



TOWN OF
QUEEN CREEK
ARIZONA

12.A

TO: HONORABLE MAYOR AND TOWN COUNCIL

FROM: COUNCIL BUDGET COMMITTEE, BRUCE GARDNER, TOWN MANAGER, SCOTT MCCARTY, FINANCE DIRECTOR

RE: CONSIDERATION AND POSSIBLE ACTION ON THE TOWN'S FY 23/24 TENTATIVE BUDGET OF \$867.1M AND REQUEST TO SET THE PUBLIC HEARING FOR MAY 17, 2023 FOR THE FINAL BUDGET PER REQUIREMENTS UNDER ARIZONA STATE STATUTES.

DATE: May 3, 2023

Suggested Action:

To approve the Town's FY 2023-24 Tentative Budget of \$867.1M and set May 17, 2023 at 6:30 p.m. as the date and time of the Public Hearing for the FY 23/24 Final Budget as required under Arizona State Statutes.

Relevant Council Goal(s):

- Effective Government
- Safe Community
- Secure Future
- Superior Infrastructure
- Quality Lifestyle

Discussion:

The budget is one of the most significant policy documents considered by the Town Council. The FY 2023-24 Tentative Budget is balanced and allocates resources consistent with the needs of a growing community. It was developed in accordance with the Council's strategic priorities identified in the Corporate Strategic Plan.

The Fiscal Year 2023-24 budget totals \$867.1 million, with 70% of the budget dedicated to building infrastructure. Major cost drivers include acquisition of water resources, building facilities identified in the Master Plans of both Police and Parks, continued investments in critical infrastructure, and additional staffing resources for the Police Department.

The budget was developed in an environment of high inflation, tight labor markets, supply-chain issues, and uncertainty in the aftermath of the COVID-19 pandemic that started three years ago. The Town's financial condition has weathered the uncertainty better than expected, with actual revenues continuing to exceed initial projections and overall development activity remaining strong in spite of a slowing housing market.

Queen Creek remains a preferred community in the entire Phoenix region for residential and non-

residential investment. The rate of growth in both residential and non-residential investment is directly driving the Town's infrastructure needs to service this growth and position the Town competitively. Since 2010, Queen Creek has nearly tripled in size, making it one of the fastest growing communities in Arizona, with a population now of about 76,000. The Tentative Budget reflects our objectives to maintain service levels and the Council's commitment to the community's infrastructure needs. This infrastructure is essential to accommodate the Council's vision for the community and to position Queen Creek as a preferred choice for families and businesses to thrive in the southeast valley. Preserving and advancing the community's quality of life has always been at the forefront of our budget development process.

The FY2023-24 budget maintains our tradition and organizational culture of spending within our means, where we have developed contingencies to our revenue and expenditure plans and continue to monitor economic conditions regularly. Our budget practices, including Council-adopted financial policies, compel us to design internal controls for evaluating real-time budget-to-actual expenditures, allowing us to adjust very quickly as needed.

Consistent with the needs of our growing community and the Council's priorities, the budget includes funding to continue building the Queen Creek Police Department as well as resources to operate and maintain new parks that will soon open. The budget also includes \$168.1 million in funding to acquire water resources to meet our long-term water objective of becoming an assured water provider. Finally, the budget includes funding to continue our investments in new streets, water and wastewater infrastructure, and construction of roads and utilities to accommodate future development on the State Lands parcels.

GUIDING PRINCIPLES AND KEY ISSUES

The following guiding principles and key issues shaped the FY 2023-24 budget:

- Prioritization of Resources. The budget follows the Town's Corporate Strategic Plan to prioritize its allocation of resources. Guidance to the organization is found within our strategic priorities adopted by the Town Council as follows:
 - Effective Government;
 - Safe Community;
 - Secure Future;
 - Superior Infrastructure; and
 - Quality Lifestyle.
- The Economy. The national and state economies are poised to expand, bringing higher consumer confidence and strong demand for goods and services. Growth expectations have recently been tempered by persistent inflation pressures and rising interest rates; however, economists are optimistic that the U.S. economy will continue to grow and any slowdown in economic activity will be modest and short-lived.
- Population Growth and Commercial Investment. The Town has seen significant residential and commercial growth in the last several years, inclusive of annexations. We expect that growth to continue. Developing plans to deal with an increasing residential population and business investment is critical to ensure both operational and infrastructure needs are met.
- Public Safety and Infrastructure. The budget continues investments in these critical areas to ensure we are providing appropriate levels of service to our current residents as well as those who will live, work, and shop here in the future.
- Maintain a Balanced Five-Year Operating Budget. The five-year financial plan remains balanced, reflecting increased revenues and expenses based on population growth and new commercial development.
- Town Council Fiscal Policies. The Town Council recently adopted a policy to "freeze" property taxes for existing residents for five years. The FY 2023/24 budget reflects that policy, with the increase in property tax revenue coming solely from new construction.

BUDGET HIGHLIGHTS

Following are the highlights of the FY 2023-24 Tentative Budget:

- Police Services. The budget includes 21 new positions for the Queen Creek Police Department, as well as funding for the necessary software, hardware, and equipment for these new staff.
- Public Safety Facilities. The budget includes \$35.3 million for critical facilities identified in the recently adopted Police Master Plan, as well as \$17.7 million for the Fire/Medical portion of the soon-to-be renovated Public Safety Complex.
- Parks and Recreation. The budget includes funding to complete Mansel Carter Oasis Park, build out the new 85-acre Frontier Family Park, and construct the new Recreation and Aquatic Center. It also includes \$2.1 million and 15 new positions for operating and maintaining the new park facilities that will open at the end of the calendar year.
- Acquisition of Water Rights. Ensuring the Town has adequate water resources is a top priority of the Town Council. The budget includes \$168.1 million for acquisition of additional water rights.
- Comprehensive Capital Improvement Plan (CIP). As a growing community, the need for new infrastructure for transportation, water, and wastewater remains a priority. The budget includes \$214.3 million to build such infrastructure as well as continue planning for future infrastructure needs. The Town has been successful in securing commitments from regional partners towards these infrastructure needs to help defray the costs of certain major projects. Pinal County, Maricopa County, and the Flood Control District have committed millions of dollars towards road, drainage, and utility projects. The Town will also pursue funding from the state's Public Infrastructure Reimbursement program to offset a portion of the costs of infrastructure in the State Lands area. Contingency allocations have been included to ensure we have the authority to meet the dynamic environment's infrastructure needs.
- Additional Staffing. In addition to the positions mentioned above, the budget includes funding for 25 other new positions:
 - Five Utilities, four Public Works, and one HPEC staff to operate, maintain, and service the Town's streets, traffic signals, utility systems, and facilities. These positions are critical to protect the Town's multi-million dollar investments in infrastructure and maintain existing service levels to our residents and businesses.
 - Four new Fleet Services positions to expand the hours of operations and resources available for maintaining the Town's growing fleet of vehicles, which is especially critical for the Town's Police Department that operates around the clock.
 - Three Information Technology staff to maintain critical technology infrastructure, deploy new hardware and software, and service the day-to-day needs of the Town's employees.
 - One new Fire Inspector position to keep up with the demand for inspection services at multi-family and nonresidential construction project sites.
 - Seven staff among Human Resources, Finance, Community Services, and the Town Manager's Office to support other departments' administrative, budget, accounting, and project management activities.
- Employee Compensation. Resources have been allocated to fund a 5.0% market increase tied to indicators identified in the Town Council's adopted compensation policy. The budget also includes additional increases to fund a newly proposed compensation policy for Police sworn staff that is designed to stay competitive with our recruitment and retention efforts for law enforcement personnel.
- Healthcare Costs. The Town has a very active wellness program, which is a positive factor that has helped manage healthcare costs for both the Town and our employees. The budget includes no increase in major medical premiums for the Town nor for employees.

TENTATIVE BUDGET

The purpose of the Tentative Budget is to establish the maximum budget, or budget ceiling, for the next fiscal year. Approving the Tentative Budget is the required first step by state law. Once the Tentative Budget is approved, the Final Budget can go no higher; however, the budget can be reduced or re-allocated between programs and/or funds prior to adoption of the Final Budget.

As part of approving the Tentative Budget, the Town Council also approves the time and place for

conducting the public hearing on the Town's Final Budget. The public hearing and final action on the Town's FY 2023-24 Final Budget is scheduled for the Town Council meeting on May 17, 2023.

Adoption of the Final Budget on May 17, 2023 is predicated on the Town Council approving the Tentative Budget on May 3, 2023. The legal posting requirements to adopt the Final Budget on this timeline must begin by May 4th with submittal of the required newspaper budget advertisement.

PRIMARY PROPERTY TAXES

For FY 2023-24, primary property taxes are estimated to be \$13.3 million. The primary property tax is dedicated to fund Public Safety, and funds about 25% of the Public Safety Budget of \$53.6M. The public safety budget includes the Fire/Medical Department and the Police Department.

The Tentative Budget was developed under the Town Council's newly adopted policy of "freezing" property taxes for existing property owners. By doing so, the Town is not required to hold a "Truth in Taxation" hearing as we have in prior years. The Town Council is still required to adopt the FY 2023-24 property tax levy by ordinance at a separate meeting from adoption of the Final Budget. The property tax ordinance is currently scheduled for June 7, 2023.

Fiscal Impact:

The Tentative Budget for FY 2023-24 totals \$867.1 million. The required Auditor General Schedules, which provide all the allocations by fund, are included as an Attachment to this staff report.

Alternatives:

The Town Council can modify the Tentative Budget in any manner prior to adoption. The Council could delay adoption of the Tentative Budget until the next Council meeting on May 17, which would delay adoption of the Final Budget until June 7, 2023 and move the property tax levy ordinance to June 21, 2023. However, the Town Council is currently not scheduled to meet on June 21st. The Town would also be required to re-publish the budget notices in the newspaper.

Attachment(s):

1. [FY 23/24 Tentative Budget Adoption](#)
2. [Required State Budget Forms \(Schedules A-G\)](#)
3. [FY 2023-24 Budget Committee Follow-Up Memo](#)



FY 2023-24 Tentative Budget Adoption

Town Council Meeting

May 3, 2023

Purpose of Presentation

1. Overview of Strategic Financial Planning and Budgeting
2. Review FY 23-24 Approved Policy Decisions
3. Identify FY 23-24 Remaining Policy Issues
4. Economic Overview and Population Projections
5. Key Financial Policies
6. Budget Overview
7. Operating Budget
8. Infrastructure Budgets
9. Debt Budgets
10. Other Major Budgets
11. Calendar
12. Discussion of FY 23-24 Remaining Policy Issues





1. Overview of Strategic Financial Planning and Budgeting



Public Finance

- **One Organization ... But Many Businesses**
 - Police, Fire, Water, Wastewater, Construction (Roads, Water, Wastewater, Parks), Library, Recreation Classes, Vehicle Maintenance, etc.
- **A Steward of the Public's Money**
 - Provide Services and Infrastructure for Taxes and Fees
- **Public Finance Differs From Personal Finance**
 - Match Revenues and Expenses (Intergenerational Equity)
- **How are Expenses Funded and Paid For?**



Roles and Responsibilities



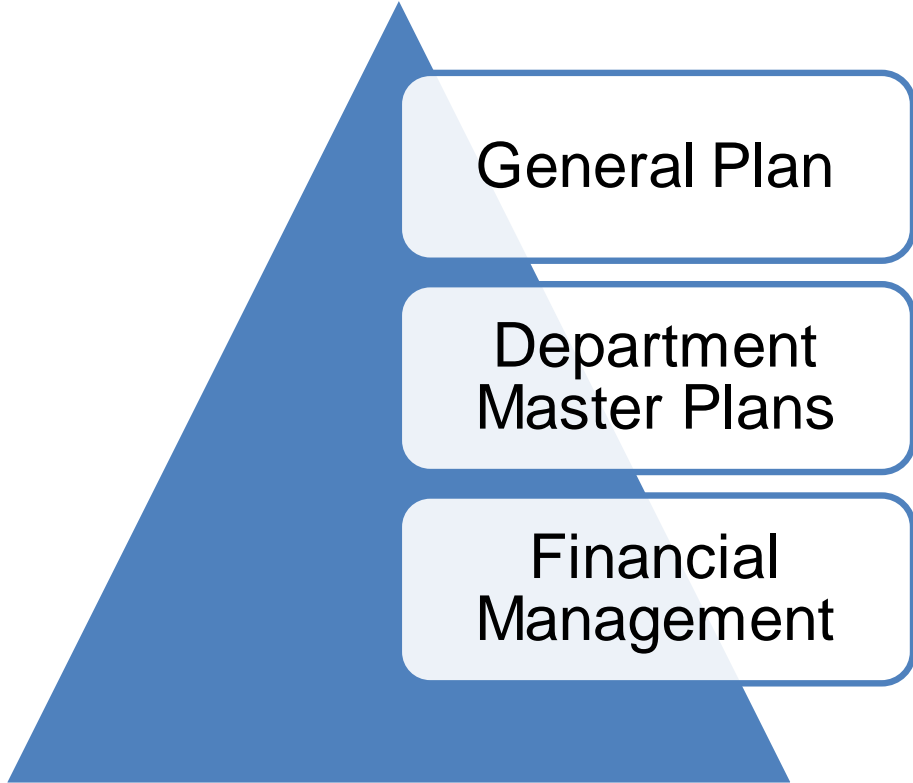
TOWN COUNCIL

Make Policy Decisions

TOWN STAFF

- Identify Policy Issues
- Develop Options
- Identify Expected Outcomes
- Make Recommendations

Strategic Financial Planning



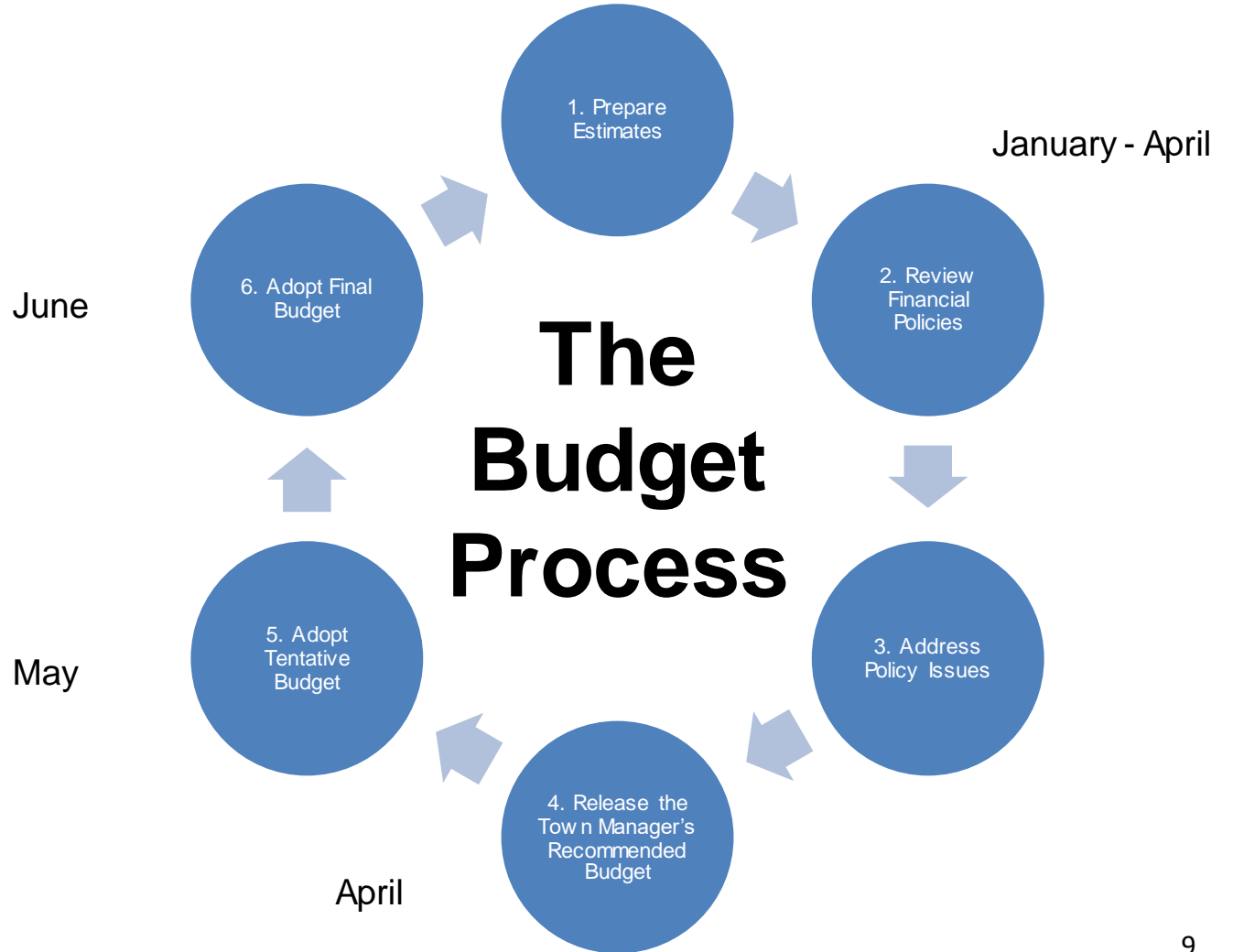
Financial Management



A Budget . . .

- Identifies Our Financial Goals
- Is A Spending Plan
- Is A Communication Tool
- Is A Policy Document







2. Review FY 23-24 Approved Policy Decisions

FY 23-24 Approved Policy Decisions



1. \$1.5M Property Tax and Groundwater Replenishment Fee Reductions
2. Shifted \$7M from Internal Police Pension Reserve to QC's PSPRS Police Pension Plan to Reduce Employee Contribution Amounts
 - 23 Employees Impacted
 - \$72K Annual Reduction for Employees in Year 1
 - ~\$3K Annual Reduction Per Employee
 - Reduction Grows Annually by Employee Salary Growth

\$1.5M Property Tax and Fee Reductions

Item	Number of Accounts	Annual Reduction
1. Water Replenishment Fee Reduction (CARGD)	~31K	\$0.6M
2. Eliminate Streetlight Improvement District Property Taxes (SLIDs)	~16K	\$0.2M
3. Freeze Primary Property Taxes	~30K	<u>\$0.7M</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 Tax Revenues: \$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





3. Identify Remaining FY 23-24 Policy Decisions

Remaining FY 23-24 Policy Decisions



1. Consider a New Policy for Sworn Police Personnel Salary Market Increases
2. Consider a New Approach for Budgeting for Construction Projects



4. Economic Overview and Population Projections

Beginning Thoughts

- Positive Financial Outlook Remains
- Population Growth Expected to Continue
- Budget Reflects Town Council's Priorities
 - Funds Police and Parks Master Plans
 - Increased Staffing in Police, Fire and Parks
- A Growing Population Means Additional Staff and New Infrastructure is Needed to Maintain Service Levels
- Work Continues on Outstanding Strategic Financial Issues and Infrastructure Funding Needs



Looming Questions



- Will There be a U.S. Recession?
- Will There be an 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 Changes that Reduce QC's Revenues?

QC Strengths

- **QC Tends to Perform Better than U.S. and Arizona**
 - Strong Population Growth and Demographics
 - Median Household Income (~\$112K) and Low Unemployment
- **Strong Financial Policies**
 - 25% of Projected Annual Revenue Increase Goes to Reserves (“Off the Top” and Not Spent)
 - Highest Operating Budget Reserves in History (6/30/22: \$114.1M, 125% of Expenses)
- **Comprehensive Approach to Estimating and Monitoring Revenues**
 - Most Fiscal Year-to-Date Revenues Exceeding Projections
 - Operating Budget Actual Revenues Have Exceeded Budget the Last 11 Fiscal Years
- **Opportunities Exist Here – QC’s Underlying Economy Has Not Changed**



Why Growth Projections are Critical to QC?



1. Indicates Quantity and Timing of Services

- Example: PD and Fire/EMS Calls

2. Identifies Size and Location of New Infrastructure

- Examples: Roads, Water and Wastewater Infrastructure, Parks

3. Identifies One-Time Revenues

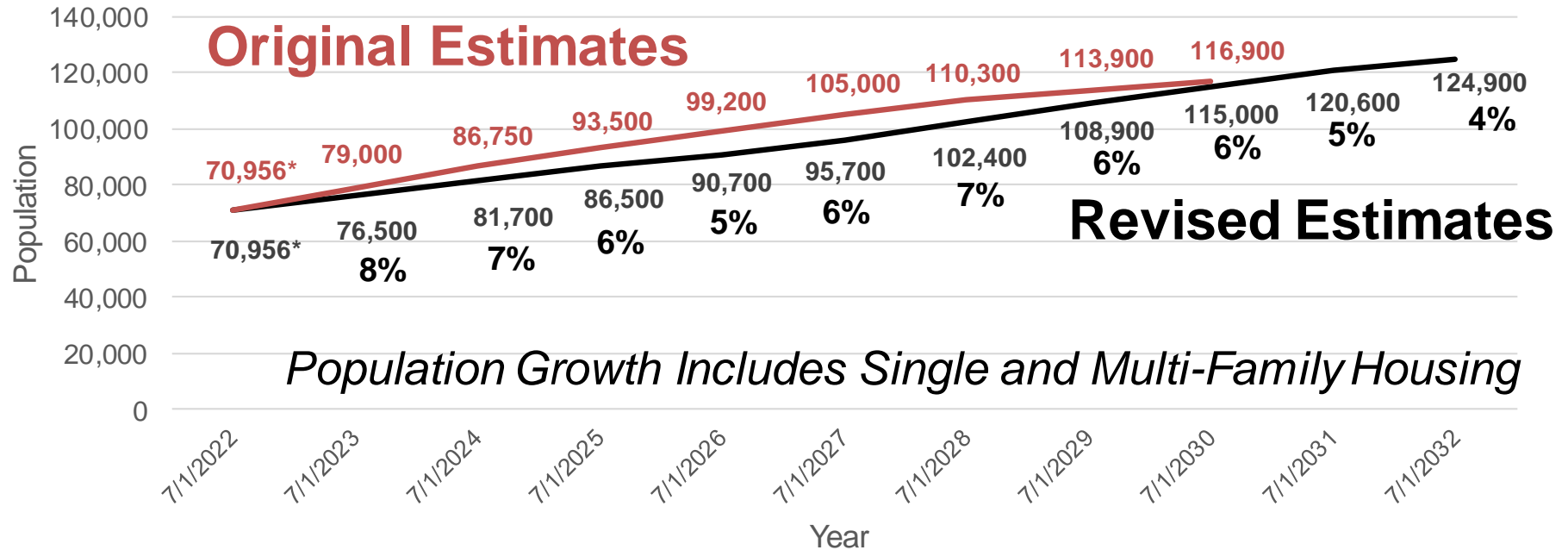
- Building Permit Revenues, Construction Sales Tax, Impact and Capacity Fees

4. Identifies Ongoing Revenues

- Sales Tax Revenues, State Shared Revenues

10-Year Population Projections

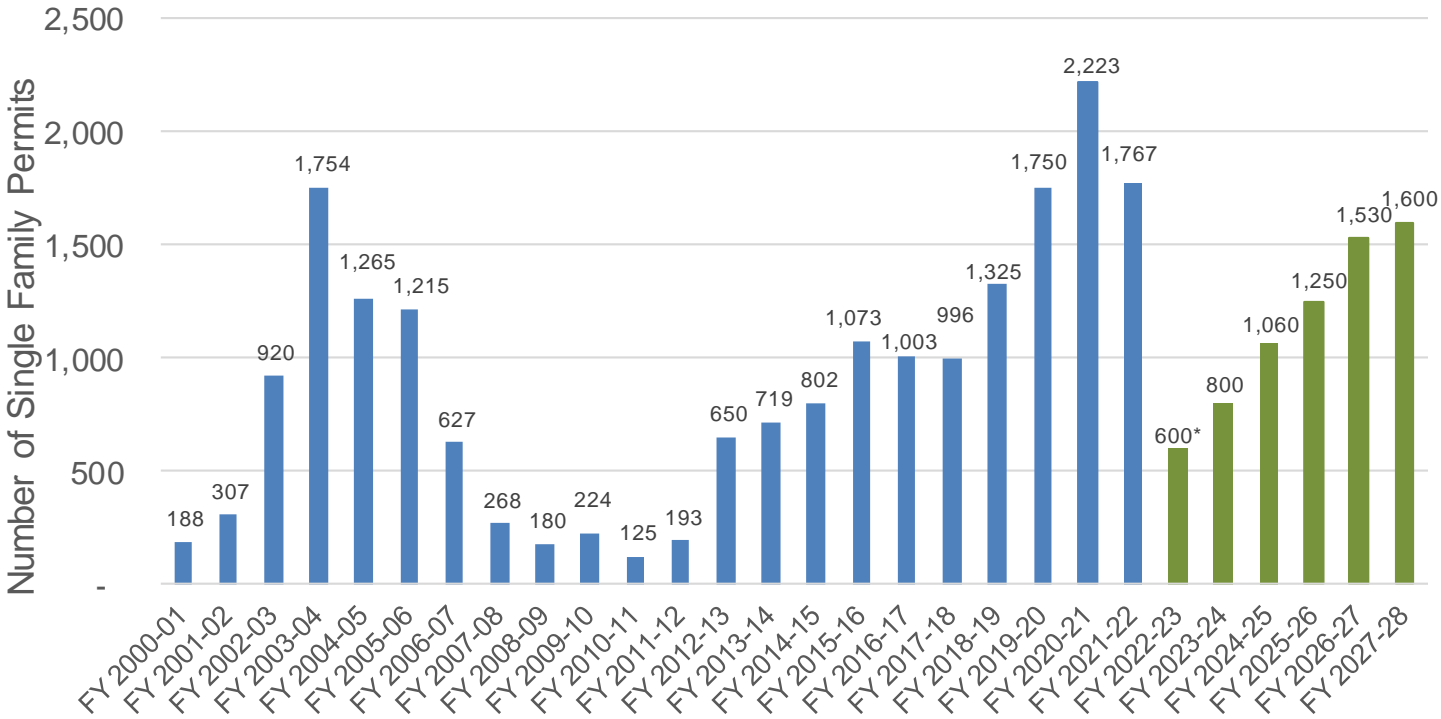
- 10-Year Population Increase: ~54K (76%)
- Population Projection by 2027 Has Been Decreased by ~9K (9%)
- By 2030, Population Projection Returns
- Buildout Population: ~150K (No Change)



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

Single-Family Permit Projections

- 5-Year Projections (FY 22-23 to FY 26-27) Have Been Decreased by 40% From 8,730 to 5,240 (-3,490)



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

Year



Multi-Family Projections

- Now a Significant Component of Our Projections Due to Increase Activity
- 5-Year Estimate: ~2,800 new 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

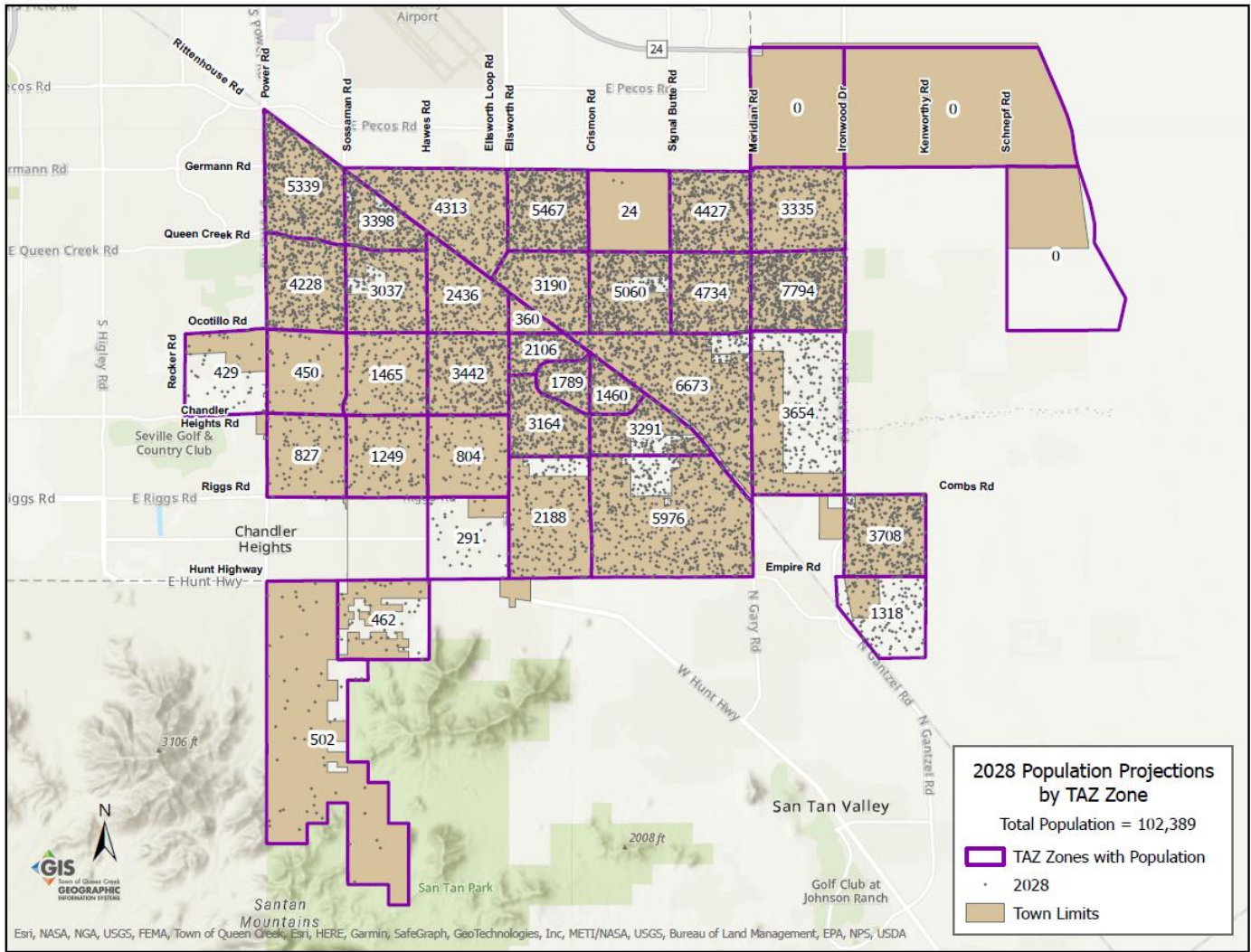




Population Projection Dot Maps

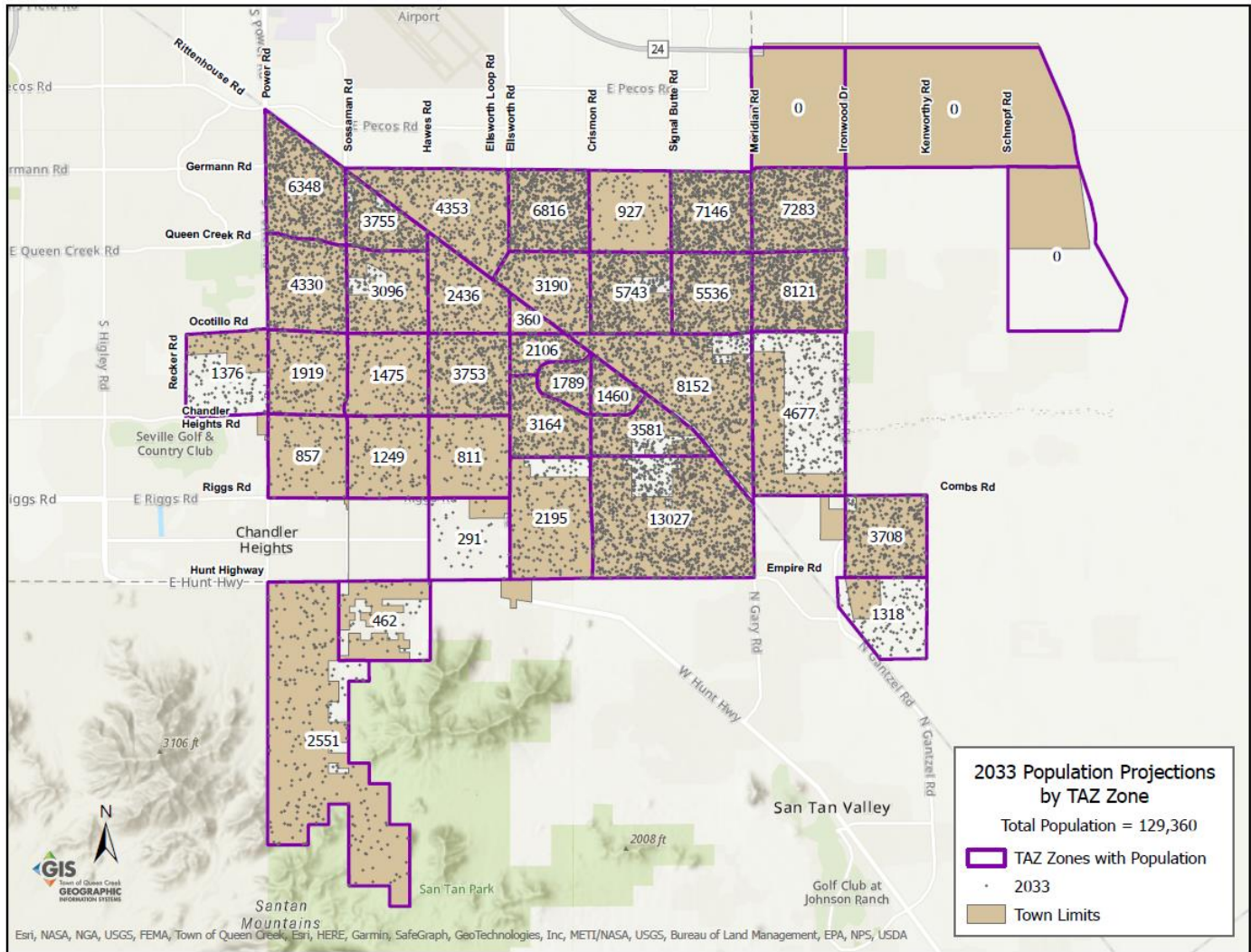
2028

Population 102,400



2033

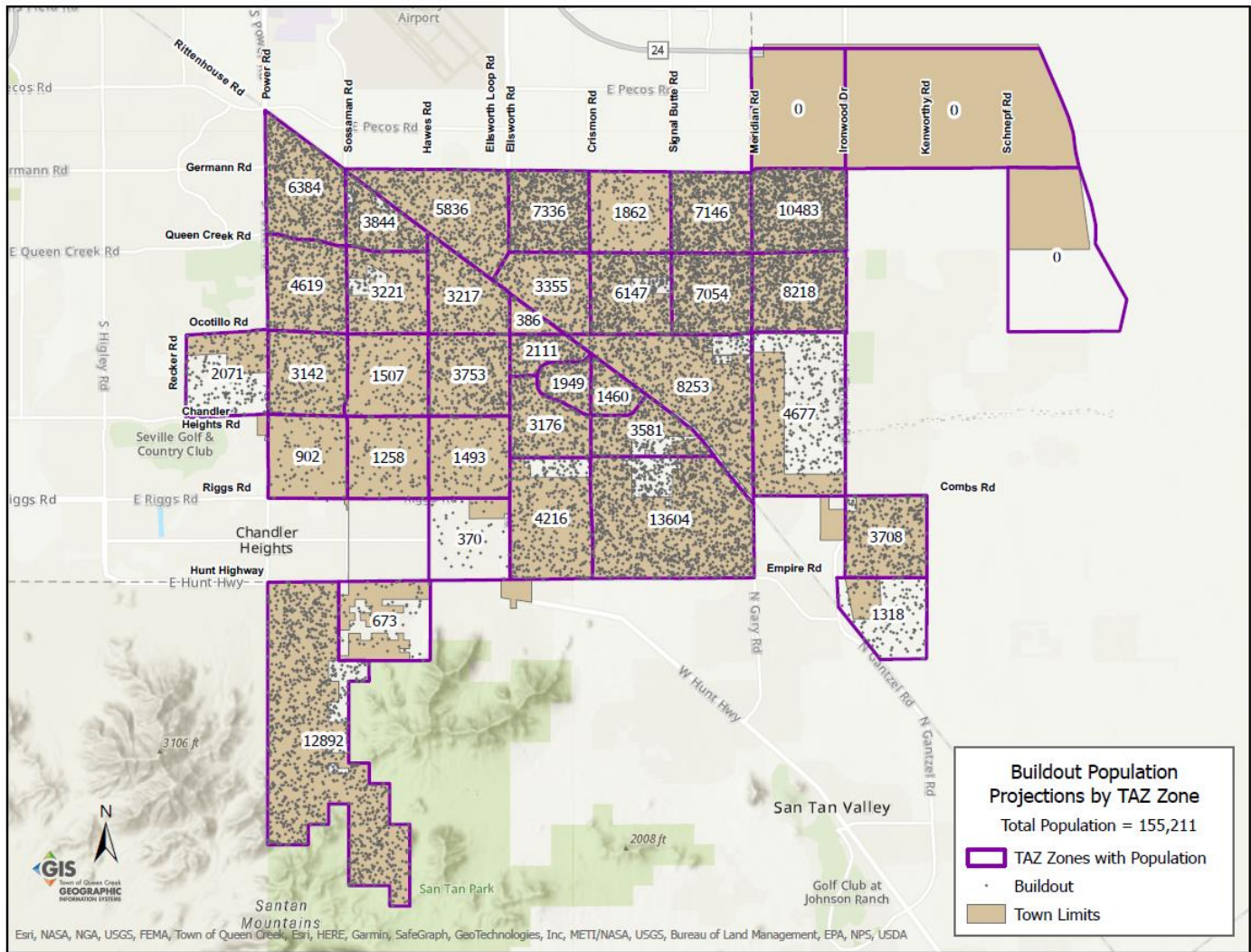
Population 129,400



Esri, NASA, NGA, USGS, FEMA, Town of Queen Creek, Esri, HERE, Garmin, SafeGraph, GeoTechnologies, Inc, METI/NASA, USGS, Bureau of Land Management, EPA, NPS, USDA

Buildout

Population
~155K



Non-Residential Construction Continues



- FY 21-22 Activity: 400K Square Feet (+9% from Existing 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**

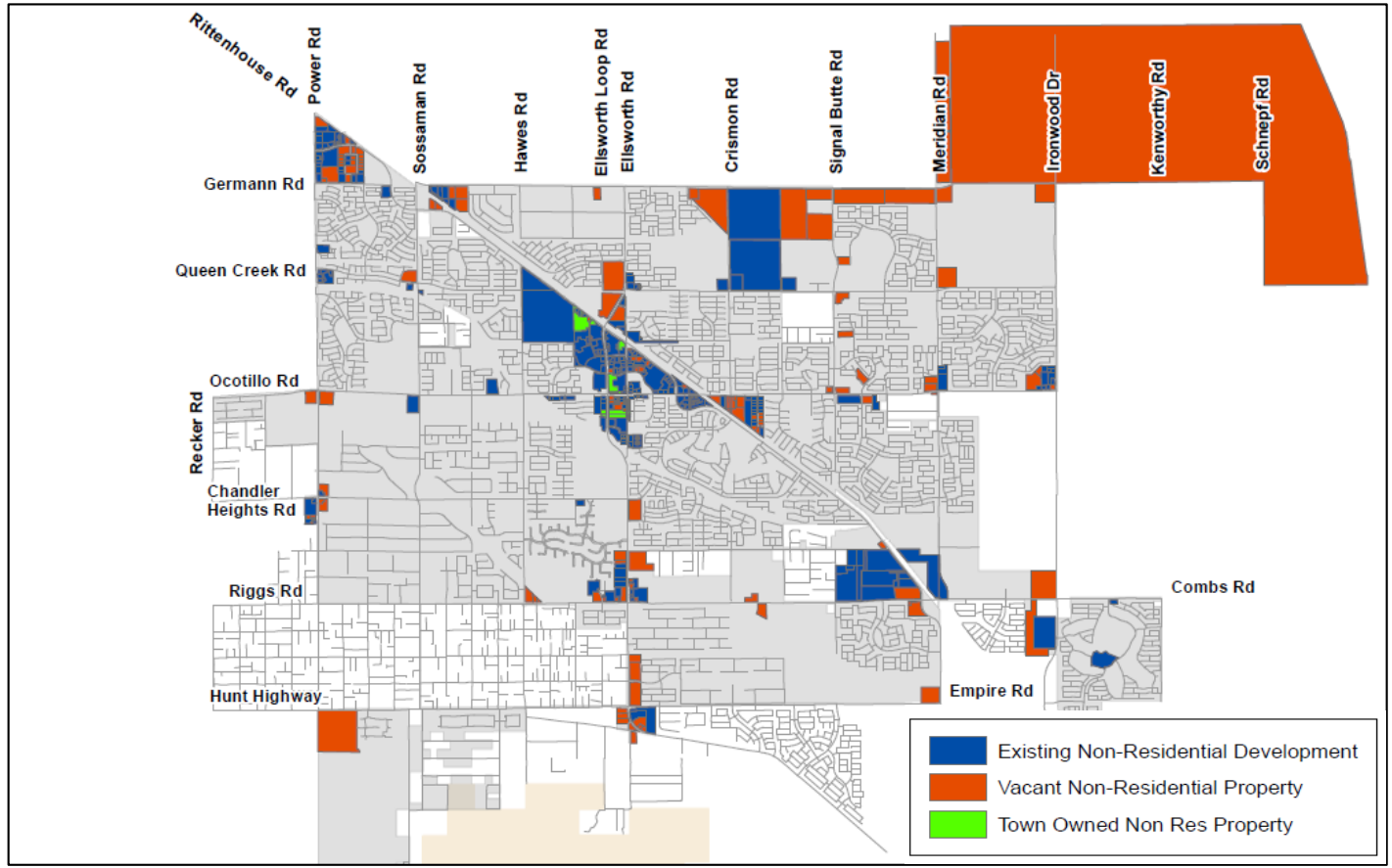
Development Type	FY 22-23 SF	FY 23-24 SF
Commercial	778K	122K
Industrial	533K	910K
Office	49K	-
Churches, Educational, Other	33K	75K
TOTAL	1.4M	1.1M

Remaining Non-Residential Development



Development Type	Acres to Buildout	Total Buildout Square Footage
Mixed Use	91	620K
Regional Commercial	36	161K
Community Commercial	479	4.8M
Light Industrial	90	987K
Office	35	308K
Religious	<u>47</u>	<u>346K</u>
Total	777	7.2M

Non-Residential Development





5. Key Financial Policies

Key Financial Policies

1. Pension Funding

- All Plans Fully Funded
 1. Fire
 2. Police: \$19.3M Internal Reserve
 3. All Other Employees: \$22.2M Internal Reserve
 - Operating Budget: \$15.9M
 - Utility Funds: \$6.3M
- Costs Associated With Unfunded Liabilities Do Not Exist and Do Not Require Use of Current Year Revenues





Key Financial Policies (continued)

2. 25% Revenue Reserve Policy

- 25% of Annual Revenue Increase Not Used to Pay for Operating Expenses (“Taken Off the Top”)
- June 30, 2022 Balance: \$29.6M (Record High)
- June 20, 2024 Estimated Ending Balance: \$38.9M

3. New Position Placeholder

- 25 New Positions Annually to Maintain Existing Service Levels and PD Growth



Key Financial Policies (continued)

4. Employee Compensation (2 Components)

1. 5% Market Increase: \$2.3M
 - Based on 2022 Indices
 - Consumer Price Index (CPI-Western Region): 6.2%
 - Employment Cost Index (ECI) for State & Local Workers: 4.8%
2. 3% Merit Increase: \$0.8M
 - Up to 3% Based on Annual Employee Performance Evaluation

Key Financial Policies (continued)

5. Infrastructure Placeholders: \$3.5M Annually

Infrastructure	Purpose	FY 23-24 Amount	Balance at 6/30/24
Roads	Replacement	\$1.5M (+\$0.5M Annually)	\$3M
Parks	Fund Phase 2 of Master Plan	\$1.5M (+\$1M Annually)	NA
Police	Fund Phase 2 of Master Plan	\$0.5M (+\$0.5M Annually)	NA



Key Financial Policies (continued)



6. Parks Master Plan Funding

- Phase 1
 - FY 23-24 Expense: \$12.6M
 - \$7.2M Debt Service for 4 New Facilities
 - \$2.1M Operating Expenses for 2 New Parks
 - \$3.3M Capital Expenses for Equipment and Vehicles
 - FY 24-25 Increase: \$10.5M for Rec and Aquatic Center Expenses (Direct and Indirect Expenses)
- Phase 2
 - FY 23-24 Future Debt Placeholder: \$1.5M (Increasing \$1M Annually)

Key Financial Policies (concluded)

7. Police Master Plan Funding

- Phase 1
 - \$130M Total Cost
 - PD Direct Portion: \$108M
 - Estimated Funding: 50% from the Operating Budget and 50% from Impact Fees
 - Non-PD Costs: \$12M (Vehicle Repair Shop and Parking Garage)
- Phase 2
 - Cost: \$81M
 - Debt Service Placeholder will Create Capacity for Future Debt Issue
 - FY 23 -24 Placeholder: \$0.5M (Increasing by \$0.5M Annually)





6. Budget Overview

Budget Planning Goals

1. Address Today's Needs and Future Needs (i.e. new water supply, new roads, etc.)
2. Maintain / Increase Existing Service Levels
 - Adding 61.25 FTEs
3. Fund Police Department Growth
 - Staffing Increases Continue (+21 Direct, +4 Indirect FTEs)
 - Fund Master Plan
4. Fund Parks and Recreation Department Growth
 - Staffing Increases for New Facilities and Services
 - Fund Master Plan
5. Continue Infrastructure Funding
 - Continue Aggressive New Construction
 - Increase Infrastructure Replacement Funding



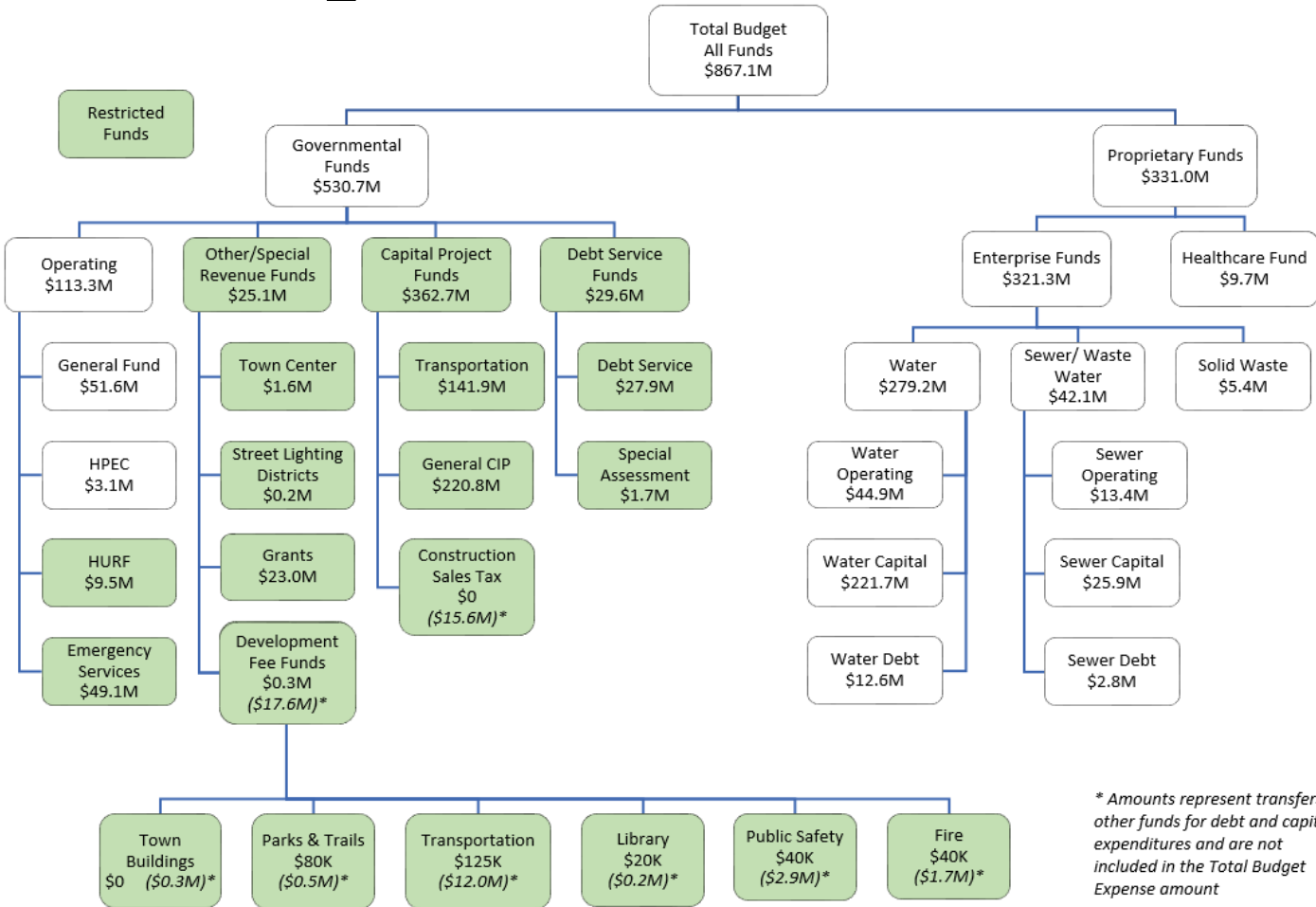
Tentative Budget

	FY 22/23 Budget	FY 23-24 Tentative Budget	\$ Change	% Change
Total Expenses	\$730.1M	\$867.1M	+\$137.0M	+19%

	FY 21/22 Budget	FY 23-24 Tentative Budget	\$ Change	% Change
Revenues	\$376.8M	\$646.7M*	+\$213.3M	+57%
Use of Fund Balances	<u>\$353.3M</u>	<u>\$220.4M</u>		
Total Sources	\$730.1M	\$867.1M		

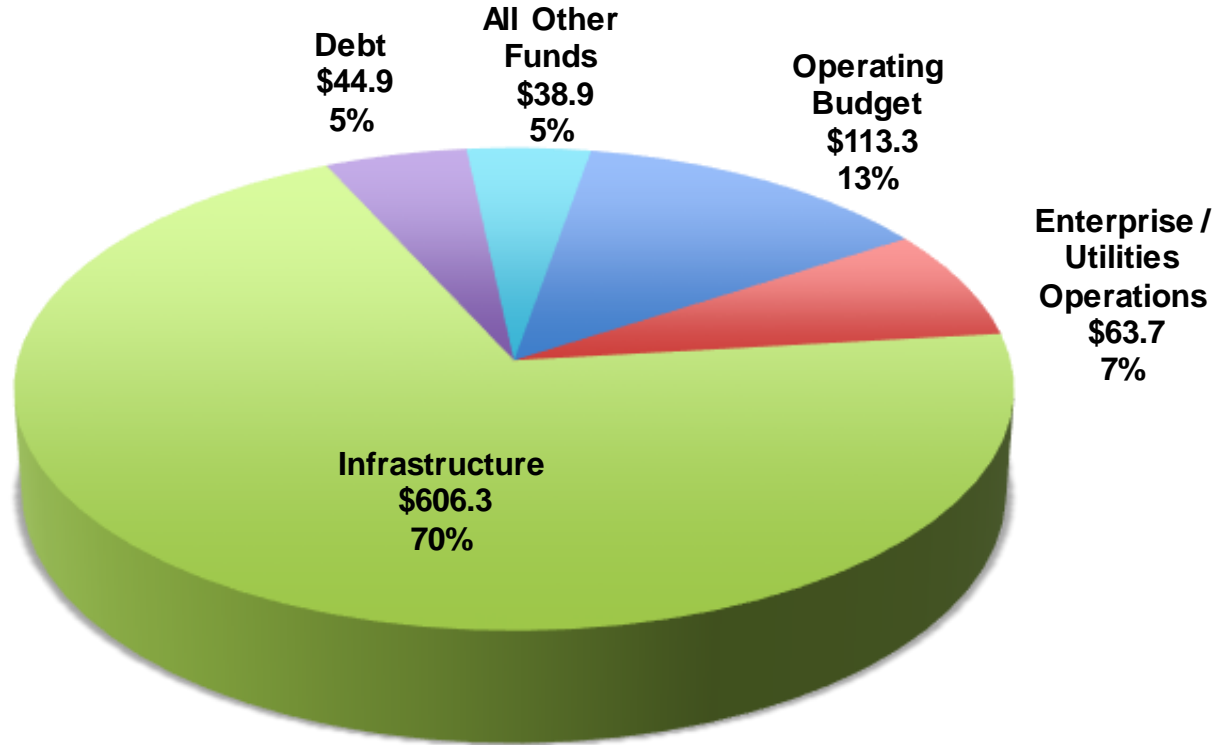
*Includes Loan Proceeds of \$168.1M for new water rights and \$130M for new PD Master Plan/Fire facilities.

Budget/Fund Structure : \$867.1M



* Amounts represent transfers to other funds for debt and capital expenditures and are not included in the Total Budget Expense amount

FY 23-24 TENTATIVE BUDGET: \$867.1M



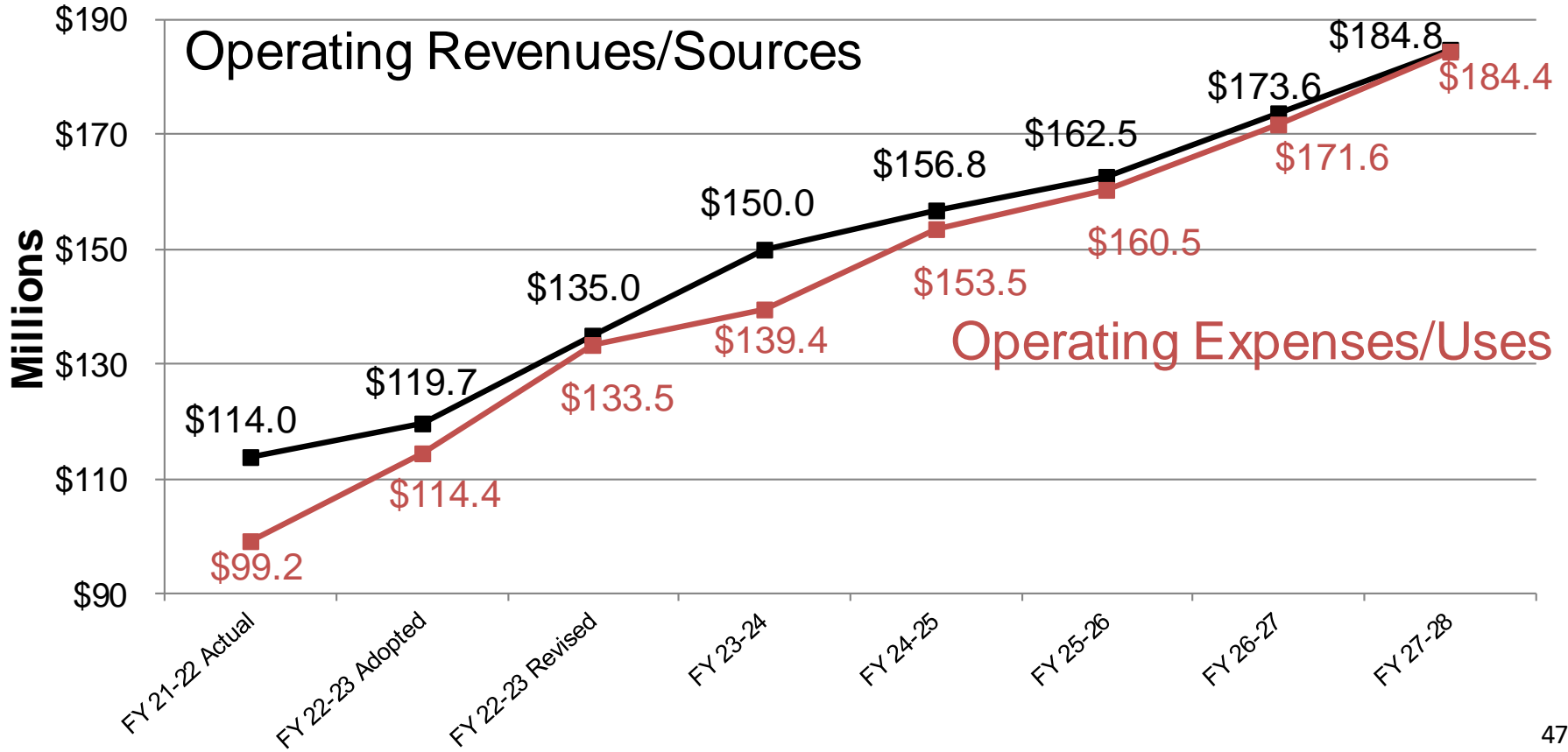
Budget Summary and Comparison

	FY 2022-23 Revised	FY 2023-24 Tentative Budget	\$ Change
Operating Budget	\$99.2M	\$113.3M	\$14.1M
Enterprise/Utilities	<u>\$46.9M</u>	<u>\$63.7M</u>	<u>\$16.8M</u>
Subtotal Operating Budgets	\$146.1M	\$177.0M	\$30.9M
Transportation Infrastructure	\$172.1M	\$87.8M	(\$84.3M)
Parks & Trails Infrastructure	\$175.3M	\$170.9M	(\$4.4M)
Public Safety Infrastructure	\$13.8M	\$53.0M	\$39.2M
Water Infrastructure	\$70.5M	\$49.1M	(\$21.4M)
Wastewater Infrastructure	\$24.7M	\$25.4M	\$0.7M
Water Resources	\$60.0M	\$168.1M	\$108.1M
All Other Infrastructure	<u>\$14.7M</u>	<u>\$52.0M</u>	<u>\$37.3M</u>
Subtotal - Infrastructure	\$531.1M	\$606.3M	\$75.2M
Debt	\$30.6M	\$44.9M	\$14.3M
All Other Funds	<u>\$22.3M</u>	<u>\$38.9M</u>	<u>\$16.6M</u>
Total Budget	\$730.1M	\$867.1M	\$137.0M



7. Operating Budget

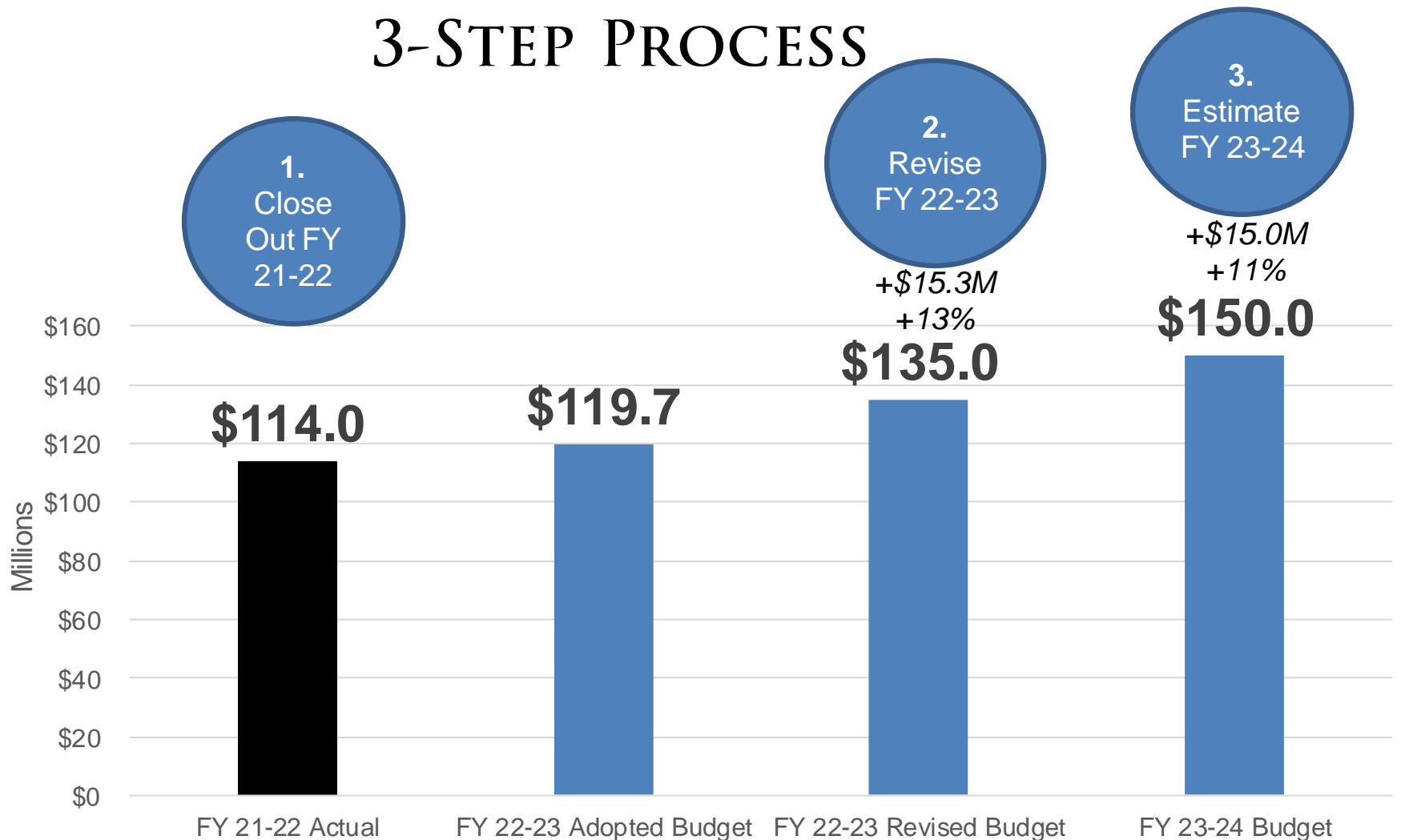
Operating Budget 5-Year Projection



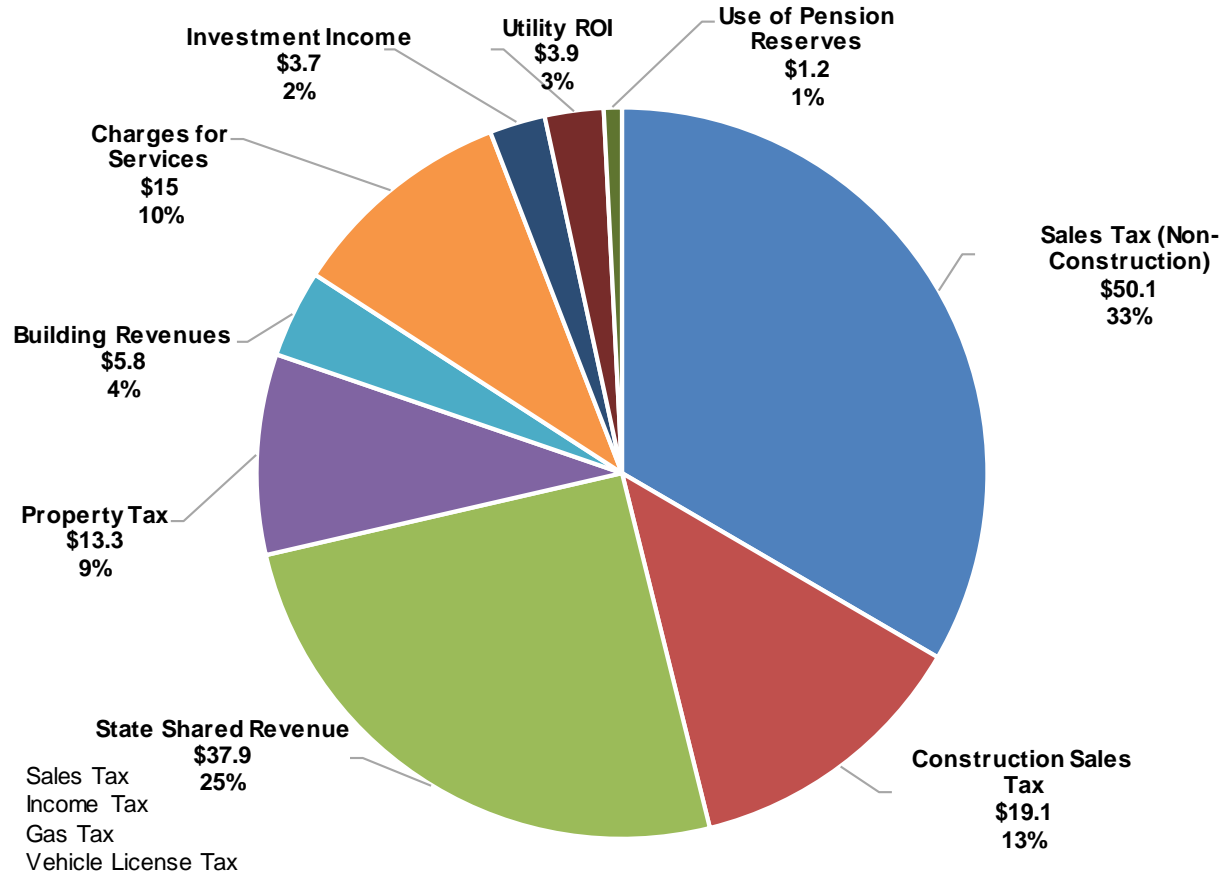


Operating Revenue Projections

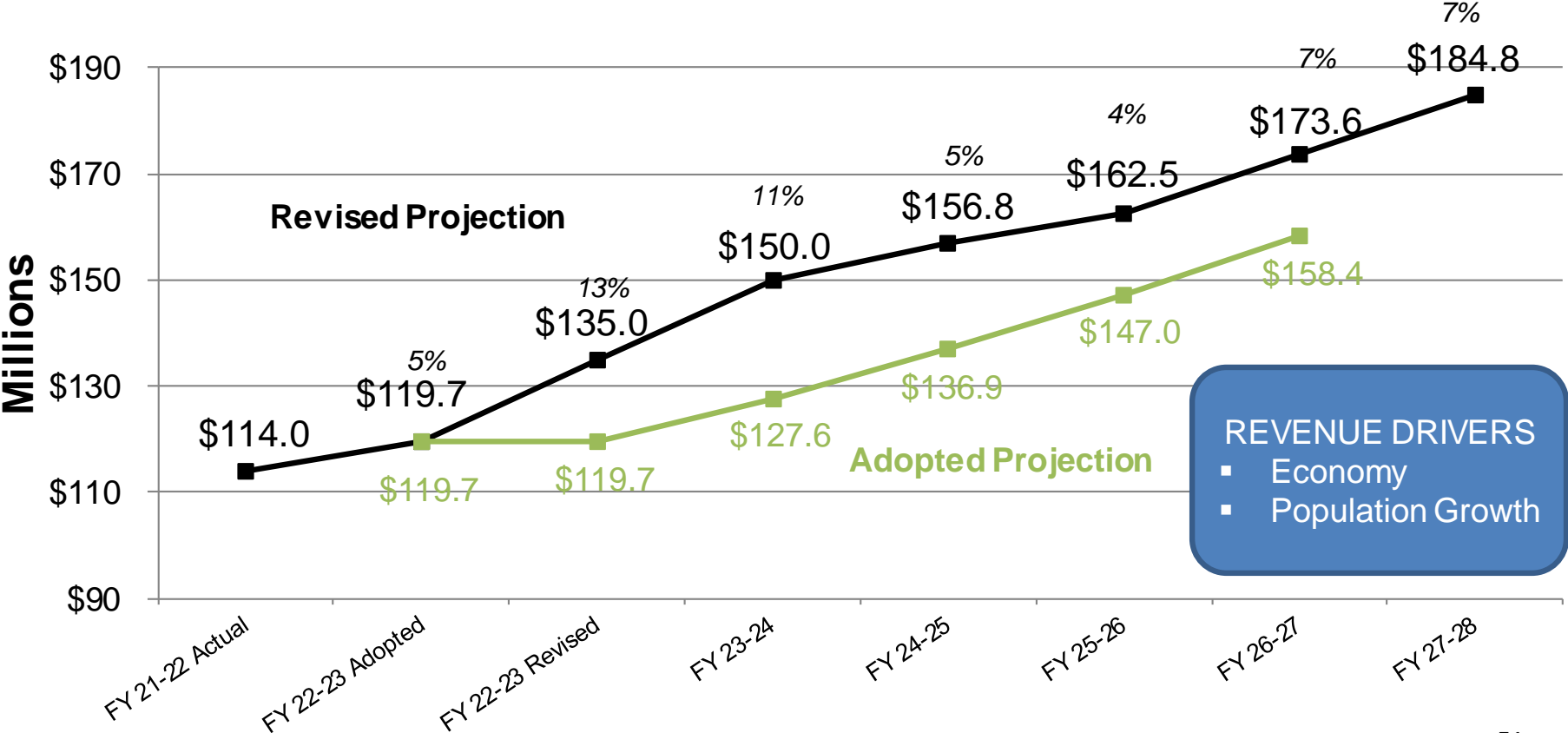
3-STEP PROCESS



FY 23-24 Operating Revenues/Sources: \$150M (9 Major Revenues)



Operating Budget Revenue Forecast

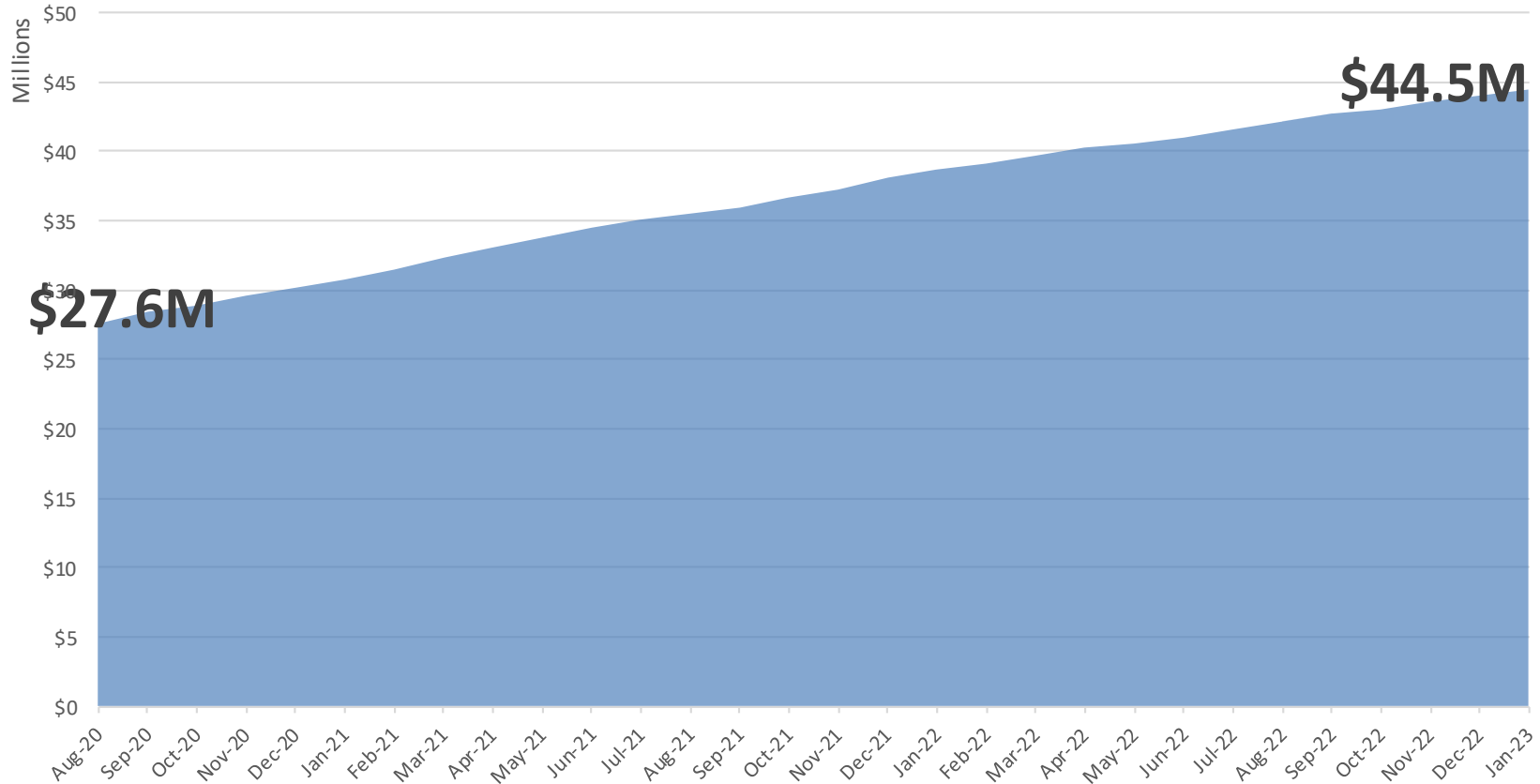


FY 23-24 Operating Budget Revenue

	FY 21-22 Actual	FY 22-23 Revised Budget	FY 23-24 Tentative Budget	\$ Change	% Change
Sales Tax	\$39.5M	\$45.1M	\$50.1M	\$5.0M	+11%
Construction Sales Tax	\$17.6M	\$16.9M	\$19.1M	\$2.2M	+13%
State Shared Revenue	\$22.5M	\$30.5M	\$37.9M	\$7.4M	+24%
Property Tax*	\$11.1M	\$12.5M	\$13.3M	\$0.8M	+6%
Building Revenues	\$11.3M	\$6.6M	\$5.8M	(\$0.8M)	(12%)
Charges for Services	\$7.3M	\$9.4M	\$15.0M	\$5.6M	+60%
Investment Income	\$0.4M	\$2.3M	\$3.7M	\$1.4M	+61%
Utility ROI for Public Safety	<u>\$3.5M</u>	<u>\$3.7M</u>	<u>\$3.9M</u>	<u>\$0.2M</u>	<u>+5%</u>
Subtotal	\$113.2M	\$127.0M	\$148.8M	\$21.8M	+16%
Use of Pension Reserves (Police)	\$0.8M	\$7.0M	-	(\$7.0M)	(100%)
Use of Pension Reserves (ASRS)	-	<u>\$1.0M</u>	<u>\$1.2M</u>	<u>\$0.2M</u>	<u>+17%</u>
Total Revenue	\$114.0M	\$135.0M	\$150.0M	\$15.0M	+11%
Change from FY 21-22 Actual		\$21.0M	\$36.0M		

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

12-Month Rolling Actual Sales Tax (Excludes Construction Sales Tax)





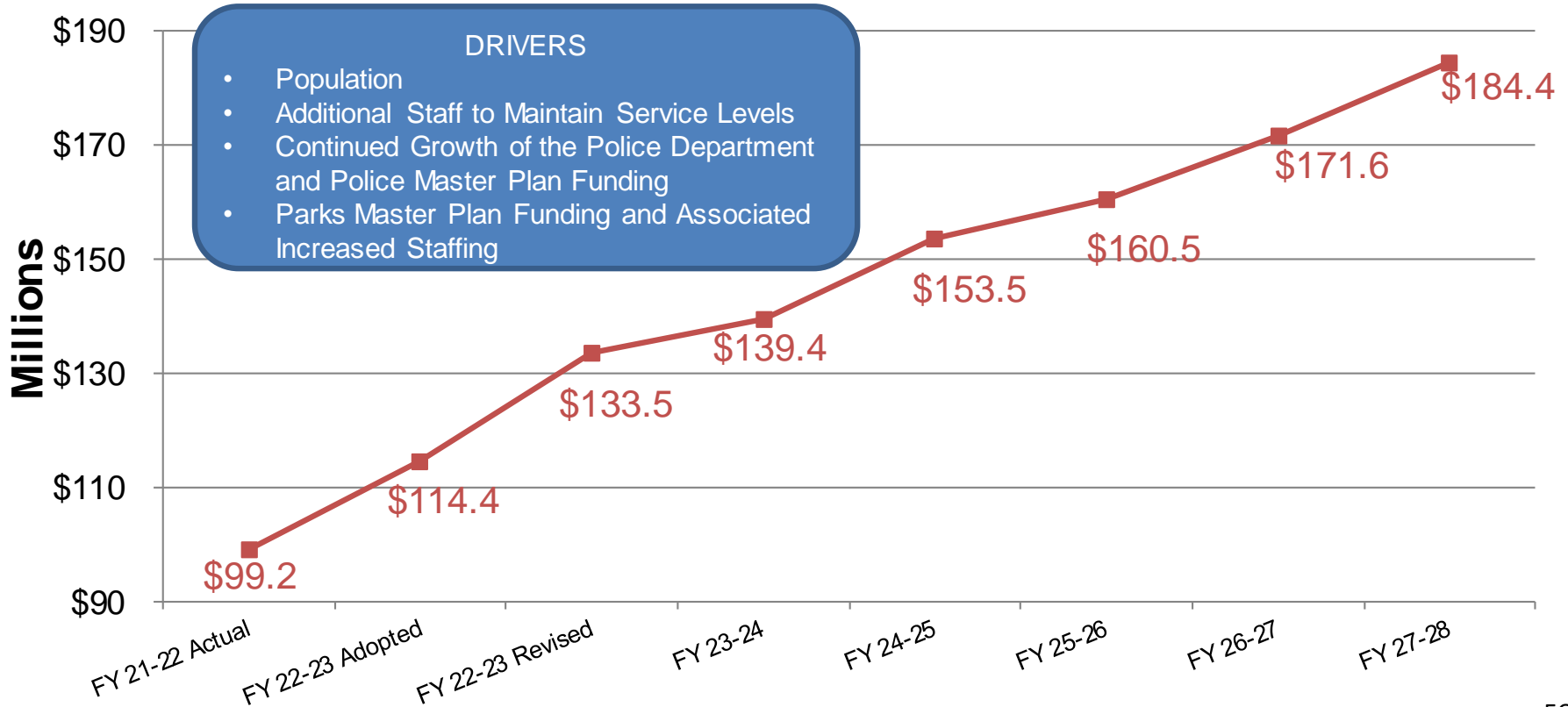
Operating Expense Projections

FY 23-24 Highlights



1. Funds 25% Reserve Increase
2. Maintains Existing Service Levels
3. Funds New Services
 - Police, Fire and Parks
4. Creates Capacity for Recreation and Aquatic Centers New Expenses in FY 24-25
5. Continues Infrastructure Funding
 - Funds Added for Police Master Plan (Phase 1)
 - Funds Phase 1 of the Parks Master Plan
6. Continues Road Replacement Funding

5-Year Operating Budget Expenses/Uses



FY 23-24 Operating Expenses



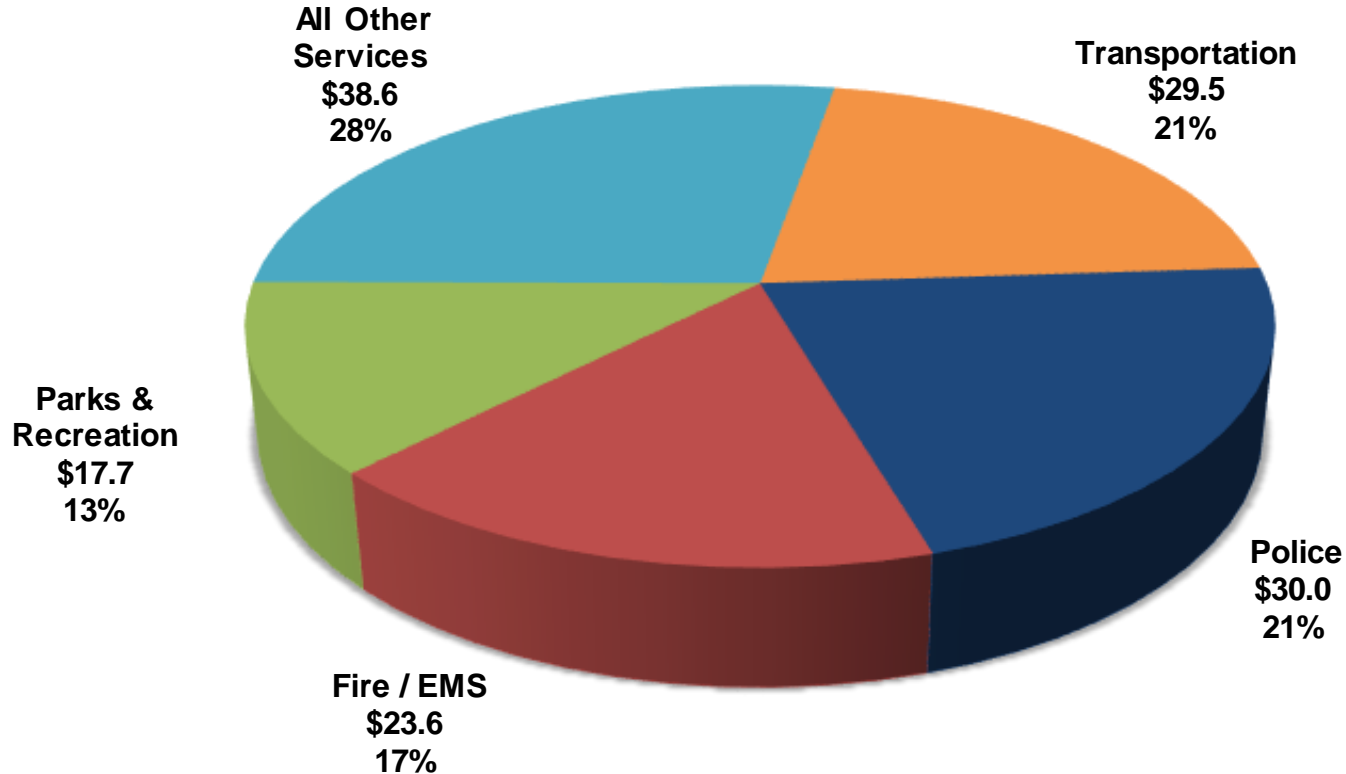
Category	FY 22-23 Revised Budget	FY 23-24 Tentative Budget	\$ Change	% Change
Personnel	\$51.9M	\$60.4M	\$8.5M	16%
Contractual and Supplies	\$47.7M	\$49.7M	\$2.0M	4%
Contingency (3% of Operating Expenses)	<u>\$0.2M</u>	<u>\$3.2M</u>	<u>\$3.0M</u>	<u>1500%</u>
<i>Subtotal Expenses</i>	<i>\$99.8M</i>	<i>\$113.3M</i>	<i>\$13.5M</i>	<i>14%</i>
Transfers Out:				
Infrastructure Funding	\$6.4M	\$3.5M	(\$2.9M)	(45%)
Debt Service	<u>\$11.7M</u>	<u>\$19.4M</u>	<u>\$7.7M</u>	<u>66%</u>
<i>Subtotal Transfers Out</i>	<i>\$18.1M</i>	<i>\$22.9M</i>	<i>\$4.8M</i>	<i>27%</i>
Total Uses (Expenses & Transfers Out)	\$117.9M	\$136.2M	\$18.3M	16%
25% Operating Reserve Funding	\$7.6M	\$1.7M	(\$5.9M)	(78%)
Road Replacement Reserve Funding	\$1.0M	\$1.5M	\$0.5M	50%
Police Pension Payment	<u>\$7.0M</u>	\$ -	(\$7.0M)	(100%)
Total Uses with Reserves Funding	<u>\$133.5M</u>	<u>\$139.4M</u>	<u>\$5.9M</u>	<u>4%</u>

Important Expense Changes FY23-24: +\$13.5M



Item	Amount
Personnel Changes - 41 new FTE (21 for PD, 20 Non-PD / Non-Parks)	\$4.5M
New Parks – 15 new FTE plus Operations & Capital Costs	\$3.3M
Reset Contingency	\$3.0M
Employee Compensation (5% Market + Merit Increases + Benefits)	\$2.4M
Contract and Operating Increases (net)	\$1.7M
Software, Supplies and Equipment for new FTEs	\$1.6M
New Software & Maintenance Projects, Supplies & Equipment Upgrades	\$1.3M
Lower Capital Equipment Requests (long-lead items funded in FY 22-23)	<u>(\$4.3M)</u>
Total Expense Increases	\$13.5M

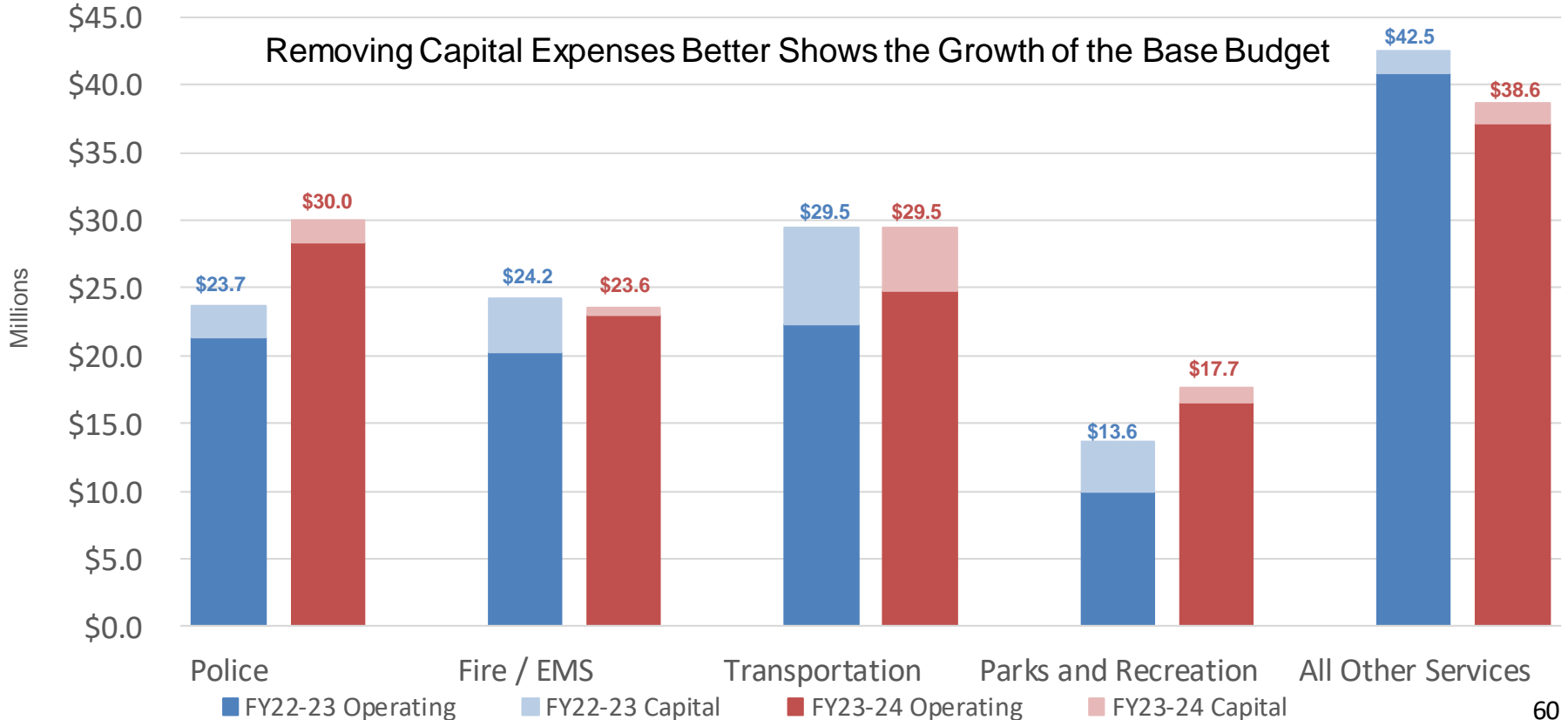
FY 23-24 OPERATING EXPENSES / USES: \$139.4M (BY PROGRAM)



PROGRAM EXPENSE COMPARISON

FY 22-23 vs. FY 23-24

Removing Capital Expenses Better Shows the Growth of the Base Budget



Increased Expenses for PD

(+\$6.3M Direct, +\$6.8M Total)

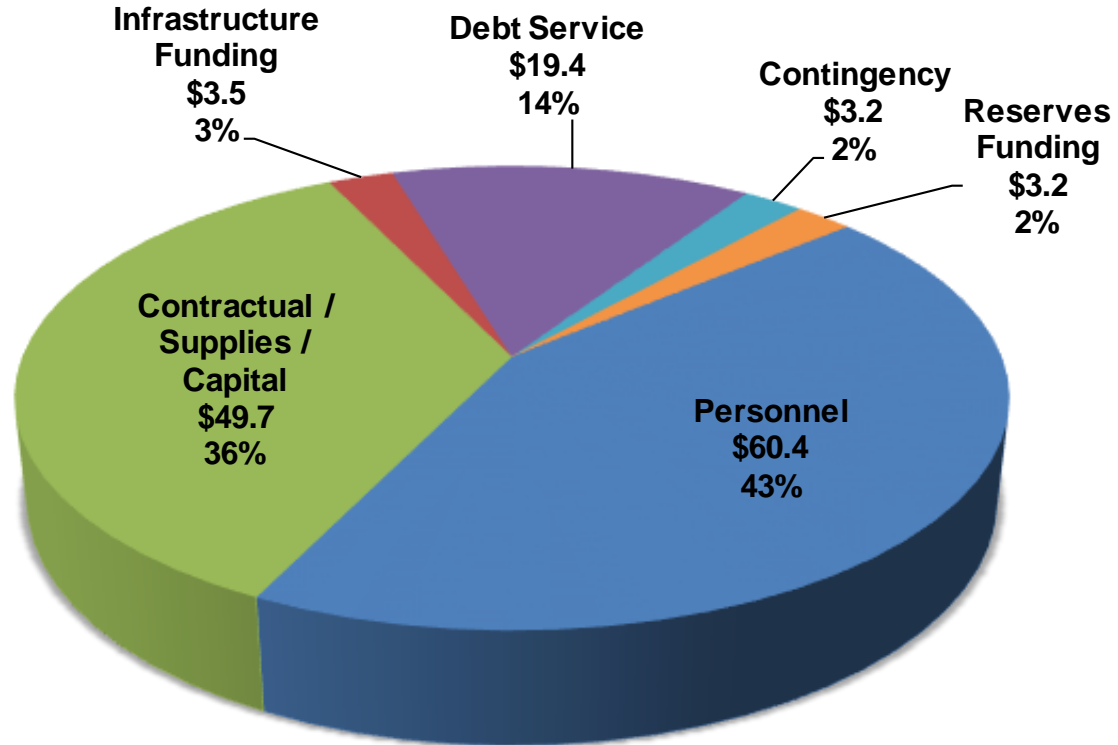
	FY 22-23 Budget	FY 23-24 Increases	FY 23-24 Total
Personnel – 110 FTEs (90 Sworn, 20 Civilian)	\$13.1M	\$3.0M	\$16.1M
Operations (Dispatch & Evidence Services, Uniforms, Guns/Ammo, Fuel & Vehicle Maintenance, Software, Training)	\$8.2M	\$1.3M	\$9.5M
Capital & Equipment	\$2.4M	(\$0.8M)	\$1.6M
Debt Service for PD Master Plan (50% of \$108M Bond Issue)	\$ -	\$2.8M	\$2.8M
Total – Direct PD	\$23.7M	\$6.3M	\$30.0M
Indirect Expenses (Fleet Staffing and Equipment)		\$0.5M	
Total FY 23-24 Increase		\$6.8M	

Increased Expenses for Parks & Recreation

(+\$4.1M)

	FY 22-23 Budget	FY 23-24 Increases	FY 23-24 Total
Personnel – 59.43 FTEs (15 new FTE for FY 23-24)	\$4.3M	\$1.6M	\$5.9M
Operations (Maintenance Parts & Supplies, Chemicals, Uniforms, Small Tools, Fuel & Vehicle Maintenance, Training)	\$1.5M	\$0.5M	\$2.0M
Capital & Equipment	\$3.5M	(\$2.3M)	\$1.2M
Debt Service	<u>\$4.3M</u>	<u>\$4.3M</u>	<u>\$8.6M</u>
Total	\$13.6M	\$4.1M	\$17.7M

FY 23-24 OPERATING EXPENSES / USES: \$139.4M (BY CATEGORY)





Operating Budget Reserves

June 30, 2024 Ending Reserve Projection



	FY 2023-24	
Revenues / Sources	\$150.0M	
Expenses / Uses	<u>(\$139.4M)</u>	
Net FY 23-24	<u>\$10.6M</u>	
Ending Fund Balance		\$129.6M
Restrictions:		
25% Revenue Reserve Requirement	\$38.9M	
ASRS Pension Reserve (Fully Funded)	\$24.6M	
Police Pension Reserve (Fully Funded)	\$19.3M	
Road Replacement Reserve	\$3.0M	
HURF Fund (Road Maintenance) Reserve	<u>\$0.3M</u>	
Total Restrictions		<u>\$86.1M</u>
Available		<u>\$43.5M</u>

Needed to Cover Operating Costs in Next Fiscal Year for the New Rec and Aquatic Centers



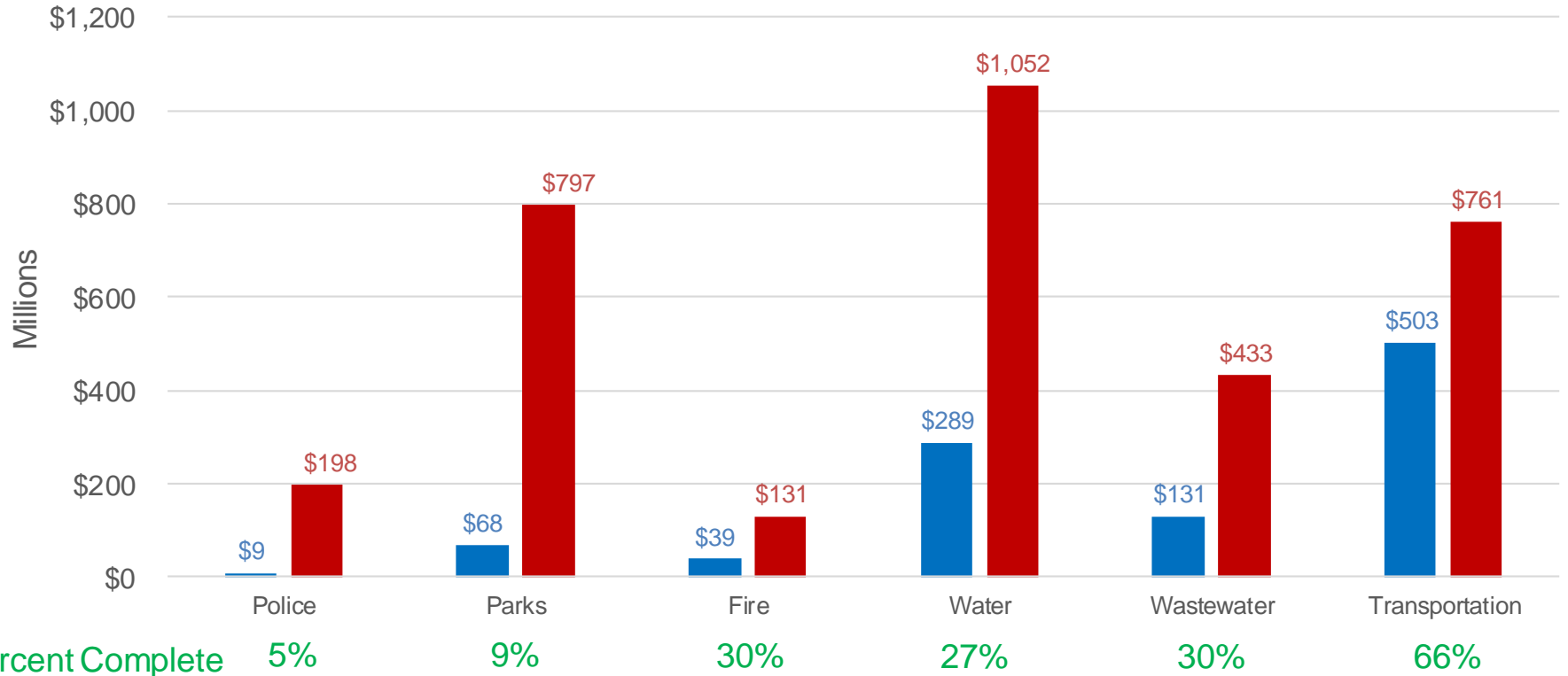
8. Infrastructure Budgets

Aggressive Infrastructure Construction Continues...

- Public Safety (Fire/EMS and Police)
- Transportation
- Water Supply Acquisition
- Water and Wastewater System
- Parks and Trails



Town Infrastructure: Today's Valuation (\$1B) vs. Buildout (\$3.3B)



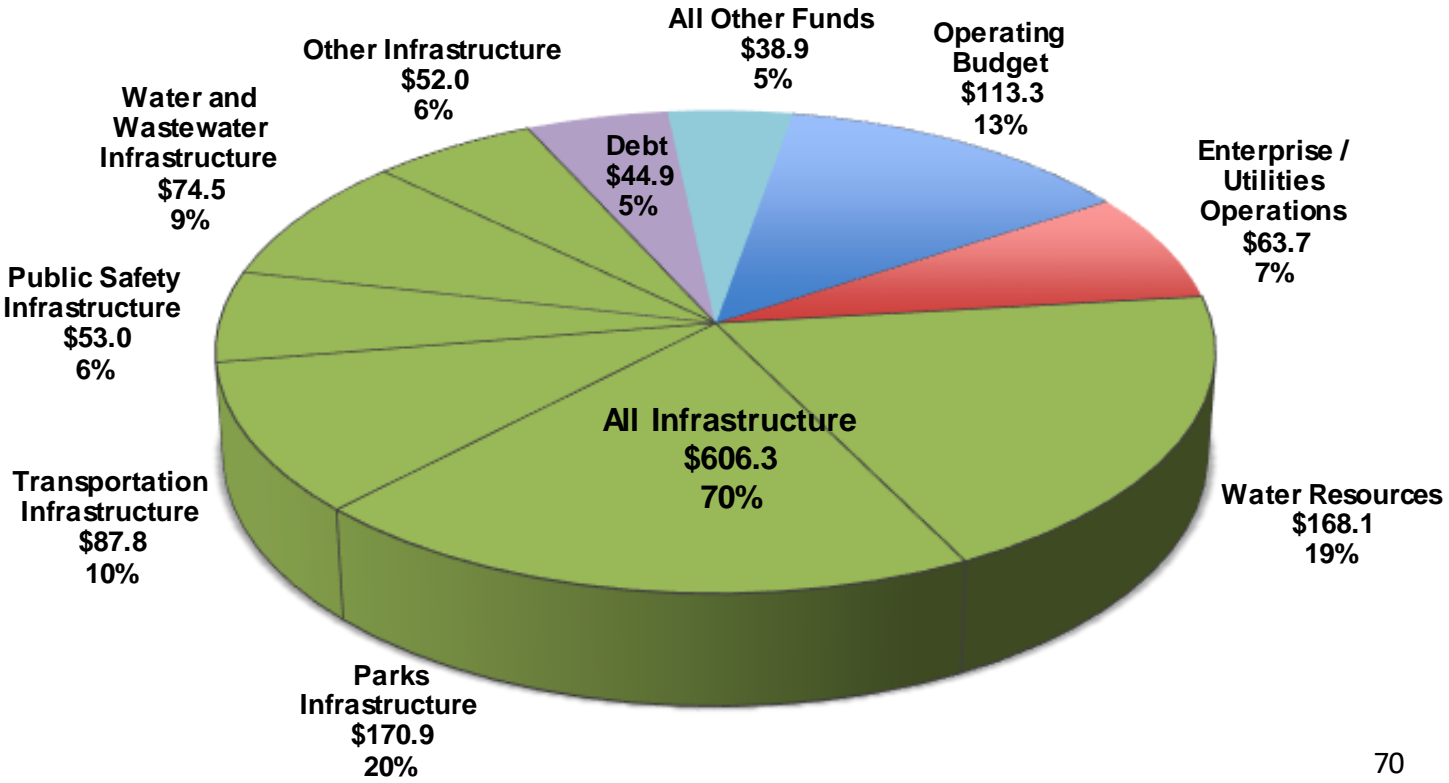
New Infrastructure Estimate: \$2.3B



	Years 1 - 5	Thereafter	Total
Police	\$108M	\$81M	\$189M
Fire	\$38M	\$54M	\$92M
Transportation	\$258M	Pending Master Plan Update	\$258M
Parks	\$217M	\$512M	\$729M
Water	\$320M	\$443M	\$763M
Wastewater	<u>\$111M</u>	<u>\$191M</u>	<u>\$302M</u>
Total	\$1.1B	\$1.3B	\$2.3B

FY 23-24 RECOMMENDED BUDGET

\$867.1M



Infrastructure Budget Summary



	Projects Under Contract	Priority Projects (1)	New Projects	FY 23-24 Tentative Budget
Transportation	\$37.2M	\$50.6M	-	\$87.8M
Parks and Trails	\$0.9M	\$170.0M	-	\$170.9M
Water	\$10.5M	\$38.6M	-	\$49.1M
Wastewater	\$2.3M	\$23.1M	-	\$25.4M
Water Resources	-	\$168.1M	-	\$168.1M
Fire	-	\$17.7M	-	\$17.7M
Police	-	\$35.3M	-	\$35.3M
Municipal Facilities	\$2.0M	-	-	\$2.0M
Contingencies	-	-	\$50.0M	\$50.0M
Total Infrastructure	\$52.9M	\$503.4M	\$50.0M	\$606.3M

(1) See next slide

Priority Projects



	FY 23-24 Tentative Budget
Police Master Plan / Joint PD-Fire Facility	\$53.0M
Parks Master Plan Phase I & Related Projects	\$170.0M
State Lands Infrastructure (Roads, Water, Wastewater)	\$77.2M
Water / Wastewater Projects Funded by Pinal County	\$35.1M
Water Resources	<u>\$168.1M</u>
Total	\$503.4M



9. Debt Budgets

Debt

- Debt is Only Issued to Build Infrastructure
- The Issuance of Debt Accomplishes the Financial Objective of Spreading the Cost of Infrastructure over Multiple Generations (Intergenerational Equity)
- Two Types of Debt Outstanding
 1. General Government
 2. Water / Wastewater
- Debt is Paid Using Numerous Sources
 - Impact and Capacity Fees, Operating Budget, Dedicated Revenues, and Rates



Outstanding Debt: General Government

Purpose	Outstanding Amount 6/30/24	% of Total
Parks ⁽¹⁾	\$153.5M	34%
Transportation	\$118.1M	26%
Police ⁽²⁾	\$109.5M	25%
Fire ⁽²⁾	\$49.7M	11%
Library	\$4.0M	1%
Recreation Annex	\$3.4M	1%
HPEC	\$3.2M	1%
Town Buildings	<u>\$3.2M</u>	<u>1%</u>
TOTAL	\$444.6M	100%

(1) Includes \$21.7M new debt expected to be issued in FY 2023-24 for Parks & Recreation facilities.

(2) Includes \$130M new debt expected to be issued in FY 2023-24 (\$108M for PD, \$22M for Fire).

Annual Debt Payments: General Government

Funding Source	FY 23-24 Payment	% of Total Payment
Operating Budget	\$19.4M	80%
Dedicated Transportation Sales Tax	\$1.5M	6%
Town Center Sales Tax	\$0.3M	1%
Transportation Impact Fees	\$0.9M	4%
Fire Impact Fees	\$1.1M	4%
Law Enforcement Impact Fees	\$0.2M	1%
Library Impact Fees	\$0.2M	1%
Town Building Impact Fees	\$0.3M	1%
Parks Impact Fees	<u>\$0.5M</u>	<u>2%</u>
TOTAL	\$24.4M	100%

Annual Debt Payment: Operating Budget

Purpose	FY 23-24 Payment	% of Total Payment
Parks and Recreation	\$8.6M	44%
Transportation	\$5.8M	30%
Police	\$2.8M	14%
Fire	\$1.4M	7%
HPEC	\$0.3M	2%
Town Buildings	\$0.3M	2%
Library	<u>\$0.2M</u>	<u>1%</u>
TOTAL	\$19.4M	100%

Outstanding Debt: Water and Wastewater

Purpose	Outstanding Amount 6/30/24	% of Total
Water – Water Resources ⁽¹⁾	\$264.9M	57%
Water – CIP Infrastructure Projects	\$104.5M	22%
Water – Company Acquisitions	\$60.6M	13%
Wastewater – CIP Infrastructure Projects	\$35.1M	7%
Wastewater – GWRP Buy-in	<u>\$1.7M</u>	<u>0.4%</u>
TOTAL	\$466.8M	100%

(1) Includes \$168M new debt expected to be issued in FY 2023-24 for new water rights.

Annual Debt Payment: Water and Wastewater

Purpose	Total FY 23-24 Payment
Water – Company Acquisitions	\$4.7M
Water – Water Resources	\$3.9M
Water – CIP	\$4.0M
Wastewater – CIP	\$2.3M
Wastewater – Treatment Plant	<u>\$0.4M</u>
TOTAL	\$15.3M



10. Other Major Budgets

Utility Funds

- Three Utility Funds
 1. Water
 2. Wastewater
 3. Solid Waste/ Recycling
- Rates and Fees Pay for Expenses (Not Taxes)
- Size of Service Areas Vary
- Rate Study Underway



Utility Funds (concluded)

	Water	Wastewater	Solid Waste / Recycling
Operating Expenses ⁽¹⁾	\$33.3M	\$8.8M	\$5.3M
Expense Increases	<p>Personnel-Market and Merit</p> <p>4.5 New FTEs</p> <p>Commodity Increases Due to Increased Accounts and Inflation (Electricity, Chemicals)</p>	<p>Personnel-Market and Merit</p> <p>No New FTE</p> <p>Commodity Increases Due to Increased Accounts and Inflation (Electricity, Chemicals)</p>	<p>Personnel-Market and Merit</p> <p>1 New FTE for Environmental Monitoring Programs</p> <p>No Operating Expense Increases</p>

(1) Excludes Capital and Debt Service

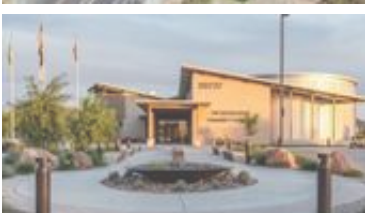
Town Center Fund

- Dedicated 0.25% Sales Tax: \$1.8M Annually
- Dedicated Tax to be Used for Infrastructure and Programming Needs of the Town Center
- Town Center Master Plan to be Updated
 - Constructing Drainage Improvements
 - New Transportation and Utilities Infrastructure (Budgeted Separately in Appropriate Funds)



Contingency Budgets

Purpose	Description	Amount
1. Projects Under Contract	Carryforward of approved contracts into FY 23-24	\$52.9M
2. New Construction Projects	Expenditure authority for new projects or unanticipated CIP costs	<u>\$50.0M</u>
	Total CIP Contingency	\$102.9
4. Grants Contingency	Expenditure authority for potential receipt of grants for PD, Fire, Traffic, Streets, and Trails	\$5.0M
5. Carry-Forward for Long-Lead Items	Expenditure authority for vehicles, equipment, projects and materials ordered in FY 22-23 but will not be received or completed until FY 23-24	\$10.0M
6. Recreation Capital Contingencies	Expenditure authority for possible long-lead items related to the Recreation/Aquatic Center that will be needed before the facility opens in FY 24-25	\$8.0M
7. Operating Contingencies	Expenditure authority for unanticipated operating costs in the Operating Budget and Utility Funds (set at 3% of budgeted expenses)	<u>\$4.4M</u>
	Total FY 23-24 Contingencies	<u>\$130.3M</u>





11. Calendar

Key Budget Dates



Date	Item
February 24-25	Council Strategic Planning Session
March 23	Town Manager Recommended Budget Released
March 27-30	Budget Briefings with Town Council
April 10	Budget Committee Meeting
May 3	Tentative Budget Approval
May 17	Final Budget Adoption
June 7	Property Tax Levy Adopted



12.

Discussion of FY 23-24 Remaining Policy Issues

Outstanding Strategic Financial Policy Issues



1. 'AAA' Bond Rating

- Use of 2% Dedicated Construction Sales Tax
- Update Debt Management Policy
- Update Pension Funding Policy
- Update Operating Budget Reserve Policy

2. New Water Supply Funding

3. New Infrastructure Funding

4. Impact and Capacity Fee Rate Study

5. Utility Rate Study (water, wastewater, solid waste/recycling monthly rates)

6. Initial Utility Bond Rating

7. Funding Infrastructure Replacement

Funding Needs

1. Police Master Plan (Phase 1): \$130M
2. Transportation Master Plan (Supplemental): \$105M
3. Water Supply Acquisition and Related: \$200M
4. Field Operations Center: \$TBD
5. Town Center Infrastructure: \$TBD
6. Horseshoe Park: \$TBD



Remaining FY 23-24 Policy Decisions

REPEAT

1. Consider a New Policy for Sworn Police Personnel Salary Market Increases
2. Consider a New Approach for Budgeting for Construction Projects



1. Sworn Police Personnel Salary Market Increase Policy

Objective: Ensure the salary ranges for Police sworn staff remain competitive within the local market


- Since QCPD started in January 2022, other agencies have aggressively increased compensation for sworn staff
 - Pay ranges, hiring bonuses, retention incentives
- QCPD has implemented bonuses and incentives, but salary ranges for sworn staff are currently at the bottom half of the market comparisons




1. Sworn Police Personnel Salary Market Increase Policy (concluded)




Procedure:



July 1: PD sworn staff receive the same market adjustment as all other Town employees (FY 23-24 = 5%)



October 15th: HR compares QCPD salary ranges to market, identifies increases needed to rank mid-point of QCPD sworn positions in the top three of the market comparisons



January 1: PD sworn staff receive an additional adjustment based on market analysis (FY 23-24 = 4% estimated, \$280K)

2. New Approach Budgeting for Construction Projects

The Issue: The Adopted Budget and the Voter Approved Expenditure Limit are NOT the Same

- Expenditure Limit
 - FY 23-24: \$631M
 - Voter Approved Permanent Base Adjustment in August 2022
 - Calculated Net of “Exclusions”
 - FY 23-24 will be the First Budget Under the New Expenditure Limit
- Adopted Budget
 - Much Larger than the Amount the Town will Ever Spend in One Year
 - Adopted Budget = Spend + Contract Awards
 - Cannot be Increased Once Approved



2. New Approach for Budgeting for Construction Projects (continued)

The Objective: Create a Connection Between the Expenditure Limit and the Adopted Budget

- Two Issues Are Causing the Disconnection
 1. The Large Size of Construction Project Budgets (the Largest Component of the Budget)
 2. State Law Requires “Budget Authority” to Enter Into Construction Contracts ... Even Though the Projects are Built Over Several Years
 - Construction Projects Are Rarely Completed in One Year
 - The Amount of the Construction Projects Carry Forward Continues to Grow



2. New Approach for Budgeting for Construction Projects (concluded)

Recommendation

1. Carry Forward Only Existing Projects Under Contract at June 30
 - Current Practice is to Carry Forward All Previously Approved Projects
2. Not All New Projects Will be Included in Adopted Budget
 - “Priority Projects” Will be Specifically Approved in Adopted Budget
 - “\$50M New Project Contingency” will be Used for “Non-Priority Projects” that are Started During the Year
 - Town Council Approval Required



New Policy Approach



	Current Approach	New Approach	Reduction to Budget
Carry Forward Existing Projects that are Under Contract (excluding "Priority Projects")	\$134.1M	\$52.9M	(\$81.2M)
New Projects / "Priority Projects"	\$566.9M	\$503.4M	(\$63.5M)
Project Contingency	<u>\$50.0M</u>	<u>\$50.0M</u>	_____ -
Total CIP Budget	\$751.0M	\$606.3M	(\$144.7M)
Operating Budgets	<u>\$260.8M</u>	<u>\$260.8M</u>	_____ -
Total FY 23-24 Budget	\$1,011.8M	\$867.1M	(\$144.7M)

Compliance With Expenditure Limit of \$631.4M

		FY 23-24 Tentative Budget
Total Recommended Budget		\$867.1M
Less Exclusions:		
Use of Debt Proceeds (for CIP Projects and Water Resources)	\$398.3M	
Debt Service Requirements	\$44.9M	
Investment Income	\$8.0M	
Amounts Received from State (Infrastructure Reimbursement)	\$30.0M	
Transactions Between Funds (Healthcare Internal Service Fund)	\$9.7M	
HURF Revenues	\$5.3M	
Contracts with Other Local Governments (Pinal ARPA Projects)	<u>\$35.1M</u>	
	Total Exclusions	<u>\$531.3M</u>
Budget Amount Subject to the Expenditure Limit		\$335.8M
FY 23-24 Expenditure Limit, per ADOR		<u>\$631.4M</u>
	Amount Under the Expenditure Limit	\$295.6M

Recommended Motion

Move to Approve the FY 2023-24 Tentative Budget of \$867.1M and Set May 17, 2023 at 6:30 p.m. as the date and time of the Public Hearing for the FY 2023-24 Final Budget as required under Arizona Revised Statutes.

- Sets the Maximum Budget Amount





Discussion and Questions