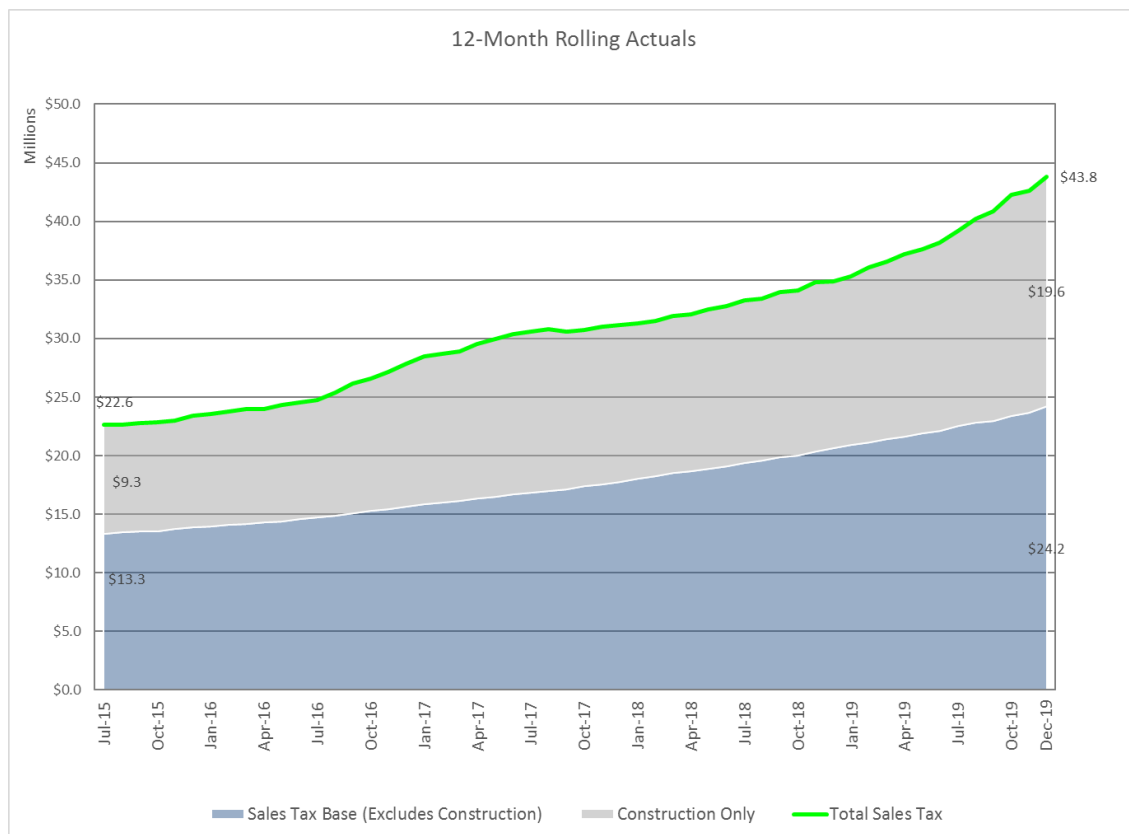
ANALYSIS

The positive budget-to-actual sales tax revenue variance stems largely from strong performance in construction contracting (116% above budget). A year-by-year trend analysis for the Construction category is located in the attachment to 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 Elliott 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 have continued to grow, diversify, and mature 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.

December 2019 Actuals: \$1.8M

FY 19-20 YTD Actuals: \$10.7M

FY 19-20 YTD Budget to Actual Variance of \$5.8M or 116%

FY 19-20 YTD Actual to FY 18-19 YTD Actual Increase of \$3.6M or 49%

FY 19-20 collections exceed the FY 19-20 budget and the prior fiscal year actuals through December 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 December. 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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	Mo. Avg.
FY 18-19 TOQC NSF Permits Issued	79	70	92	108	100	181	167	148	70	97	71	113	1,296	108
FY 19-20 TOQC NSF Permits Issued	84	107	92	126	136	114	158	124	138	142	117	147	1,485	124
12-Month Rolling NSF Home Completions	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	Mo. Avg.
FY 18-19 TOQC NSF Completions	48	56	63	72	84	83	92	88	74	79	103	82	924	77
FY 19-20 TOQC NSF Completions	84	92	122	106	131	136	135	129	151	128	108	129	1,451	121

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 153 new home sales close in the month of December with an average sales price of \$405K 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 December.

Appendix 1: Queen Creek Monthly Sales Tax Report

BUILDER	# CLOSINGS	AVG. SALE PRICE	EST. GROSS REVENUE
WILLIAM LYON HOMES	61	\$ 379,937	\$ 23,176,137
FULTON HOMES	20	370,554	7,411,086
RICHMOND AMERICAN	17	347,838	5,913,250
SHEA HOMES	16	420,228	6,723,649
LENNAR HOMES	9	427,803	3,850,230
TOLL BROTHERS	7	656,225	4,593,575
CRESLEIGH HOMES	7	323,663	2,265,638
TAYLOR MORRISON	5	452,445	2,262,226
ROSEWOOD HOMES	3	444,492	1,333,477
WOODSIDE HOMES	3	392,208	1,176,624
ELLIOTT HOMES	2	543,676	1,087,352
MISC CUSTOM	1	1,080,000	1,080,000
VIP HOMES	1	665,829	665,829
GEHAN HOMES	1	470,000	470,000
GRAND TOTAL	153	\$ 405,288	\$ 62,009,073

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.

December 2019 Actuals: \$1.9M

FY 19-20 YTD Actuals: \$8.4M

FY 19-20 YTD Budget to Actual Variance of \$650K or 8%

FY 19-20 YTD Actual to FY 18-19 YTD Actual Increase of \$1.5M or 22%

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 December, the top 20 payers of 2,681 total payers in the retail category delivered 68% of the revenue. The top 10 payers in the category account for 56% 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.

December 2019 Actuals: \$116K

FY 19-20 YTD Actuals: \$1.1M

FY 19-20 YTD Budget to Actual Variance of \$212K or 24%

FY 19-20 YTD Actual to FY 18-19 YTD Actual Increase of \$170K or 18%

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

Appendix 1: Queen Creek Monthly Sales Tax Report

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.

December 2019 Actuals: \$322K

FY 19-20 YTD Actuals: \$1.7M

FY 19-20 YTD Budget to Actual Variance of \$(90K) or (5%)

FY 19-20 YTD Actual to FY 18-19 YTD Actual Increase of \$260K or 17%

This category is slightly below the current year budget, 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.

December 2019 Actuals: \$208K

FY 19-20 YTD Actuals: \$1.0M

FY 19-20 YTD Budget to Actual Variance of \$22K or 2%

FY 19-20 YTD Actual to FY 18-19 YTD Actual Increase of \$90K or 10%

Collections for this category are in line with the budget and higher than 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.

December 2019 Actuals: \$167K

FY 19-20 YTD Actuals: \$766K

FY 19-20 YTD Budget to Actual Variance of \$(38K) or (5%)

FY 19-20 YTD Actual to FY 18-19 YTD Actual Increase of \$72K or 10%

This category is slightly below the current year budget and above the previous year actual collections.

ATTACHMENT 1:

SALES TAX BACKGROUND INFORMATION:

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

SALES TAX RATE DETAILS

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

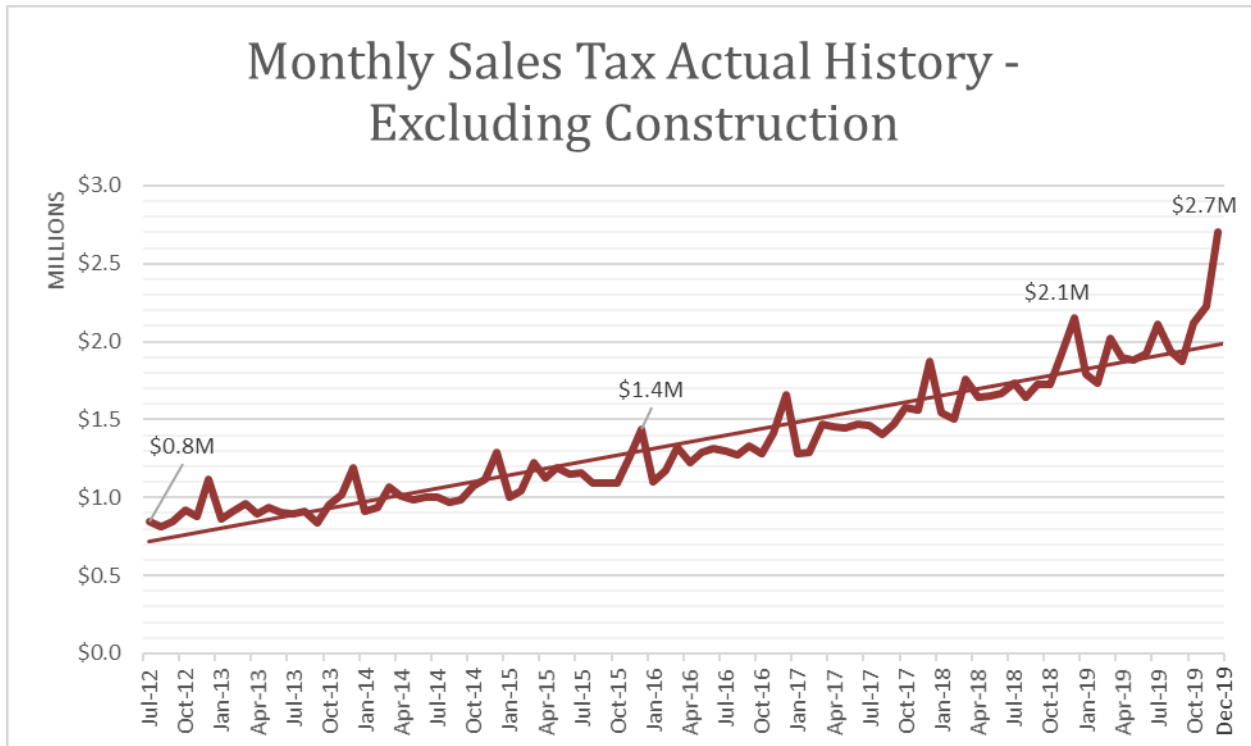
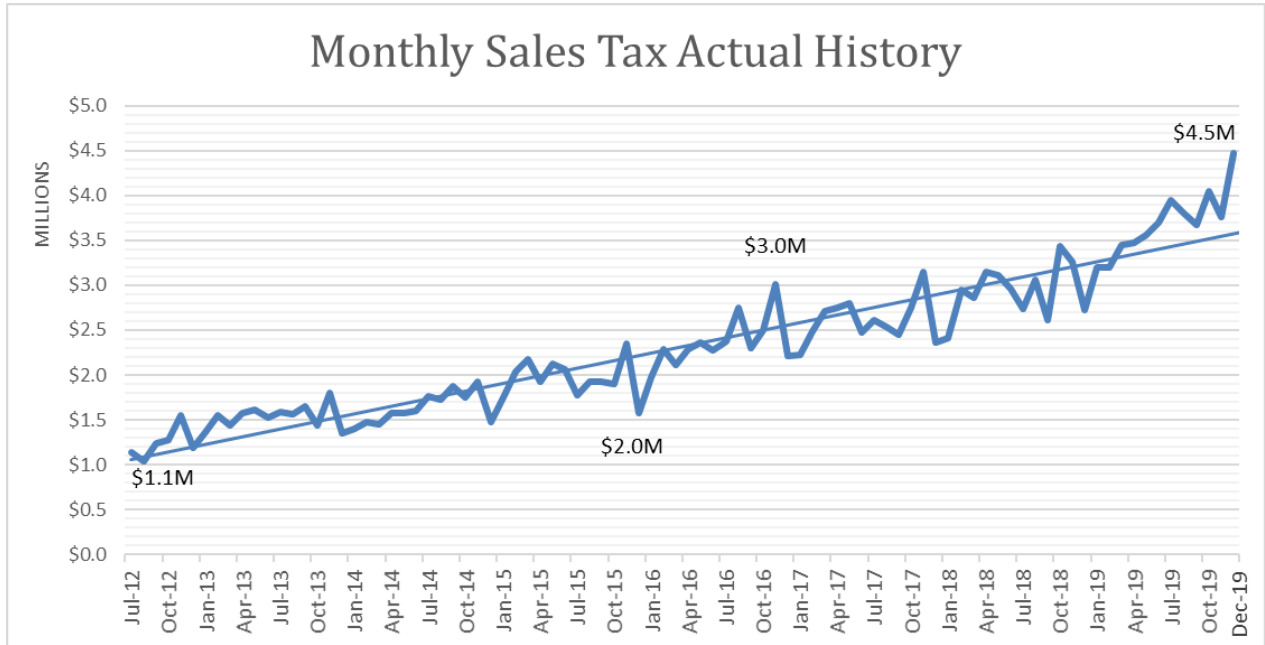
- 2.0% tax rate charged on all taxable activities within Town limits
 - Dedicated to the General Fund for general purpose government operations
- 0.25% tax rate charged on all taxable activities within Town limits
 - Dedicated to the Emergency Services (EMS) Fund to fund law enforcement and fire and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

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

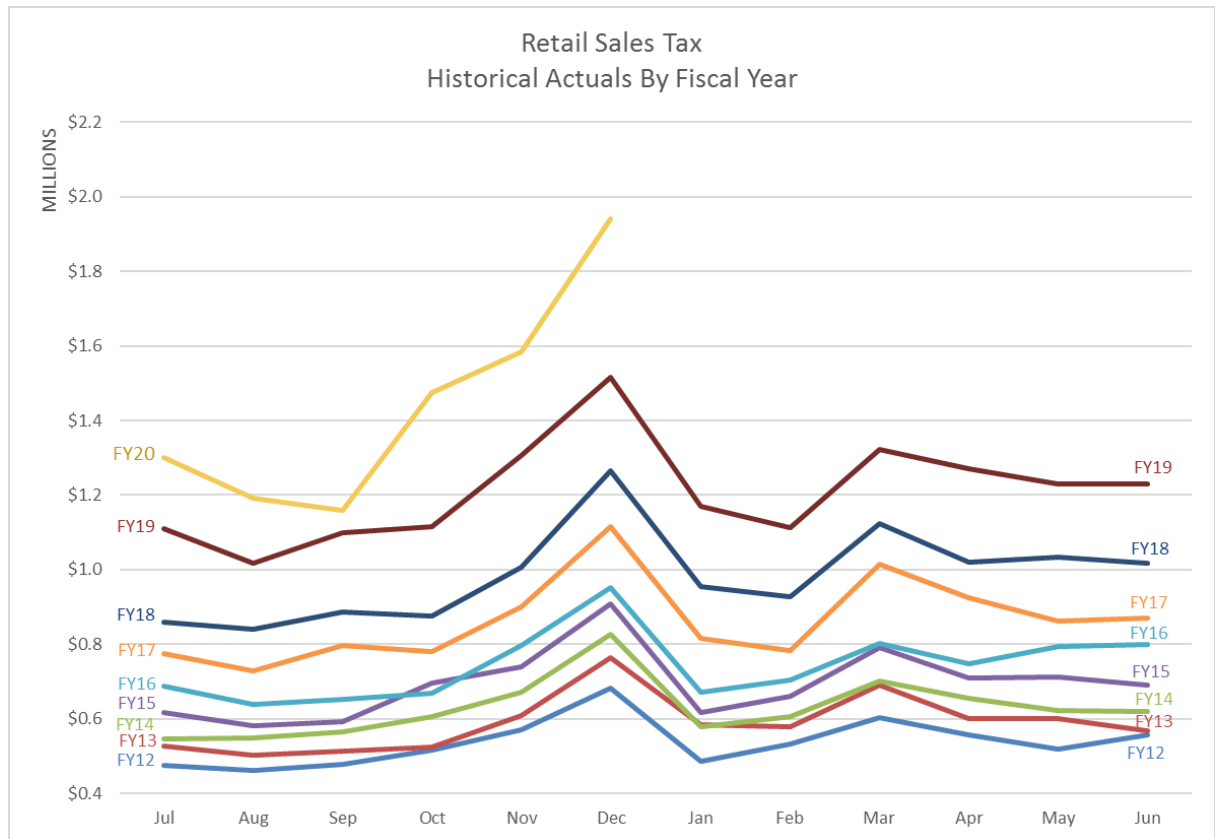
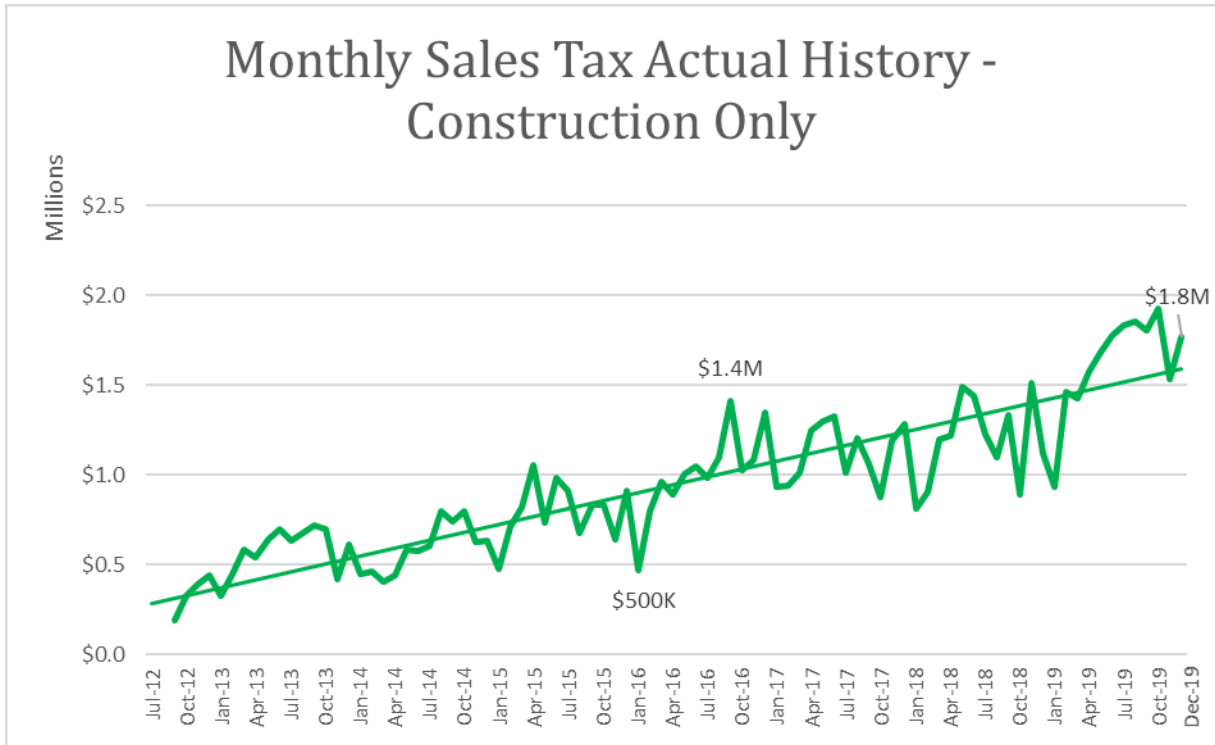
Revenue by Fund	YTD	% of Total
General Fund	\$ 16,257,877	68.6%
EMS Fund	2,032,235	8.6%
Town Center Fund	362,681	1.5%
Construction Fund	5,049,485	21.3%
Totals	\$ 23,702,278	100.0%

Operating Budget	Jul	Aug	Sept	Oct	Nov	Dec	FY19-20 YTD
General Fund	\$ 2,687,713	\$ 2,559,558	\$ 2,468,183	\$ 2,753,033	\$ 2,626,988	\$ 3,162,402	\$ 16,257,877
EMS Fund	\$ 335,964	319,945	308,523	344,129	328,374	\$ 395,300	\$ 2,032,235
Total Operating Budget	\$ 3,023,679	\$ 2,879,502	\$ 2,776,706	\$ 3,097,162	\$ 2,955,362	\$ 3,557,703	\$ 18,290,112

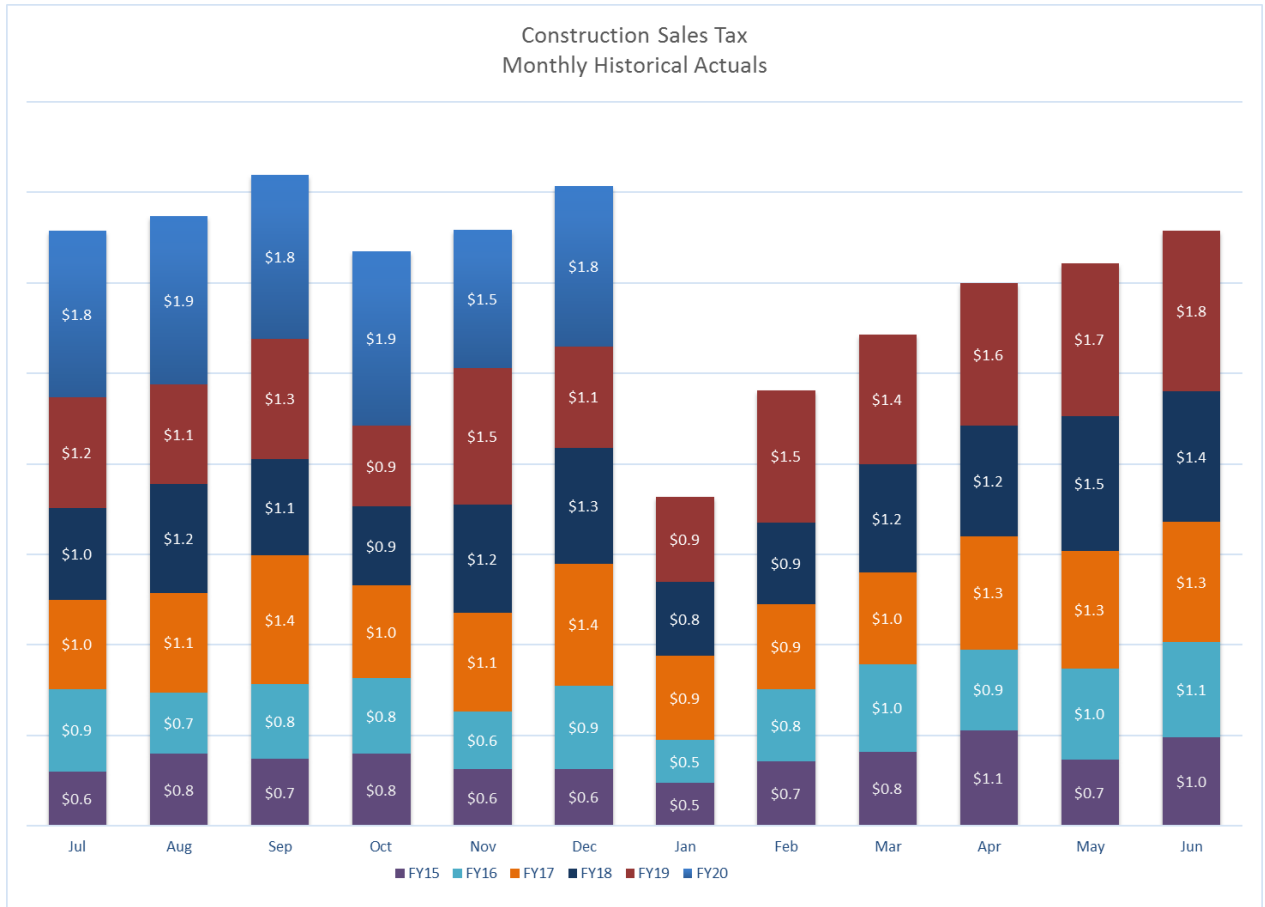
Historical Performance



Appendix 1: Queen Creek Monthly Sales Tax Report



Appendix 1: Queen Creek Monthly Sales Tax Report



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

Appendix 1: Queen Creek Monthly Sales Tax Report

TAX RATE CATEGORIES

Town-wide Queen Creek Sales Tax Rates:

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%	