

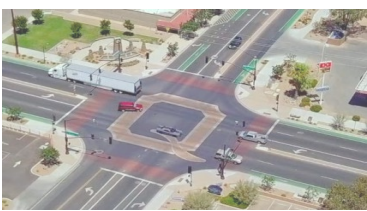
5-YEAR OPERATING BUDGET REVENUE FORECAST

Town Council Meeting

February 1, 2023

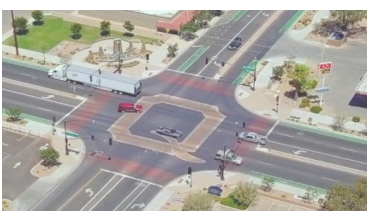
PURPOSE OF PRESENTATION

- Review Revenue Reductions Effective July 1, 2023
- Provide an Overview of the Economy
- Discuss the 5-Year Operating Budget Forecast
 - Determine the Amount Available for Spending in FY 23-24
- Approve FY 2022-23 Revenue Budget Adjustments

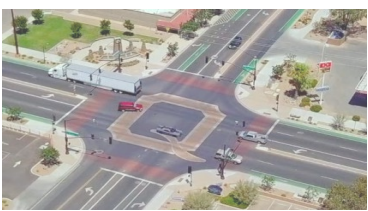


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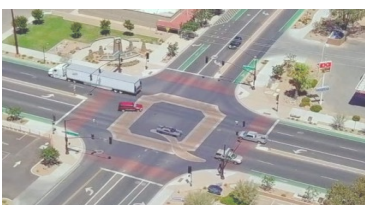


REDUCTIONS EFFECTIVE JULY 1, 2023



Revenue	FY 23-24 Amount
1. Water Replenishment Fees	\$0.6M
2. “Freeze” Property Taxes for 5 Years	\$0.7M
3. Eliminated Streetlight Taxes	<u>\$0.2M</u>
TOTAL	\$1.5M

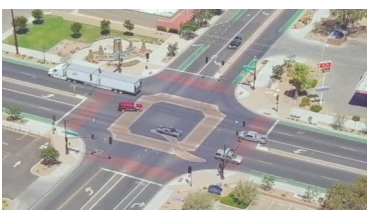
\$8M (62%) CUMULATIVE REDUCTION OF WATER REPLENISHMENT FEES TO 31K ACCOUNTS



	Annual Charges
Fees Without Town Council Actions	\$12.9M
Less Town Council Reductions	<u>-\$8.0M</u> *
Customer Fees in FY 23-24 (31K Accounts)	\$4.9M

*Includes \$0.6M Reduction Effective July 1, 2023

“FREEZE” PROPERTY TAXES FOR 5 YEARS

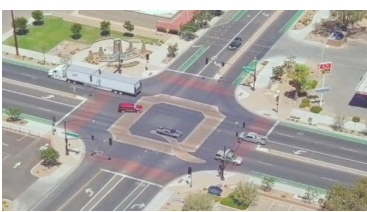


- FY 22-23 Property Taxes: \$12.5M
- Number of Accounts: ~33K
- Effective Date: July 1, 2023
- Estimated Savings:
 - FY 23-24: \$0.7M
 - FY 27-28 (5th Year): ~\$4.7M
 - 5-Year Cumulative: ~\$12M

PROPERTY TAXES: ALL PROPERTY TYPES (~33K PARCELS) FY 22-23: \$12.5M



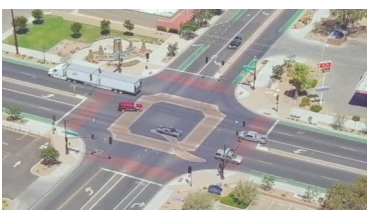
EXAMPLE: SAME PROPERTY TAX (MEDIAN VALUE HOME)



	Assessed Value (+5% Annually)	Levy Rate (-5% Annually)	Property Tax
FY 22-23	\$241K	\$1.83	\$441
FY 23-24	\$253K	\$1.74	\$441
FY 24-25	\$266K	\$1.66	\$441
FY 25-26	\$280K	\$1.58	\$441
FY 26-27	\$294K	\$1.50	\$441
FY 27-28	\$308K	\$1.43	\$441

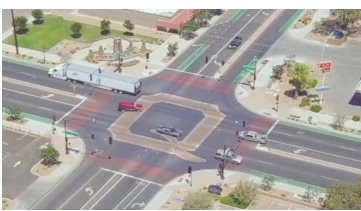
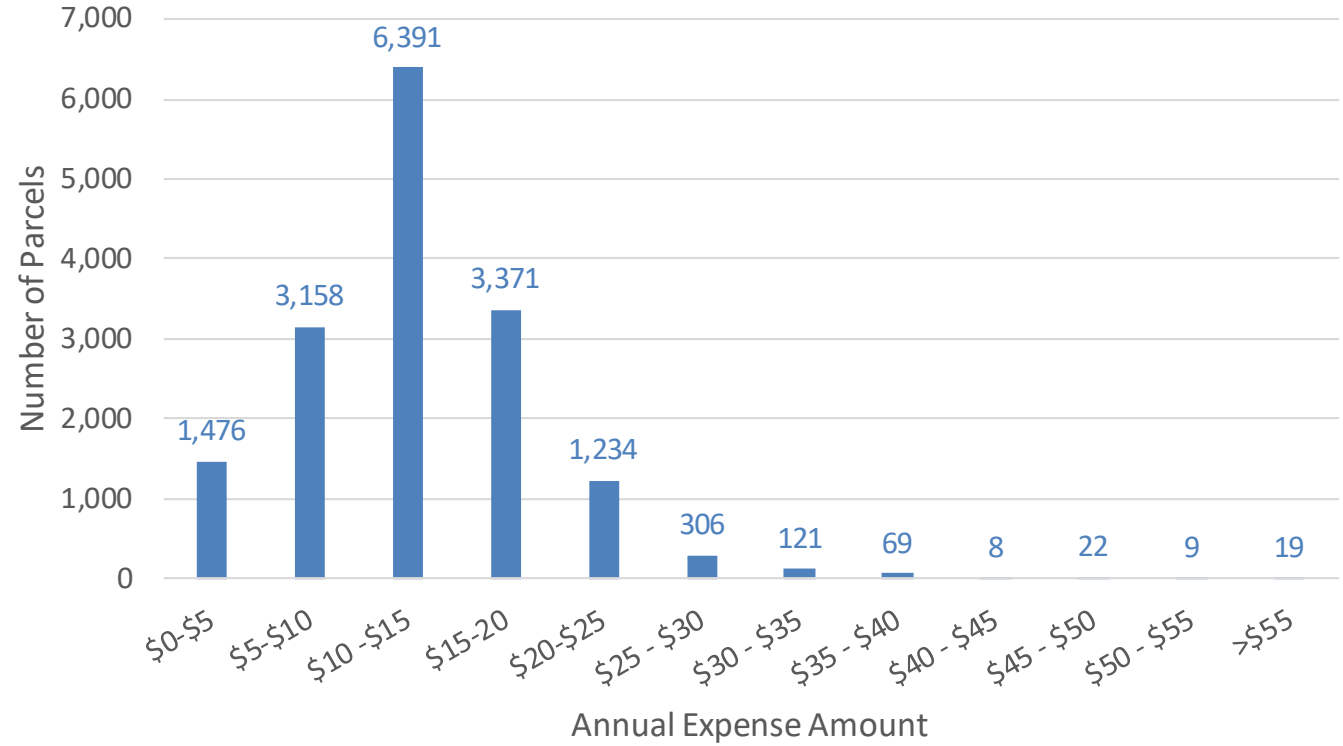
No
Change

EXAMPLE: FREEZE PROPERTY TAX (MEDIAN VALUE HOME)



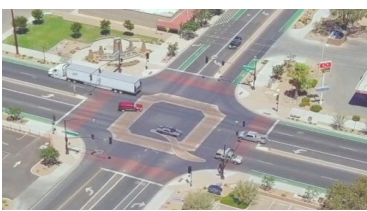
	New Policy	Old Policy	Annual Savings	Cumulative Savings
FY 22-23		\$441		
FY 23-24	\$441	\$463	\$22	\$22
FY 24-25	\$441	\$486	\$45	\$67
FY 25-26	\$441	\$510	\$69	\$136
FY 26-27	\$441	\$536	\$95	\$231
FY 27-28	\$441	\$563	\$122	\$353

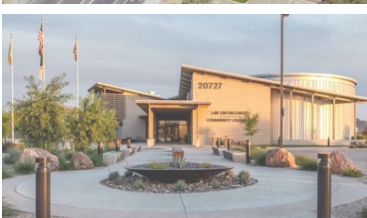
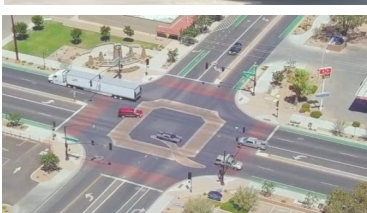
ELIMINATED STREETLIGHT TAXES: \$200K ANNUALLY FOR 16K PROPERTY OWNERS



PURPOSE OF PRESENTATION

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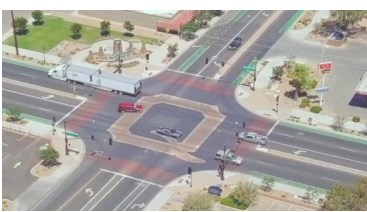


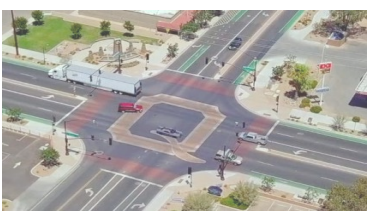
“Forecasting is very difficult, especially if it is about the future.”

-Niels Bohr, Physicist, Nobel Prize winner, 1922

LOOMING QUESTIONS

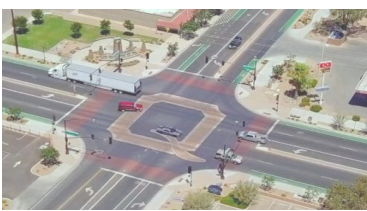
- Will There be a U.S. Recession?
- Will There be a Arizona Recession?
- What Happens to Inflation?
- What Happens to the Labor Market?
- What Happens to Unemployment?
- What Happens to Mortgage Rates?
- Will People Continue to Move to Arizona?
- Will There Be a Housing Market Correction?
- Will the State Legislature Enact Structural Revenue Changes that Reduce QC's Revenues?





Uncertainty

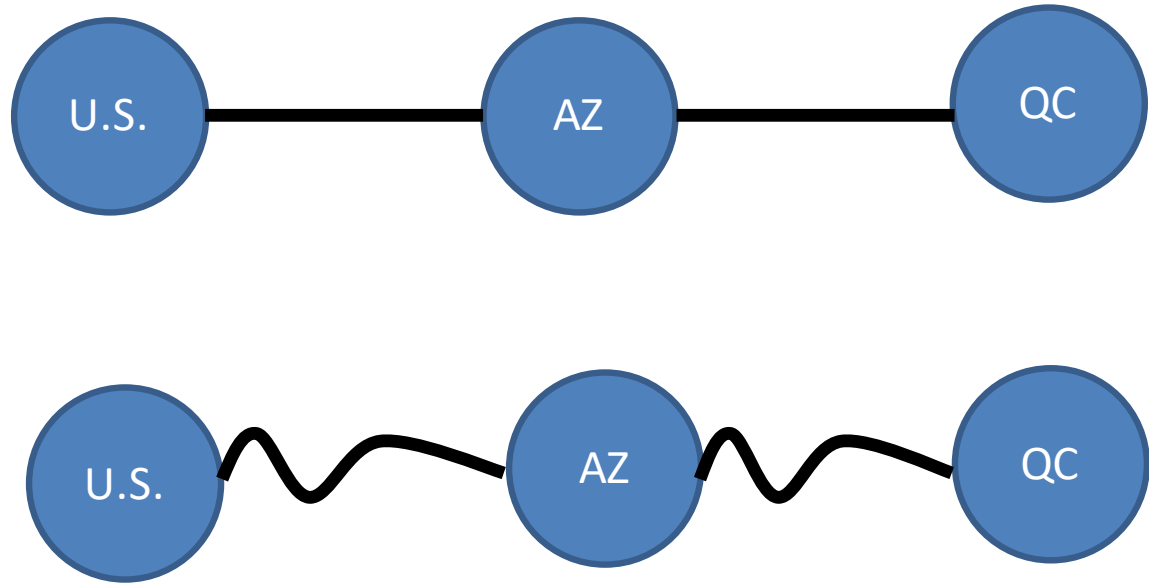
HOW DOES THE ECONOMY IMPACT OUR REVENUES?



- Higher Interest Rates
 - Increased Investment Income
 - Slows Population Growth
 - Decreased Demand for Single-Family Housing Resulting in Lower Building Fees, Impact and Capacity Fees, and Construction Sales Tax
- Inflation
 - Increase in Sales Tax Revenues
- Higher Wages / Low Unemployment
 - Helps to Offset Inflation
 - Increased Income Taxes (Allocated from the State)

“A ROD” VS. “A ROPE”

- Arizona Economy Tends to Perform Better than U.S. Economy
- Queen Creek’s Revenues Tend to Perform Better than Arizona’s



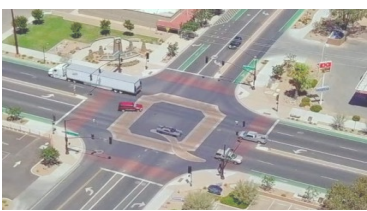
QC STRENGTHS

- QC Tends to Perform Better than U.S. and Arizona
- 25% of New Revenues to Reserves (Not Spent)
- Highest Operating Budget Reserves in History (\$114.1M, 125% of Expenses)
- Operating Budget Actual Revenues Have Exceeded Budget the Last 11 Fiscal Years
- Most Fiscal Year-to-Date Revenues Exceeding Projections
- Population Growth and Demographics
 - Median Household Income (~\$112K) and Low Unemployment
- Opportunities Exist Here – Our Underlying Economy Has Not Changed
- Our Comprehensive Approach to Estimating and Monitoring Revenues



PURPOSE OF PRESENTATION

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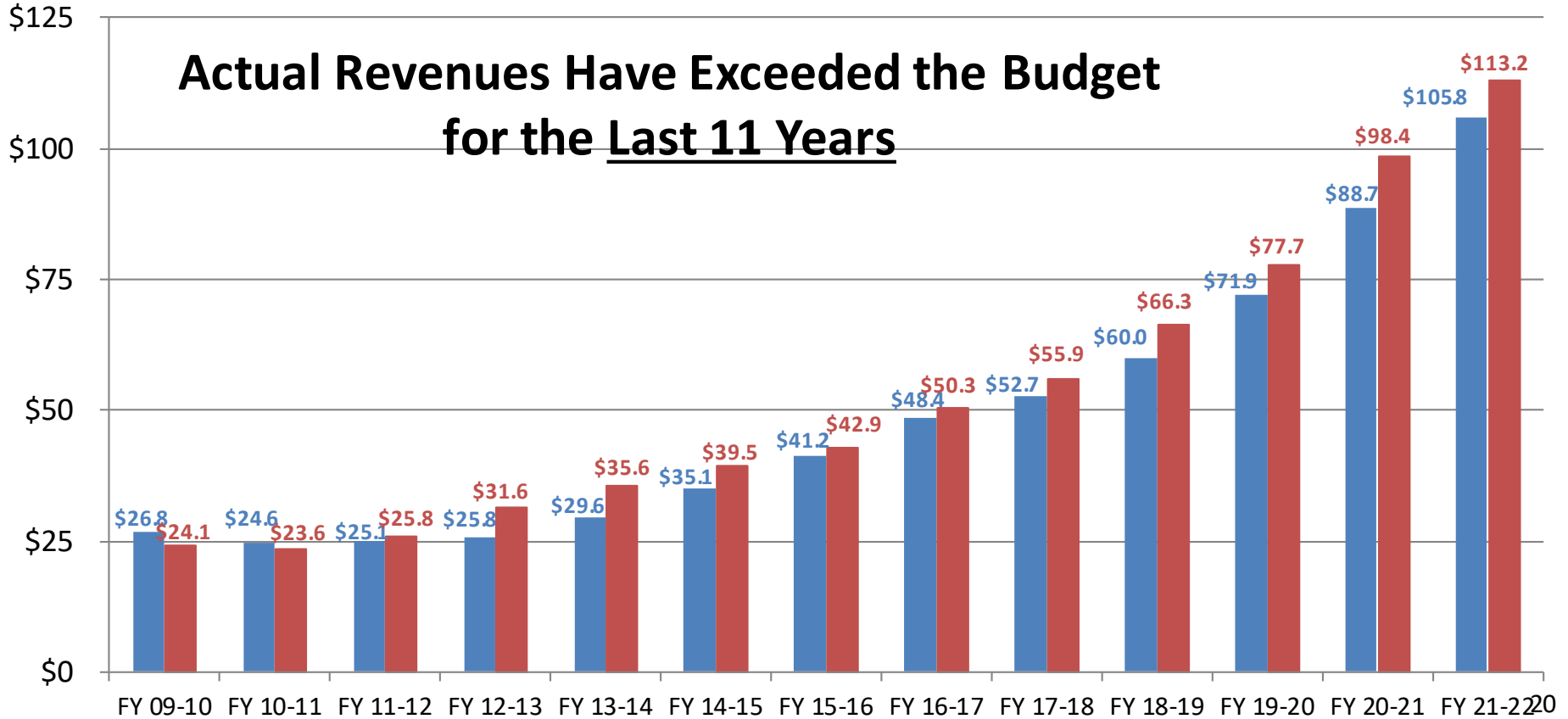
OUR APPROACH TO MONITORING AND ESTIMATING REVENUES



- Top Priority of the Finance Department
- Successful Track Record
- Tools
 1. Town Staff (Finance and Development Services)
 2. Outside Consultants
 3. State's Legislative Budget Committee and Finance Advisory Committee
 4. Memberships, Subscriptions, Publications, Webinars, and Conferences
 5. Sales Tax Analytical Software

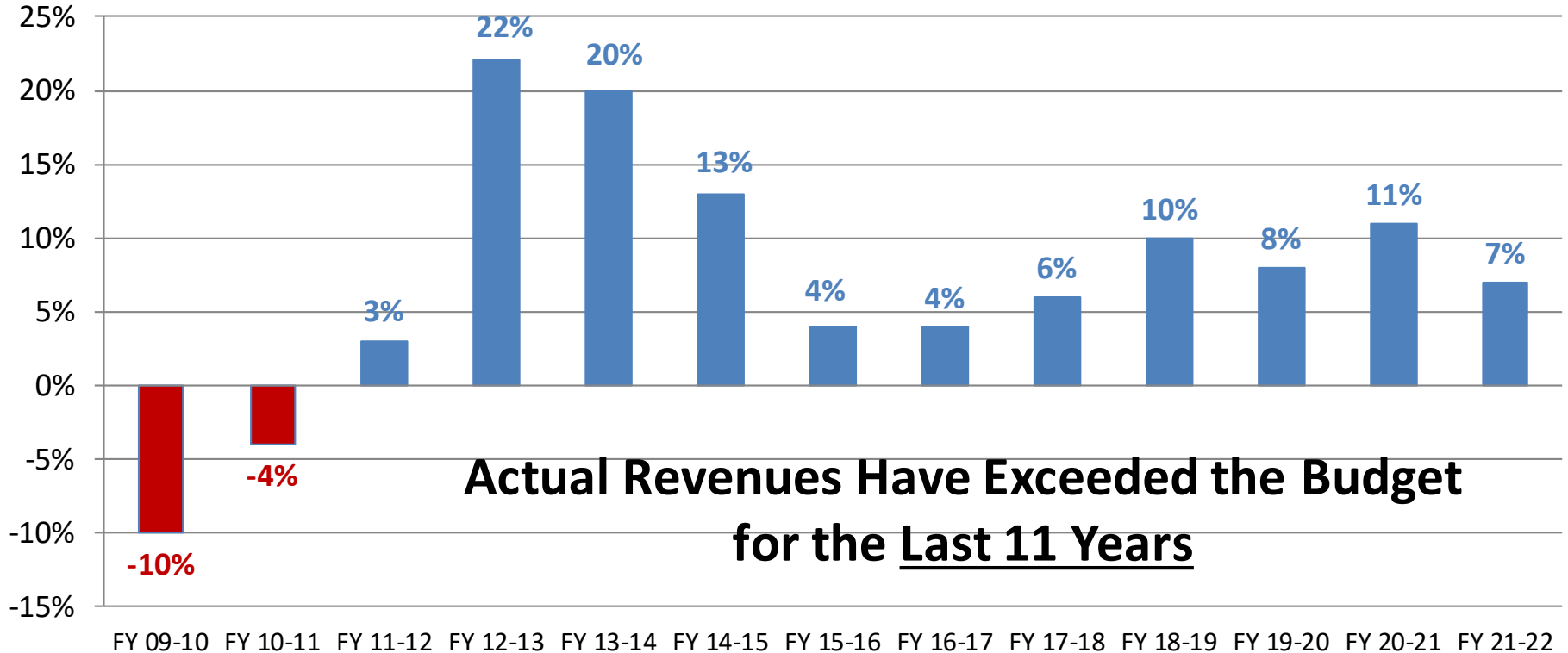
OPERATING REVENUE VARIANCE HISTORY

BUDGET TO ACTUAL



OPERATING REVENUE VARIANCE HISTORY

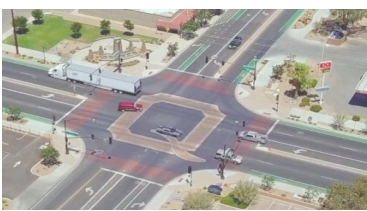
ACTUAL IN EXCESS (LESS THAN) BUDGET



FY 21-22 OPERATING FUNDS

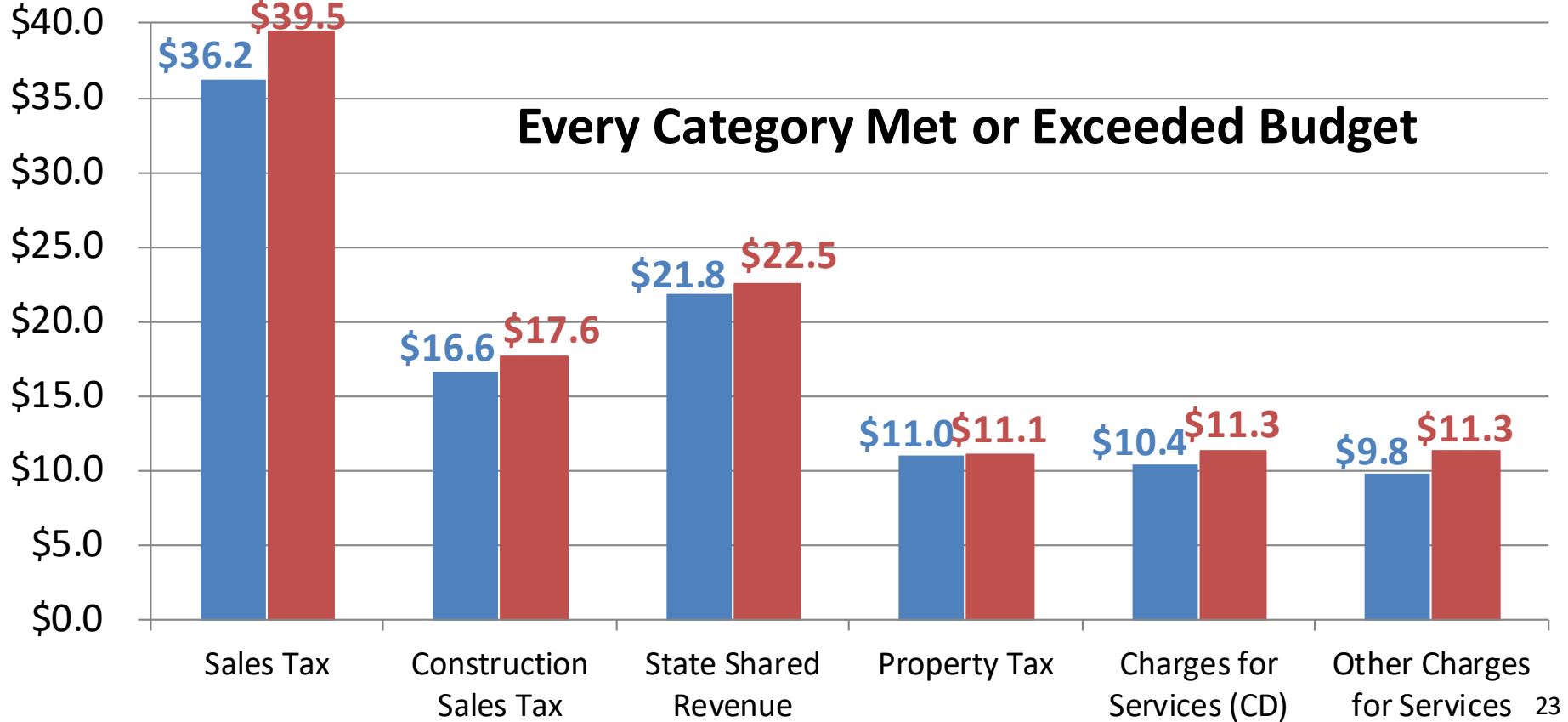
~\$20M BETTER THAN EXPECTED

	Revised Budget	Final Audited Results	\$ Variance	% Variance
Revenues	\$105.8M	\$113.2M	\$7.4M	7%
Expenses	<u>\$105.0M</u>	<u>\$91.6M</u>	<u>\$13.4M</u>	15%
Net Annual	\$0.8M	\$21.6M	\$20.8M	
Beginning Balance	<u>\$92.4M</u>	<u>\$92.4M</u>		
Ending Balance	<u>\$93.2M</u>	<u>\$114.0M</u>		



OPERATING REVENUE VARIANCE: +\$7.4M (+7%)

\$105.8M REVISED BUDGET TO \$113.2M ACTUAL

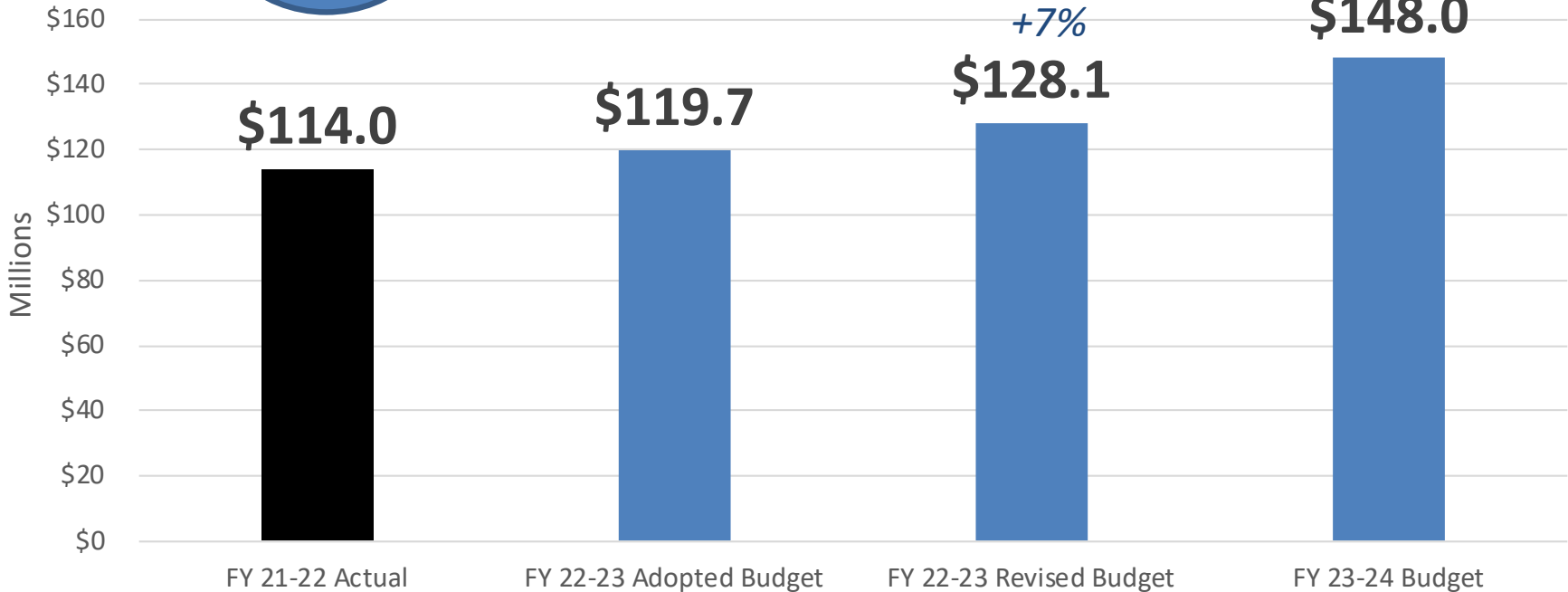


3-STEP PROCESS

1.
Close
Out FY
21-22

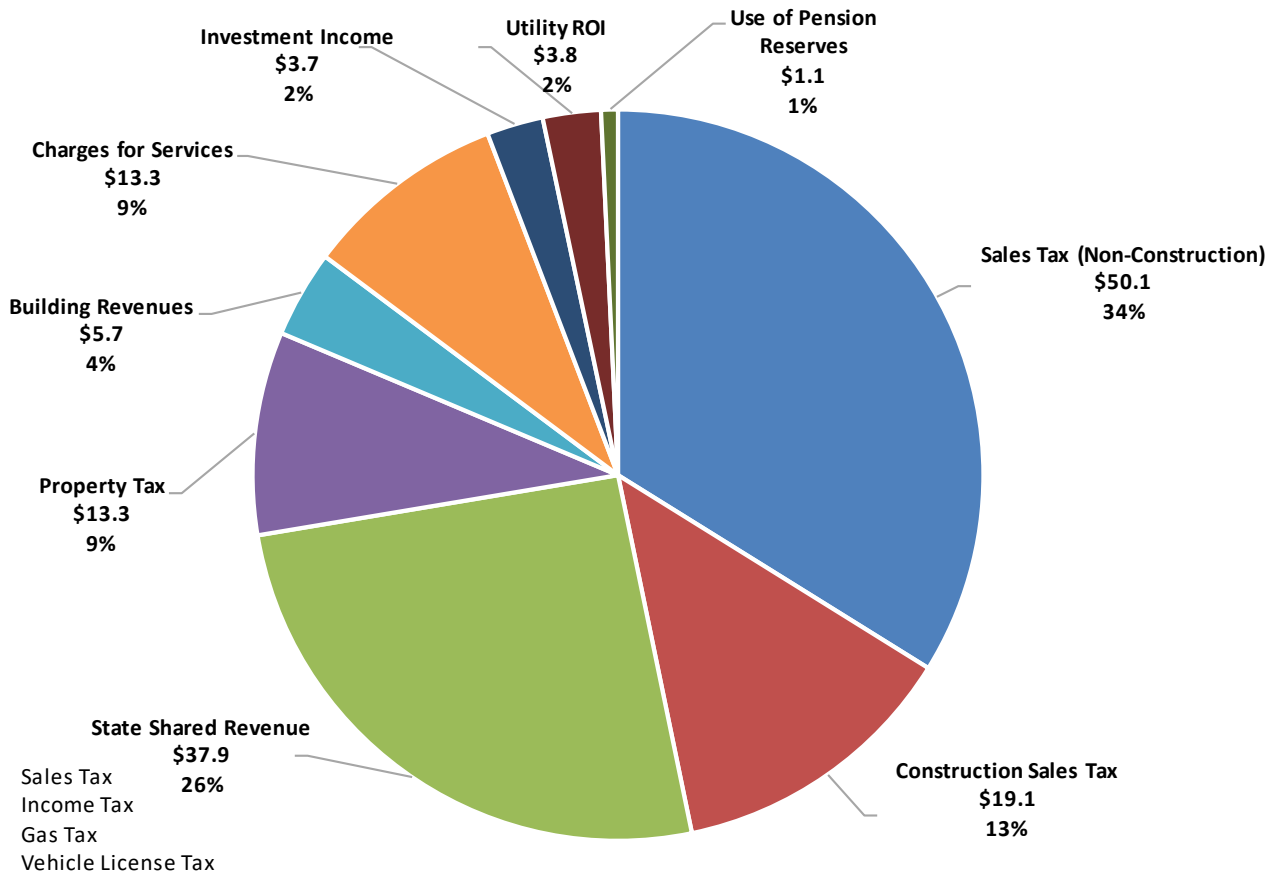
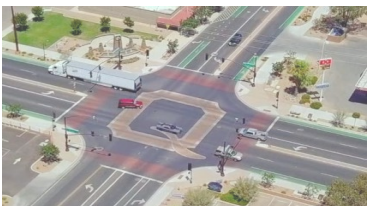
2.
Revise
FY 22-
23

3.
Project
FY 23-
24

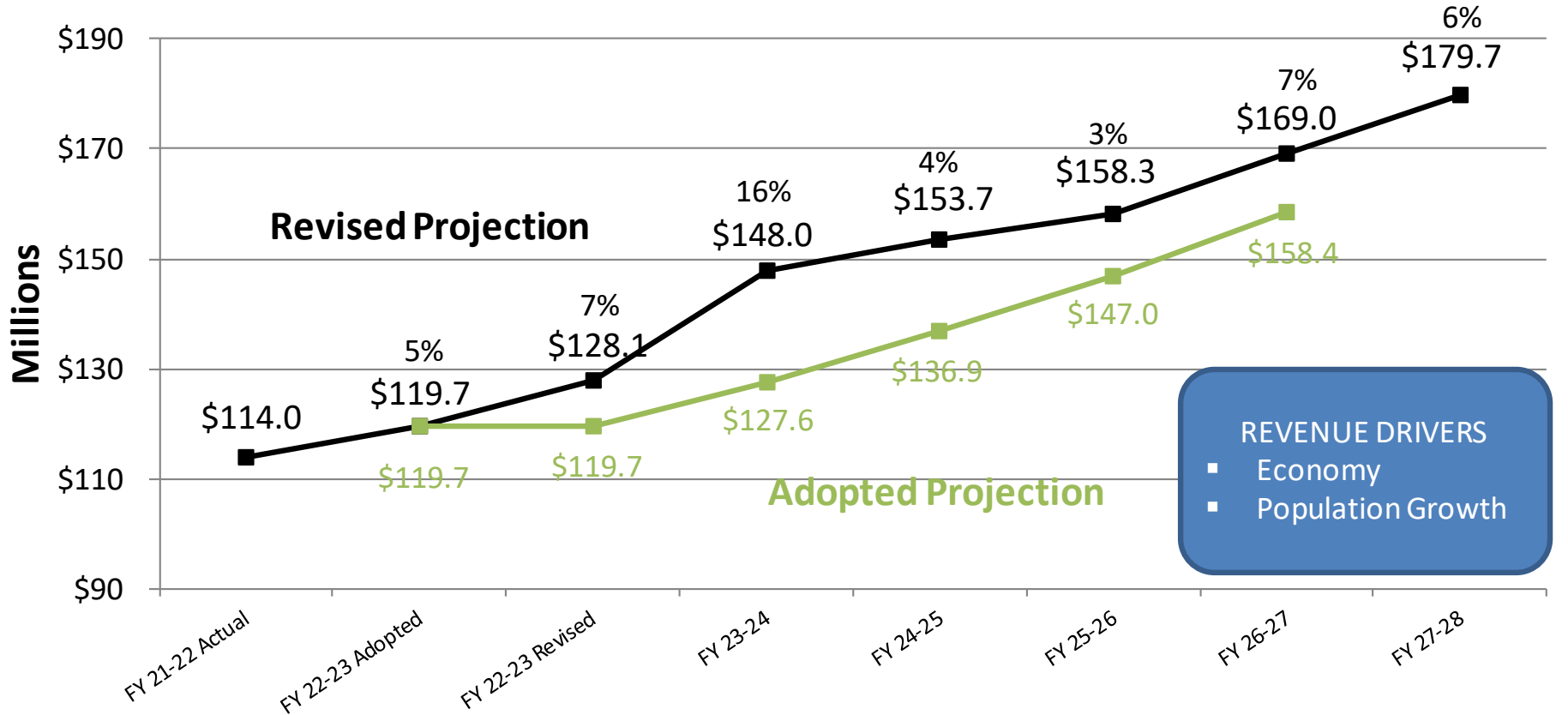


FY 23-24 OPERATING REVENUES/SOURCES

\$148.0M (9 MAJOR REVENUES)



OPERATING BUDGET REVENUE FORECAST



AMOUNT AVAILABLE FOR FY 23-24 EXPENSES: \$21.2M



	Amount
FY 22-23 Revenue Increase	\$8.4M
FY 23-24 Revenue Increase	<u>\$19.9M</u>
Total Increase	\$28.3M
Less 25% to Reserves per Town Council Policy	<u>(\$7.1M)</u>
Maximum Available for FY 23-24 Expense Increases	\$21.2M

REVENUE PREDICTABILITY



More Difficult
(51%)

- Economic / Consumer Spending Based
- Sales Tax and Building Fees

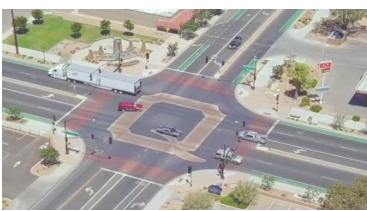
Less Difficult
(27%)

- Construction Sales Tax, Charges for Services (i.e. Parks and Recreation Fees and Ambulance Transport Fees) and Investment Income

Easiest
(22%)

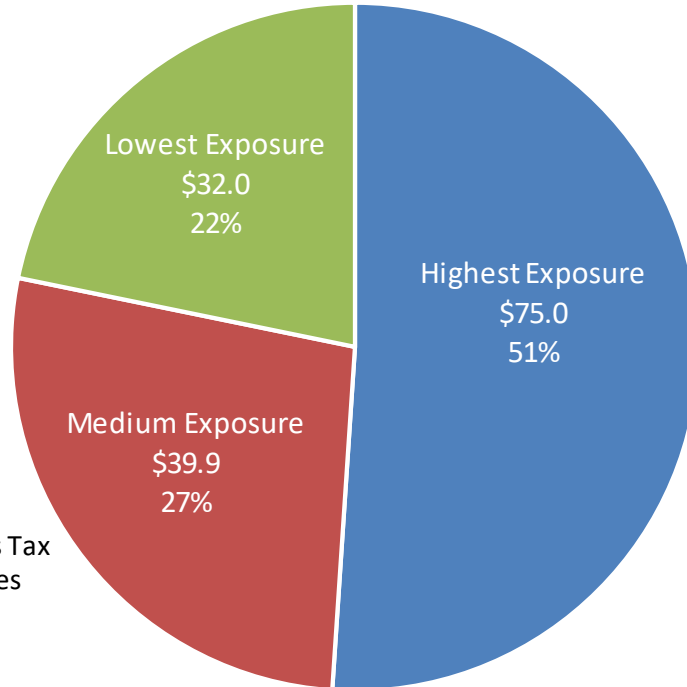
- Property Taxes and State-Shared Income Tax

REVENUE PREDICTABILITY



- Property Tax
- State Income Tax

- Construction Sales Tax
- Charges for Services
- Utility ROI



- Sales Tax
- State Sales Tax
- Highway User Revenue Fund
- Vehicle License Tax
- Building Revenues

FY 21-22 ACTUALS VS. FY 23-24 BUDGET: +\$34.0M (+30%)

	FY 21-22 Actual	FY 23-24 Budget	\$ Change	% Change
Sales Tax	\$39.5	\$50.1	\$10.6	+27%
Construction Sales Tax	\$17.6	\$19.1	\$1.5	+9%
State Shared Revenue	\$22.5	\$37.9	\$15.4	+68%
Property Tax*	\$11.1	\$13.3	\$2.2	+20%
Building Revenues	\$11.3	\$5.7	(\$5.6)	(50%)
Charges for Services	\$7.3	\$13.3	\$6.0	+82%
Investment Income	\$0.4	\$3.7	\$3.3	+825%
Utility ROI for Public Safety	<u>\$3.5</u>	<u>\$3.8</u>	<u>\$0.3</u>	<u>+9%</u>
Subtotal	\$113.2	\$146.9	\$33.7	+30%
Use of Pension Reserves (MCSO)	\$0.8	-	(\$0.8)	(100%)
Use of Pension Reserves (ASRS)	=	<u>\$1.1</u>	<u>\$1.1</u>	<u>+100%</u>
Total Revenue	\$114.0	\$148.0	\$34.0	+30%

*Property Tax “Frozen” for 5 Years beginning FY 23-24. Revenue increase represents new construction only.

WHY POPULATION PROJECTIONS ARE CRITICAL?

1. Indicates Quantity and Cost of New Services Needed

- Examples: PD and Fire/EMS Calls, Traffic Volume, Recreation Classes

2. Identifies Location of New Infrastructure

- Examples: Roads, Water and Wastewater Infrastructure, Parks

3. Identifies One-Time Revenues

- Building Permit Revenues, Construction Sales Tax, Impact/Capacity Fees

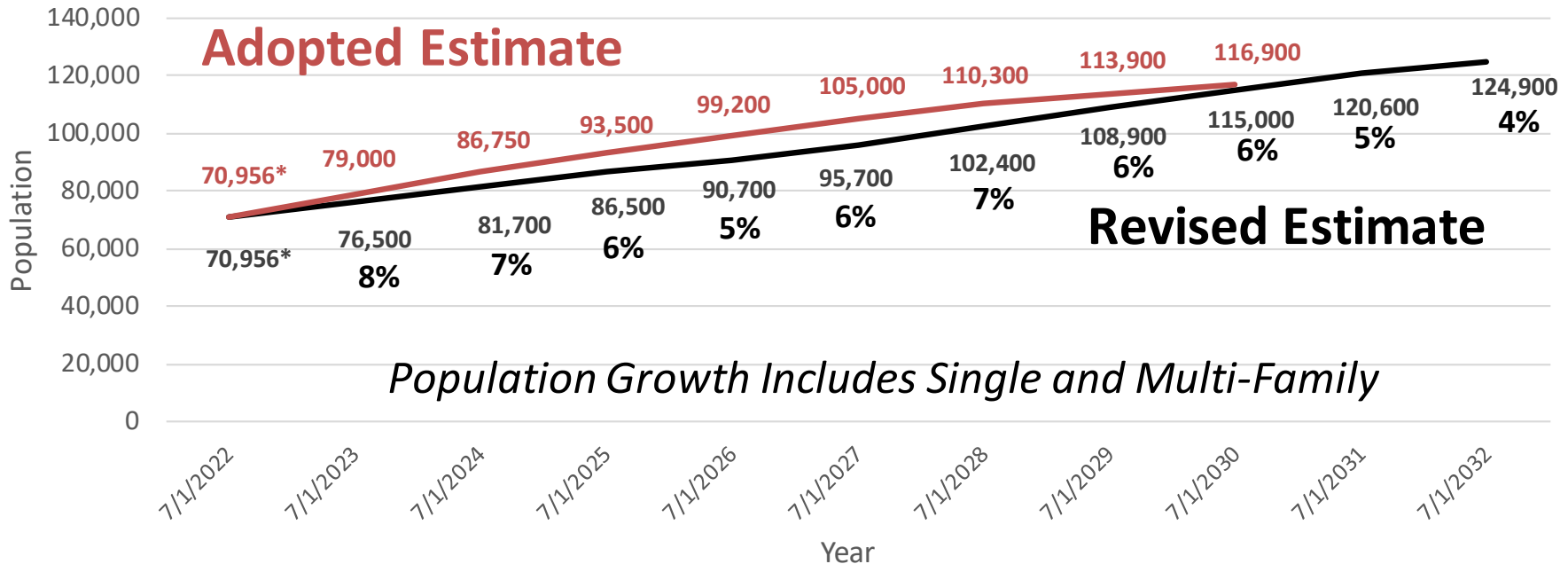
4. Identifies Ongoing Revenues

- ***Sales Tax Revenues***, State Shared Revenues



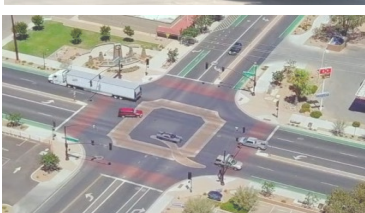
10-YEAR POPULATION PROJECTIONS

- 10-Year Population Increase: ~54K (76%)
- Population Projection by 2027 Has Been Decreased by ~9K (9%)
- By 2030, Population Projection Returns
- Buildout Population: ~150K (No Change)

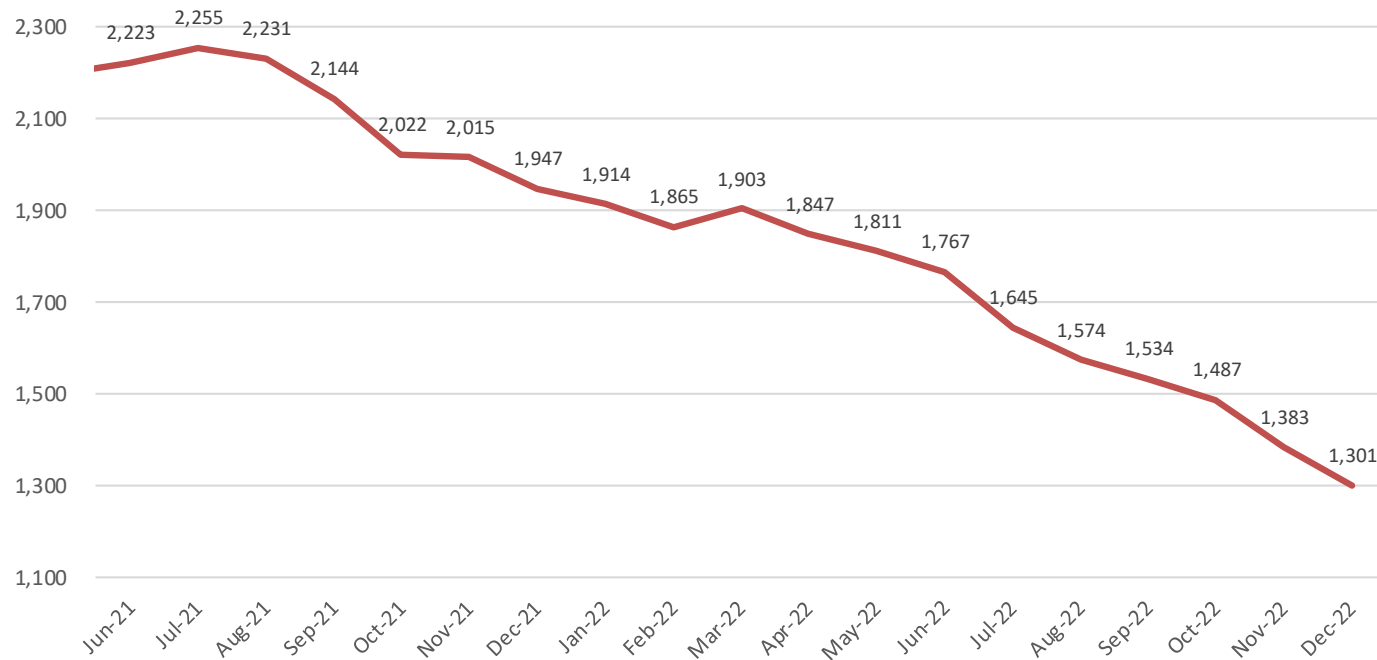


*7/1/2022 estimate from Arizona State Demographer, Office of Economic Opportunity

QC HOUSING MARKET SLOWDOWN MIRRORS NATIONAL TRENDS

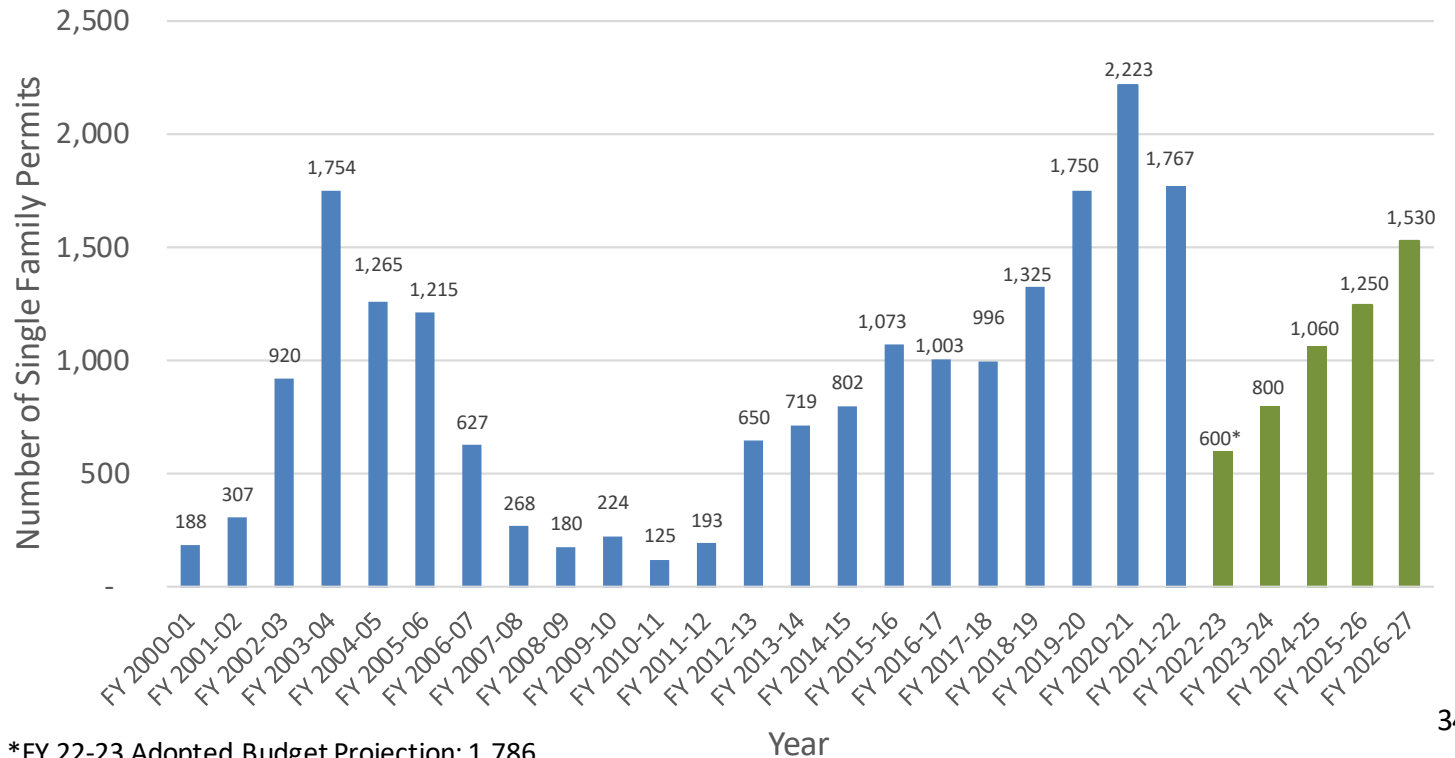


12-Month Rolling Single Family Permit Issuance



SINGLE-FAMILY PERMIT PROJECTIONS

- 5-Year Permit Projections Have Been Decreased by 40%
 - From 8,730 to 5,240 (-3,490)

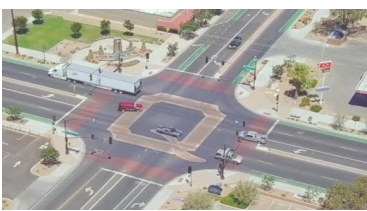


*FY 22-23 Adopted Budget Projection: 1,786



MULTI-FAMILY PROJECTIONS

- Now a Significant Element of Our Projections Due to Increase Activity
- 5-Year Estimate: ~2,800 units (per schedule below)
- Considerations Include:
 - Lag between permitting and certificate of occupancy impacts revenue timing
 - Vacancy level of new units vs. existing multi-family developments
 - Census Bureau and State demographer multi-family assumptions



	FY22-23 Revised	FY23-24	FY24-25	FY25-26	FY26-27	Total
Multi-Family Units	1,074	686	240	253	536	2,789
Number of Projects	5	4	1	1	2	13

NON-RESIDENTIAL NEW CONSTRUCTION CONTINUES



- FY 21-22 Activity: 400K Square Feet (9% Increase to Base of 4.6M Square Feet)
- Estimates (per schedule below):
 - FY 22-23: 1.4M Square Feet (28% Increase)
 - FY 23-24: 1.1M Square Feet (17% Increase)
- Large focus on industrial corridor in the northern part of QC (Meridian Rd.)
- **Proposed developments in State Lands are not included in these projections**

Development Type	FY 22-23 SF	FY 23-24 SF
Commercial	778K	122K
Industrial	533K	910K
Office	49K	-
Churches, Educational, Other	33K	75K
TOTAL	1.4M	1.1M

THE IMPORTANCE OF SALES TAXES

- 47% of Our Operating Revenues (\$69.2M)
- Queen Creek Residents Represent the Majority of Shoppers
- Non-Resident Shoppers are Significant
 - Eastmark and San Tan Valley
 - 2019 Sales Tax Study
 - 38% of Retail Sales Tax
 - 47% of Restaurant Sales Tax
 - 30% of Grocery Store Sales Tax



WHAT IS SUBJECT TO CITY SALES TAX?



Sales Tax Categories and Examples:

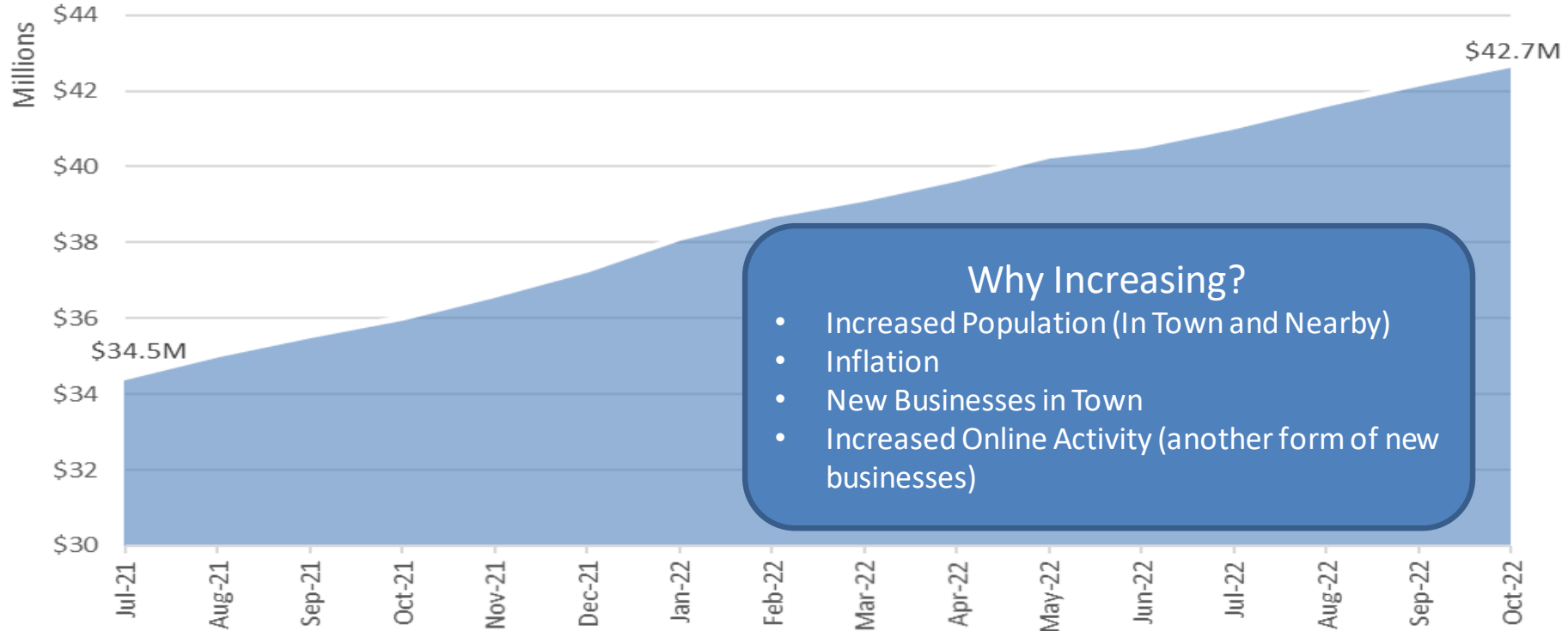
- Retail Sales
 - Groceries and household supplies, furniture, automobiles
- Restaurants & Bars
- Construction Contracting
- Communications & Utilities
- Rentals, Real Estate & Leases
 - Commercial leases, residential rentals (long-term), equipment rentals
- Others
 - Short-term rentals, entertainment, health club memberships

What is not subject to city sales tax?

- Services
- Gasoline
- Some agricultural items

SALES TAX BASE REMAINS STRONG

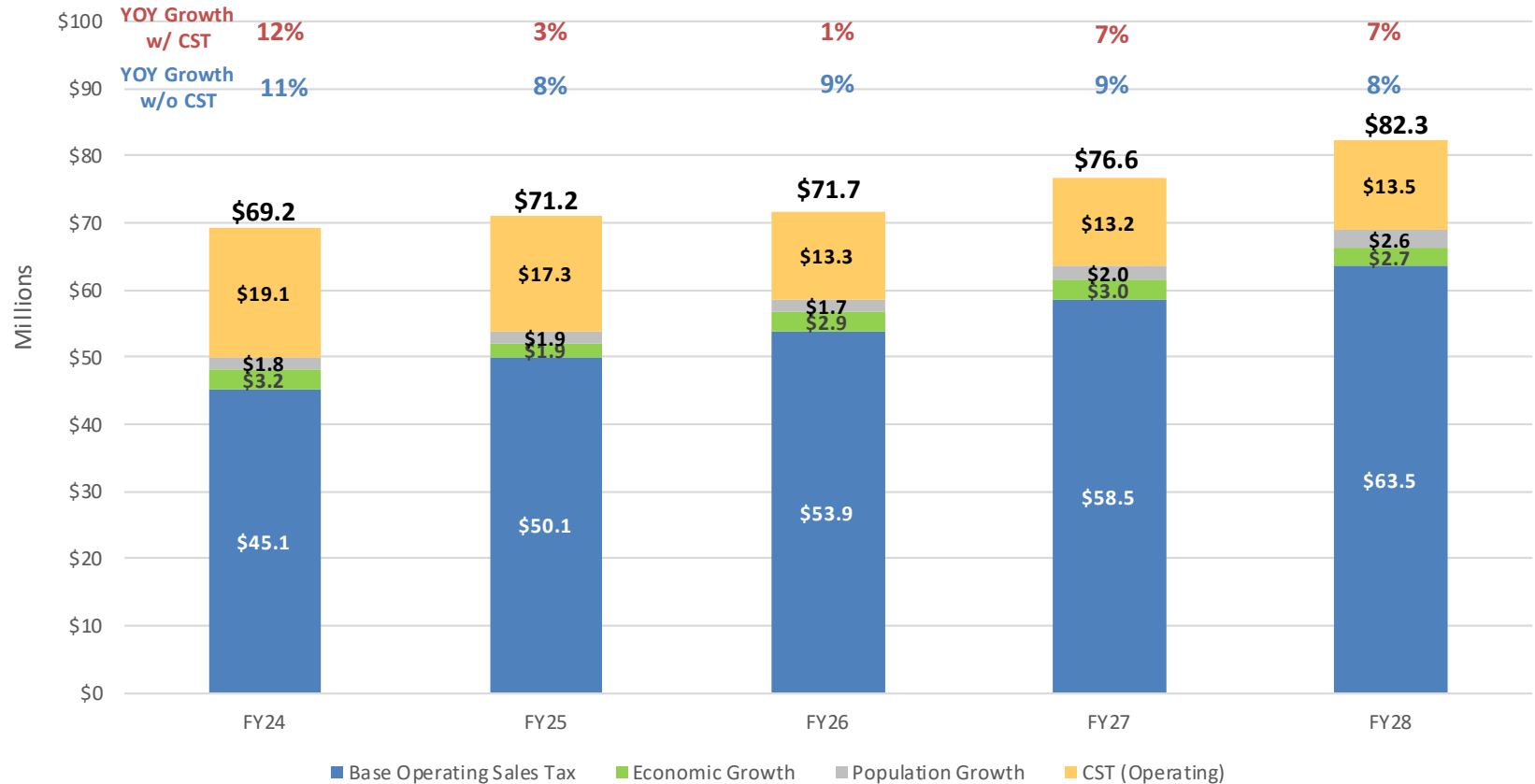
12-Month Rolling Actuals



Why Increasing?

- Increased Population (In Town and Nearby)
- Inflation
- New Businesses in Town
- Increased Online Activity (another form of new businesses)

SALES TAX REVENUE COMPOSITION



STATE SHARED REVENUES

- Allocated to QC Per Capita (Per Person)
- QC's Allocations Are Increasing Significantly for Three Reasons
 1. State Legislature Increased Local Jurisdiction Sharing Percentage from 15% to 18%
 2. The State's Strong Revenue Growth (the Pie)
 3. QC's Share of the Allocation is Increasing (our Slice of the Pie)
 - QC is One of the Fastest Population Growth Cities



STATE SHARED REVENUE

	FY 21-22 Actual	FY 22-23 Adopted	FY 22-23 Revised	FY 23-24 Budget
Income Tax	\$7.6M	\$9.4M	\$12.6M	\$18.7M
Sales Tax	\$8.4M	\$8.4M	\$9.3M	\$10.0M
Gas Tax (HURF)	\$4.0M	\$4.3M	\$5.2M	\$5.3M
Vehicle License Tax	<u>\$2.5M</u>	<u>\$3.1M</u>	<u>\$3.4M</u>	<u>\$3.9M</u>
Total	\$22.5M	\$25.3M	\$30.5M	\$37.9M
<i>\$ Change from FY 21-22 Actual</i>			<i>+\$8.0M</i>	<i>+15.4M</i>
<i>% Change from FY 21-22 Actual</i>			<i>36%</i>	<i>68%</i>

CLOSING THOUGHTS

- \$1.5M in Revenue Reductions on July 1, 2023
- Economic Uncertainty Exists
- QC Remains in a Strong Financial Position with Strong Reserves and Increasing Revenues
- Town Staff will Continue Asking the Right Questions about How the Economy May Impact QC
- Timely Reporting and Monitoring Remains a Priority
 - 12-Month Rolling Sales Tax
 - All Types of New Construction Activity
 - State Revenue Performance



DEALING WITH UNCERTAINTY

3 Options or Combinations

1. Determine the Amount of New FY 23-24 Revenues to Program: \$21.2M Maximum
 - Phasing / Layering of New FY 23-24 Expenses
 - Top Priority (New Expenses Start July 1): PD Staffing, PD Infrastructure, Parks Staffing, PD and Parks Support Expenses, Fire Staffing, Employee COLA/ Merit Increases
 - If Revenue Projections Hold (New Expenses Start Mid-Year): All Other New Staff, Capital Items, etc.



AMOUNT AVAILABLE FOR FY 23-24 EXPENSES: \$21.2M



	Amount
FY 22-23 Revenue Increase	\$8.4M
FY 23-24 Revenue Increase	<u>\$19.9M</u>
Total Increase	\$28.3M
Less 25% to Reserves per Town Council Policy	<u>(\$7.1M)</u>
Maximum Available for FY 23-24 Expense Increases	\$21.2M

DEALING WITH UNCERTAINTY

(CONCLUDED)

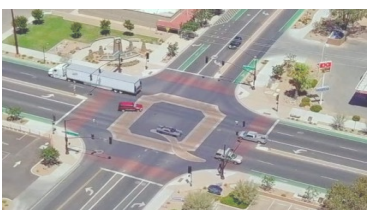
3 Options or Combinations

2. Use Unallocated Reserve (\$33.7M)

- Represents 23% of FY 23-24 \$148M Projected Revenues

3. Use 25% Reserve (\$29.6M)

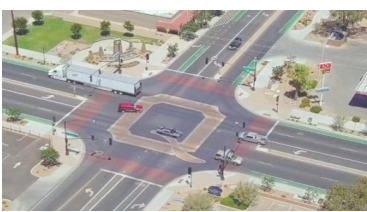
- Represents 20% of FY 23-24 \$148M Projected Revenues



6/30/22 OPERATING BUDGET RESERVE: \$114.1M

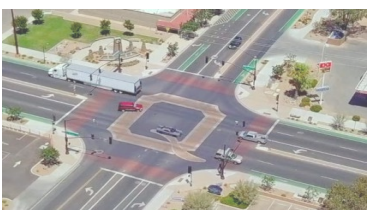
125% of
Expenses

Total Reserve		\$114.1M
Restrictions / Obligations:		
25% Revenue Reserve	\$29.6M	3
Pension Liability Reserves	\$42.2M	
Unspent Gas Taxes	\$1.7M	
Road Replacement Funding Reserve	\$0.5M	
Next Year's Carryover Expenses	<u>\$6.4M</u>	
Total Restrictions		<u>\$80.4M</u>
Unrestricted		\$33.7M



PURPOSE OF PRESENTATION

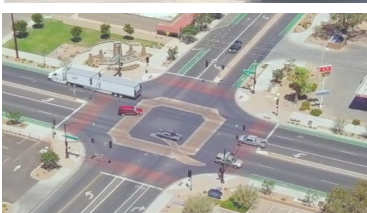
- Review Revenue Reductions Effective July 1, 2023
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- Approve FY 2022-23 Revenue Budget Adjustments



RECOMMENDATION

Motion to approve FY 2022-23 \$6.9M in Revenue Budget Adjustments in All Funds as Presented in the Staff Report





APPENDIX

FY 22-23 REVISED OPERATING BUDGET REVENUE

(IN MILLIONS)

	FY 21-22 Actual	FY 22-23 Adopted Budget	FY 22-23 Revised Budget	\$ Change	% Change
Sales Tax	\$39.5	\$43.1	\$45.0	\$1.9	+4%
Construction Sales Tax	\$17.6	\$14.7	\$16.9	\$2.2	+15%
State Shared Revenue	\$22.5	\$25.3	\$30.5	\$5.2	+21%
Property Tax	\$11.1	\$12.5	\$12.5	\$0.0	+0%
Building Revenues	\$11.3	\$10.5	\$6.6	(\$3.9)	(37%)
Charges for Services	\$7.3	\$8.3	\$9.0	\$0.7	+8%
Investment Income	\$0.4	\$0.5	\$2.9	\$2.4	+480%
Utility ROI for Public Safety	<u>\$3.5</u>	<u>\$3.9</u>	<u>\$3.7</u>	(\$0.2)	(5%)
Subtotal	\$113.2	\$118.8	\$127.1	\$8.3	+7%
Use of Pension Reserves (MCSO)	\$0.8	-	-	-	-
Use of Pension Reserves (ASRS)	-	<u>\$0.9</u>	<u>\$1.0</u>	<u>\$0.1</u>	<u>+11%</u>
Total Revenue	\$114.0	\$119.7	\$128.1	\$8.4	7%
Change from FY 21-22 Actual		\$5.7	\$14.1		

FY 23-24 OPERATING BUDGET REVENUE

(IN MILLIONS)

	FY 21-22 Actual	FY 22-23 Revised Budget	FY 23-24 Budget	\$ Change	% Change
Sales Tax	\$39.5	\$45.0	\$50.1	\$5.1	+11%
Construction Sales Tax	\$17.6	\$16.9	\$19.1	\$2.2	+13%
State Shared Revenue	\$22.5	\$30.5	\$37.9	\$7.4	+24%
Property Tax*	\$11.1	\$12.5	\$13.3	\$0.8	+6%
Building Revenues	\$11.3	\$6.6	\$5.7	(\$0.9)	(14%)
Charges for Services	\$7.3	\$9.0	\$13.3	\$4.3	+48%
Investment Income	\$0.4	\$2.9	\$3.7	\$0.8	+28%
Utility ROI for Public Safety	<u>\$3.5</u>	<u>\$3.7</u>	<u>\$3.8</u>	<u>\$0.1</u>	<u>+3%</u>
Subtotal	\$113.2	\$127.1	\$146.9	\$19.8	+16%
Use of Pension Reserves (MCSO)	\$0.8	-	-	-	-
Use of Pension Reserves (ASRS)	-	<u>\$1.0</u>	<u>\$1.1</u>	<u>\$0.1</u>	<u>+10%</u>
Total Revenue	\$114.0	\$128.1	\$148.0	\$19.9	+16%
Change from FY 21-22 Actual		\$14.1	\$34.0		

*Property Tax “Frozen” for 5 Years beginning FY 23-24. Revenue increase represents new construction only.

QUEEN CREEK DEMOGRAPHIC INFORMATION

Year Incorporated	1989
Square Miles	42 Town Boundary (Planning Area ~72)
Population June 30, 2022 (AZ Office of Economic Opportunity)	70,956
Average Household Size (2021 ACS 5-Year Estimate)	3.21
Median Age (2021 ACS 5-Year Estimate)	37.7 years
Median Household Income (2021 ACS 5-Year Estimate)	\$111,743
Median Value of Housing (2021 ACS 5-Year Estimate)	\$407,800
Net Full Cash Property Value (Maricopa and Pinal County Assessors)	\$10.1 billion
Workforce (2021 ACS 5-Year Estimate)	41% have a BS Degree or Higher
Unemployment Rate, November 2022 (Bureau of Labor Statistics, November 2022)	2.7% (Maricopa County: 2.8%, State: 3.2%)