



TOWN OF
QUEEN CREEK
ARIZONA

FY 22-23

Financial Report

Operating Budget to Actual Performance

Fiscal Year to Date through June 2023

(PRELIMINARY – Unaudited)

Issued September 26, 2023

The information herein is provided for reference only, is not intended to contain information material to a decision to purchase or sell obligations, and does not, and is not intended to, indicate future or continuing trends of the financial condition or other affairs of the Town. No representation is made as to the materiality of such information. Any budgeted information, unaudited information, forecasts, projections, opinions, assumptions or estimates contained herein are "forward looking statements" that must be read with an abundance of caution and may not be realized or may not occur in the future.

Executive Summary

The Town's budget-to-actual performance for FY 22-23 ended with favorable variances for both revenues and expenses. Actual revenues performed well - exceeding expectations by \$6.6M, or 5%. This is mainly the result of Sales Tax, Construction Sales Tax, and State-Shared Revenues all performing better than expected due to continued residential and commercial growth in the Town and a strong Arizona economy. Compared to the prior year, total revenues increased \$21.3M, or 19%; excluding Construction Sales Tax, total revenues increased \$19.1M, or 20%.

The FY 22-23 budget originally included an estimate of 1,786 new single-family permits and 541 multi-family units, for a total of 2,327 residential units. In February 2023, the Town lowered the single-family permit estimate to 600 units, for a revised total estimate of 1,141 residential units. At the end of the fiscal year, the Town had issued 862 single-family building permits and 678 multi-family units, for a total of 1,540 residential units, or 399 more units (35%) than the revised estimate. Because we estimate that the same number of people live in a multi-family unit as a single-family home, the multi-family portion of the Town's population has become a noticeable reason for our continued revenue growth. This growth continues to drive higher revenues, especially sales tax and state-shared revenues.

Total expenses for the year were \$16.0M, or 15% below budget. This favorable variance comes from a combination of vacancy savings in personnel costs and savings in several expenditure categories including street repair and maintenance, software support services, employee uniforms and training, and minor equipment. A significant amount of this variance (\$7.4M) represents remaining balances left on active contracts and unfilled capital equipment orders that will be carried forward into the next fiscal year's budget when the monies will actually be spent.

The Revised Operating Budget anticipated that annual revenues would exceed expenses (before transfers) by \$18.4M. However, because actual results were better than expected, revenues exceeded expenses by \$41.1M, resulting in a positive variance of \$22.7M, or 123%. After transfers, net operating results produced an increase of \$23.9M to fund balance.

The Operating Budget ended the fiscal year with a record-high fund balance of \$137.9M as follows:

- \$37.2M in the 25% Operating Reserves
- \$41.4M in PSPRS and ASRS pension reserves
- \$2.0M restricted for road maintenance projects funded by HURF revenues
- \$1.5M in the newly created Road Replacement reserve
- \$7.4M required to cover FY 22-23 carry-forward contracts and purchase orders
- \$48.3M unreserved fund balance

While the national media focus on GDP, Federal Reserve policies, the stock market, and talk of a possible recession, the Arizona economy remains diversified with strong fundamentals and low unemployment. Still, inflation and rising interest rates are impacting the local and regional housing markets in ways not seen in years. Single-family housing has slowed significantly compared to last year; however, the lack of inventory of existing homes for sale has kept demand for new builds stable. Also, new multi-family developments continue to bring new residents to Queen Creek. Until a few years ago, most of our population growth came from single-family homes. Recently, this has changed as we are experiencing significant construction of multi-family homes. We expect this trend to continue for the construction of apartments, condos, townhomes and similar multi-family products.

Total population growth will continue to drive new commercial development and maintain the Town's steady revenue growth. Pages 10-12 of this report contain economic indicators and housing market data that staff is following closely.

Operating Budget

The Operating Budget includes activity in the General, Streets (HURF), Emergency Services, and Horseshoe Park Equestrian Center (HPEC) funds. The schedule below is a summary of the FY 22-23 Operating Budget results. Actual revenues were above expenses by \$41.1M due to strong revenue growth and expense savings. Additionally, \$11.7M was transferred from the Operating Budget to cover scheduled debt service payments, and another \$5.4M was transferred to cover expenses for a new fire truck, capital improvements at the Field Operations Facility, and pay-as-you-go funding for transportation projects.

The revised expense budget reflects \$3.9M that was carried forward from the previous fiscal year to provide spending authority for various projects and equipment needs. Expense adjustments also include a \$7.0M payment to PSPRS for the Police Pension Plan in December 2022 and \$5.3M for the advanced purchase of vehicles and equipment that were approved in December 2022 and March 2023.

The Town's total Operating fund balance increased \$23.9M and ended the year at \$137.9M, a record high. Of this total, \$41.4M is reserved for pension funding and \$37.2M is reserved for operations based on the Town's 25% Reserve Policy. Notably, both pension reserves are fully funded, representing 100% of the Town's estimated unfunded pension liabilities as of June 30, 2022 – the most recent valuation available.

Other restrictions on fund balance include \$1.5M for the newly created Road Replacement reserve, \$2.0M for future HURF projects, and \$7.4M for carry-forward encumbrances. The remaining fund balance of \$48.3M is available to fund future policy objectives at the direction of the Town Council. Staff is currently preparing policy options and recommendations for the Town Council to consider that may use some of this available fund balance.

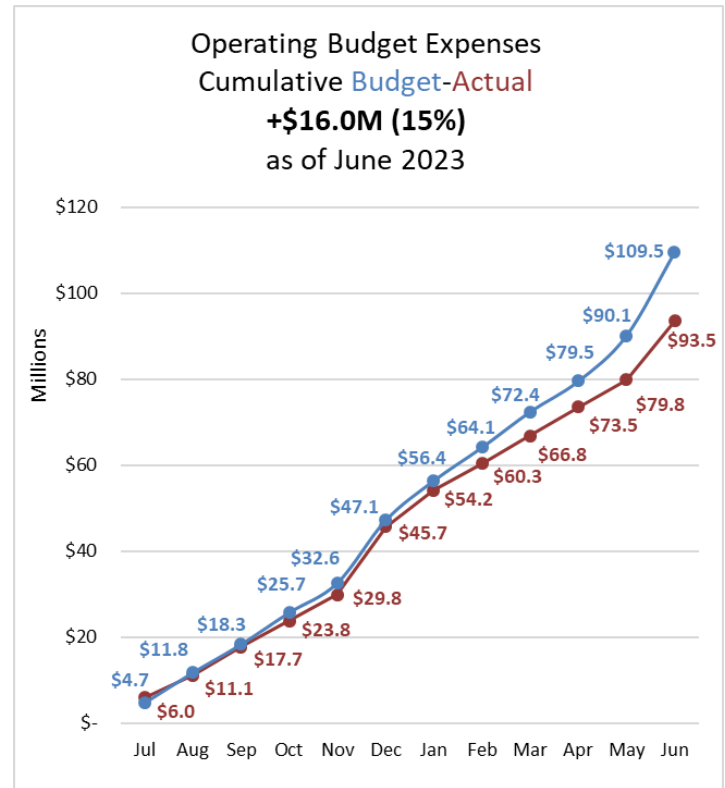
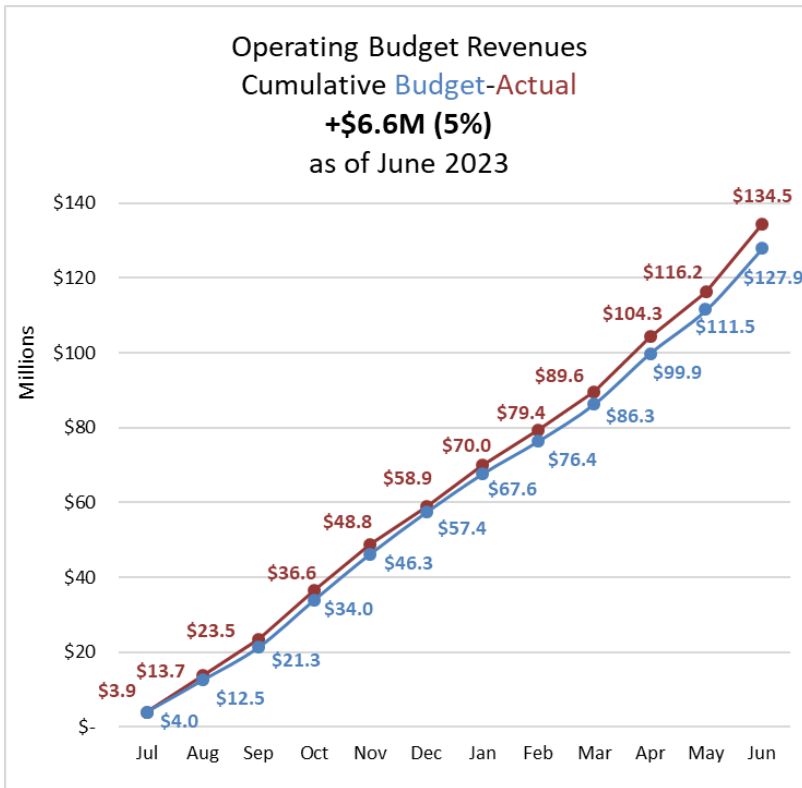
Summary FY 22-23 Operating Budget - June 2023

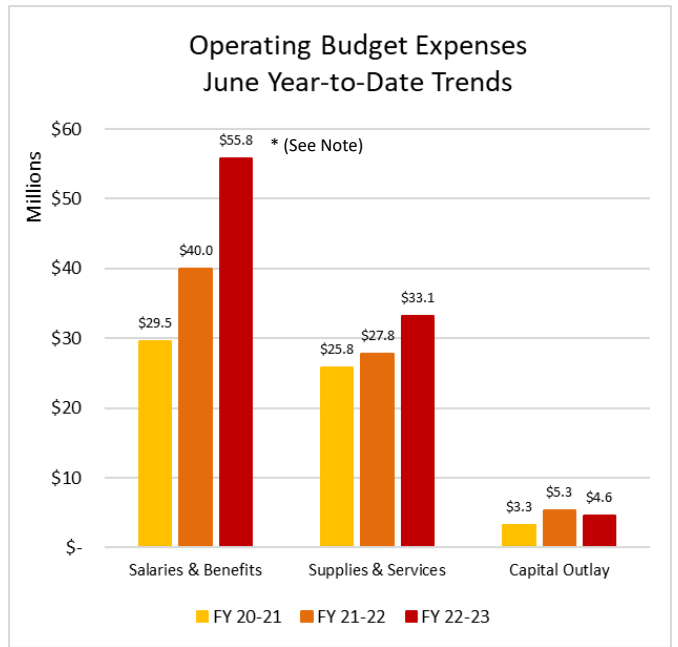
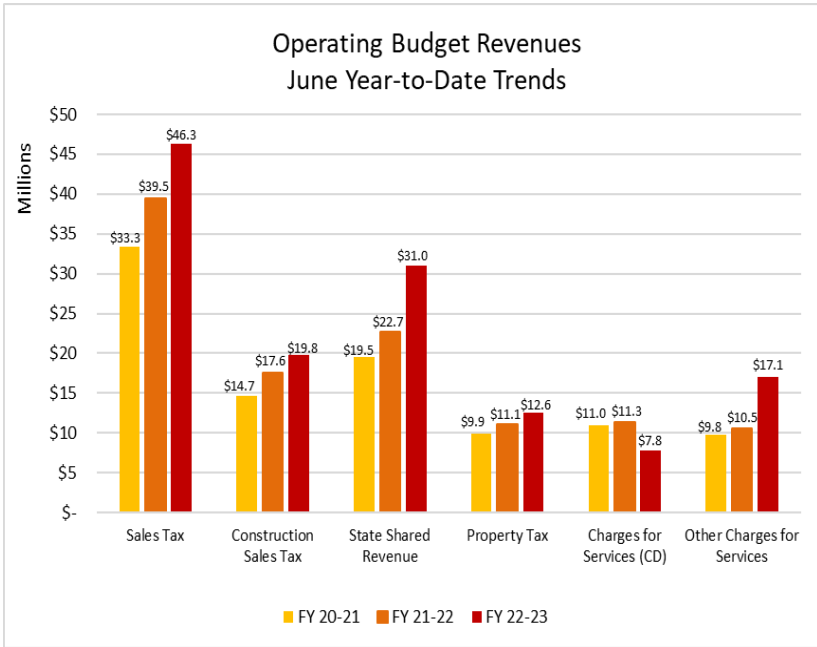
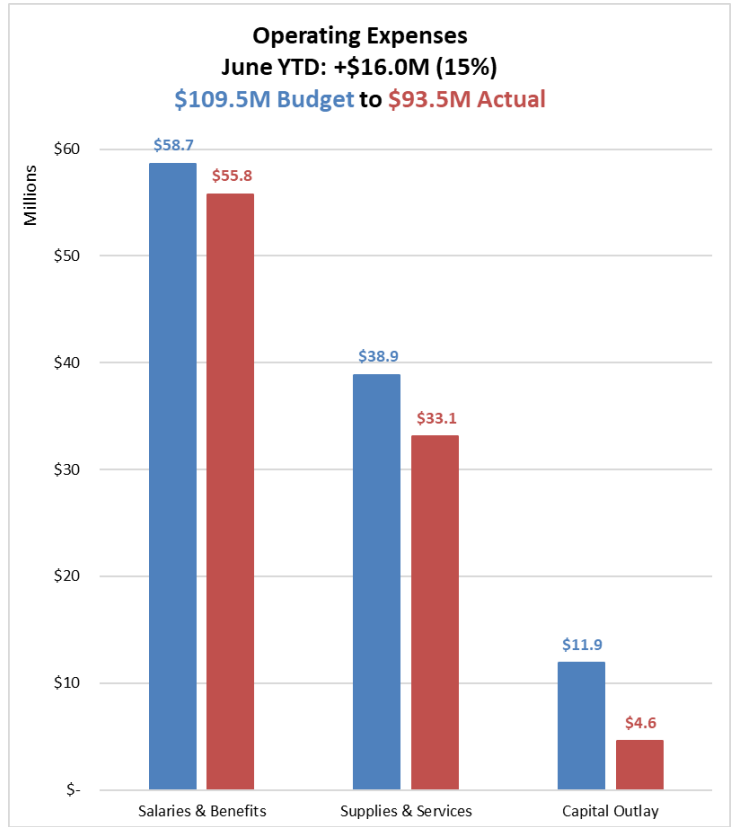
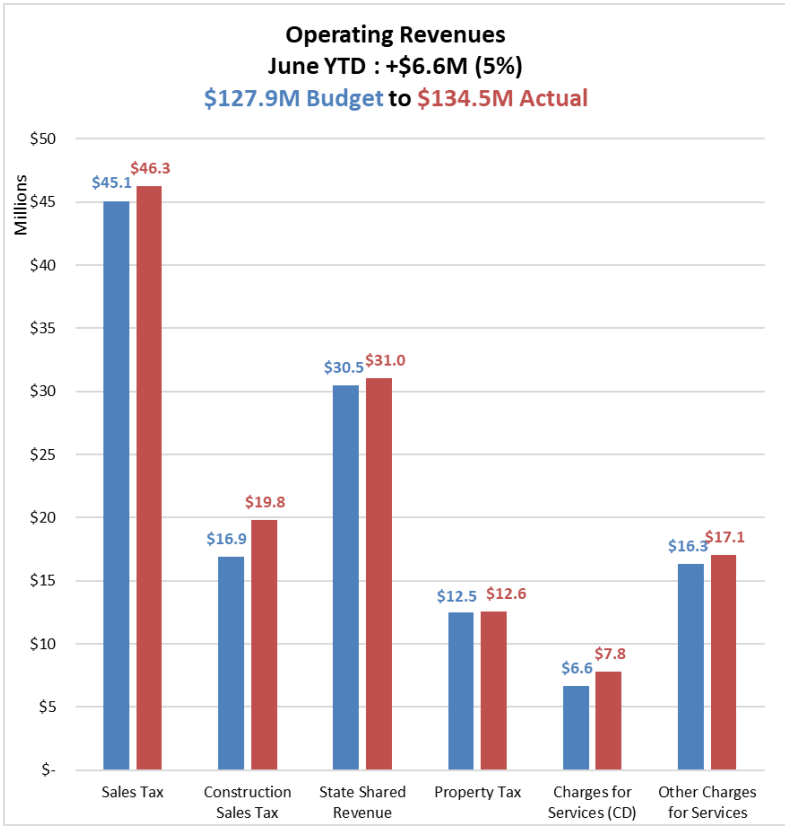
	FY 22-23 Total Adopted Budget	FY 22-23 Total Revised Budget	FY 22-23 Year-to-Date Budget	FY 22-23 Year-to-Date Actual
Revenues	\$ 118,766,835	\$ 127,861,233	\$ 127,861,233	\$ 134,515,840
Expenses	93,365,045	109,453,448	109,453,448	93,462,017
Operating Results	\$ 25,401,790	\$ 18,407,785	\$ 18,407,785	\$ 41,053,823
Transfers Out:				
Debt Service	\$ 11,686,817	\$ 11,749,287	\$ 11,749,287	\$ 11,739,911
CIP	5,460,000	6,408,695	6,408,695	5,437,488
Net Transfers Out	\$ (17,146,817)	\$ (18,157,982)	\$ (18,157,982)	\$ (17,177,399)
Net Operating Results	\$ 8,254,973	\$ 249,803	\$ 249,803	\$ 23,876,424
Beginning Fund Balance	\$ 96,433,801	\$ 114,063,406		\$ 114,063,406
Ending Fund Balance	\$ 104,688,774	\$ 114,313,209		\$ 137,939,830
25% Revenue Reserve	\$ 32,508,250	\$ 37,184,034		\$ 37,184,034
Police Unfunded Pension Liability Reserve	26,334,929	19,334,929		19,334,929
ASRS Unfunded Pension Liability Reserve	23,607,520	19,069,879		22,128,036
HURF Funds Reserved by Statute	-	-		2,012,517
Road Replacement Funding Reserve	1,500,000	1,500,000		1,500,000
Allowance for Carry-Forward Encumbrances	-	-		7,446,026
Available Fund Balance	20,738,075	37,224,367		48,334,288
Total Fund Balance	\$ 104,688,774	\$ 114,313,209		\$ 137,939,830

FY22-23 Year-to-Date Results - June 2023

	YTD		Variance		Total FY 22-23 Budget	YTD Actual as % of Total Budget
	Budget	Actual	Favorable (Unfavorable)			
Revenues						
Sales Tax	\$ 45,078,237	\$ 46,269,974	\$ 1,191,737	3%	\$ 45,078,237	103%
Construction Sales Tax	16,875,000	19,793,427	2,918,427	17%	16,875,000	117%
State Shared Revenue	30,480,037	31,022,371	542,334	2%	30,480,037	102%
Property Tax	12,470,641	12,582,260	111,619	1%	12,470,641	101%
Charges for Services (CD)*	6,640,000	7,784,952	1,144,952	17%	6,640,000	117%
Other Charges for Services	16,317,318	17,062,856	745,538	5%	16,317,318	105%
Total Revenues	\$ 127,861,233	\$ 134,515,840	\$ 6,654,607	5%	\$ 127,861,233	105%
Expenditures						
Salaries & Benefits	\$ 58,653,408	\$ 55,782,291	\$ 2,871,117	5%	\$ 58,653,408	95%
Supplies & Services	38,869,822	33,124,064	5,745,758	15%	38,869,822	85%
Capital Outlay	11,930,218	4,555,662	7,374,556	62%	11,930,218	38%
Total Expenditures	\$ 109,453,448	\$ 93,462,017	\$ 15,991,431	15%	\$ 109,453,448	85%

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





* Note: The \$55.8M Salaries & Benefits total for FY 22-23 includes a one-time payment of \$7.0M to the PSPRS Police Pension Plan. This payment was approved by the Town Council in December 2022.

Revenue Analysis

For FY 22-23, actual revenues ended with a 5% overall favorable variance compared to budget. The variances of the Revenue Categories are explained below.

Sales Tax

Sales Tax revenue variance was \$1.2M, or 3% above the budget estimate. This positive performance reflects the Town’s continued growth in population and new commercial developments in Queen Creek, as well as the impact of inflation on the prices of taxable items. Based on foot traffic data from Buxton Mobilytics, the rolling annual total visits to the Town Center area (a major shopping area in Town) has increased by about 73% in the last 12 months, including a significant impact from the recent opening of Costco. Also, for the same period, 38% of visits to the Town Center area was made by individuals who live in zip codes outside of the Town (areas such as San Tan Valley, Florence, and Eastmark). Please refer to the Sales Tax Report (Appendix 1) for additional analysis of sales tax activity.

Construction Sales Tax

Construction Sales Tax revenue variance was \$2.9M, or 17% above budget. This positive variance comes from completion of new homes that were permitted several months ago as well as from continued strong commercial construction activity. Also, similar to sales tax, persistent inflation has increased the cost of construction projects, which in turn increases the amount of construction sales tax paid on those projects. Please refer to the Sales Tax Report (Appendix 1) for additional analysis of construction sales tax activity.

State-Shared Revenue

State-shared revenue variance was \$542K, or 2% above the revised budget. This year’s state-shared revenue distributions were noticeably higher than last year due to three factors. First, the state’s income taxes performed much better than expected during the COVID-19 pandemic, and these higher revenues are now being shared with cities and towns based on the statutory formula (per statute, this distribution is based on actual income taxes received by the State of Arizona two years ago). Second, the state as a whole is experiencing better-than-expected performance in taxable sales activity due to Arizona’s growing population and economy. Finally, the Town’s fast-growing population relative to the rest of the state has increased the Town’s proportionate share of distributions for all state-shared revenue categories. To date, the Town’s state-shared revenues are 37% higher than the same period last fiscal year.

Property Tax

Property tax revenue variance was \$112K, or 1% above budget. The Town receives the majority of its property tax distributions in October and November, and the remainder in April and May, due to Arizona’s statutes that allow property owners to pay their annual property taxes in two installments.

Charges for Services – Community Development (CD)

Charges for Services-CD accounts for planning, engineering and building permit revenues. The variance for these revenues was \$1.1M, or 17% above the revised budget estimate, as presented in the following schedule:

June 2023 YTD Community Development Detailed Revenues

Charges for Services (CD)	<u>Revised Budget</u>	<u>Actual</u>	<u>\$ Variance</u>	<u>% Variance</u>
Planning Revenue	\$ 240,000	\$ 201,056	\$ (38,944)	(16%)
Engineering Revenue	1,500,000	1,382,013	(117,987)	(8%)
Building Permit Revenue	4,900,000	6,201,883	1,301,883	27%
Total Charges for Services (CD)	\$ 6,640,000	\$ 7,784,952	\$ 1,144,952	17%

Community Development revenue is tied to new and proposed development activity in the Town for new subdivisions, commercial developments, zoning changes, and annexations. Planning and Engineering revenues were lower than budget due to a handful of multi-family projects that were put on hold by developers. Also, the Town has seen a significant reduction in the number of new single-family building permits compared to recent years. In response, the Town lowered its estimates for Building Permit revenue by \$4.4M (or 47%) in February 2023 based on a revised single-family permit projection of 600 permits (the original projection was 1,786). Actual Building Permit revenue ended the year with a \$1.3M variance, or 27% above the revised (lower) estimate, but was \$2.6M or 46% lower than the prior fiscal year. In total, Community Development revenue was 31% lower than last fiscal year.

Two main factors have affected the housing market this year. First, mortgage interest rates have been increasing since April 2022, moving well above historically low levels of 3% or less and reaching nearly 7% by the end of June 2023. This is a reaction to the Federal Reserve's aggressive hiking of short-term interest rates to combat inflation. Although the Federal Reserve does not set long-term interest rates, home mortgage rates typically react in tandem with Fed policy.

Second, the Phoenix housing market has seen significant price increases in the last two years. The most recent Federal Housing Finance Agency Price Index for the Phoenix-Mesa metro area shows a 5.8% decrease from this time last year, but it jumped 28% the year before during the pandemic buying frenzy. In Queen Creek, the median home price has dropped from \$702,500 a year ago to \$599,400 but remains 12% above the median price of \$539,000, just 18 months prior.

This combination of higher interest rates and higher housing costs remains a challenge for many would-be home buyers. It has also created a shortage of existing homes for sale as current homeowners are reluctant to give up their currently low mortgage rates. Active MLS listings in June were 37% below the same month last year.

This shortage of existing home inventory in the market is helping to buoy demand for new single-family homes. The last four months of the fiscal year saw a rebound in permit activity, bringing the total of single-family permits issued to 862, which is 262 units above the revised estimate. Still, total single-family permits were 51% below last year's total, and the housing market continues to face challenges of inflation, supply chain and labor shortages, and higher borrowing costs for developers and homebuyers.

Multi-family housing has filled some of the gap in single-family activity. For FY 22-23, the Town issued permits for 678 multi-family units, compared to a budget estimate of 541 units. Combined with single-family permits, the Town issued permits for a total of 1,540 residential units. This was 787 units, or 34% below our original projection but 399 units or 35% above the revised (lower) projection of total residential units. Because we estimate that the same number of people live in a multi-family unit as a single-family home, the multi-family portion of the Town's population projection has become more important to monitor. This nuance marks a significant change for the Town whereby both single-family and multi-family development will contribute to our population growth in the future.

Other Charges for Services

Other Charges for Services is comprised of a number of different sources and ended the fiscal year with a \$746K variance, or 5% positive variance. Nearly half of this variance (\$301K) is due to proceeds from

disposal of older vehicles and equipment, which amounts were not included in the adopted budget. Another \$172K of the variance is due to higher than expected revenues from Recreation and HPEC activities. The Town also received \$186K in grant revenue for the Police Department, \$142K in grant revenue for the Streets Maintenance division for a new street sweeper, and \$151K in insurance recoveries from storm damage.

The Other Revenue category includes Investment Income. The adopted budget included an original estimate of \$500K, but with the recent rise in interest rates this estimate was increased in February 2023 to \$2.35M. Actual Investment Income for the fiscal year totaled \$2.2M, which was only \$134K below the revised budget but \$1.8M, or 385% above the amount received last fiscal year.

Utility ROI and Franchise Fees from the Town's Water and Sewer utility operations account for \$3.4M, or 20% of the Other Revenue category. Finally, Departmental Support Revenue accounts for an additional \$4.0M, or 24% of the total revenue in this category.

Economic Indicators

Pages 10-12 of this report include key economic indicators and housing market data that staff is monitoring as we review current revenue estimates against the latest economic news. Other indicators may be added in future reports as we identify those metrics that are most relevant to the Town's revenue forecasts.

Expense Analysis

For FY 22-23, total expenditures ended the fiscal year with a favorable variance of 15% under budget. The variances of the Expenditure Categories are explained below.

Salaries and Benefits

Salaries and Benefits expenses reported a positive variance of \$2.9M, or 5%. Of this amount, \$2.4M is related to 26 new positions for the Fire/Medical Department's ambulance service program that did not begin recruitment until May. One other new position approved in the FY22-23 Operating Budget was also not filled by the end of June. This year the Town has experienced some difficulty filling positions due to low unemployment and a scarcity of qualified candidates in the current job market. The remaining budget variance is due to turnover in staff positions. At the end of June, the Town had 12 vacancies related to staff turnover in the Operating Budget.

Supplies and Services

The Supplies and Services category reported a positive variance of \$5.7M, or 15%. About \$1.3M of this savings is in the HURF Fund due to delays in project designs as well as continued contractor supply chain and labor shortage issues that have hampered the Town's ability to start road repair and maintenance projects on schedule. Another \$1.7M in savings comes from the Police Departments' operating supplies, software, uniforms, and related gear due to employee vacancies. Another \$651K of savings is in the IT Department where supply chain challenges have delayed delivery of various equipment purchases and software implementation projects have taken longer than expected to complete. The remainder of the savings comes from several other categories including software support, employee uniforms, personal protective clothing, repair and maintenance, utilities, and minor equipment.

Capital Outlay

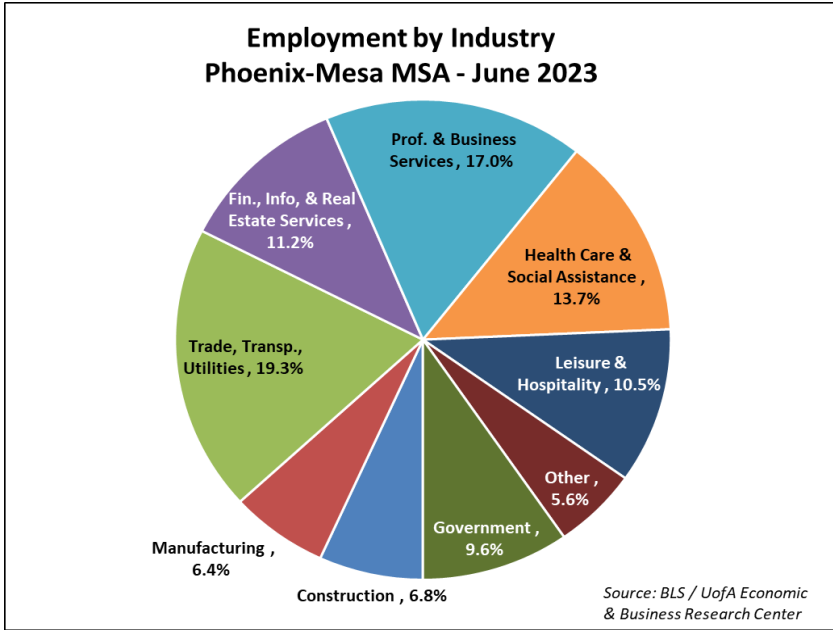
Capital Outlay expenses ended the fiscal year with a favorable variance of \$7.4M, or 62%. The budgets in this category are for one-time purchases related to major equipment and special projects. For nearly two years, vendors for capital items have struggled with supply-chain issues due to lingering effects of the shutdowns during the COVID-19 pandemic. This means the timing of delivery for items such as vehicles and related equipment is often uncertain when items are ordered. Of the total variance, \$6.7M represents items on order that will be carried forward into the new fiscal year.

Outstanding Encumbrances

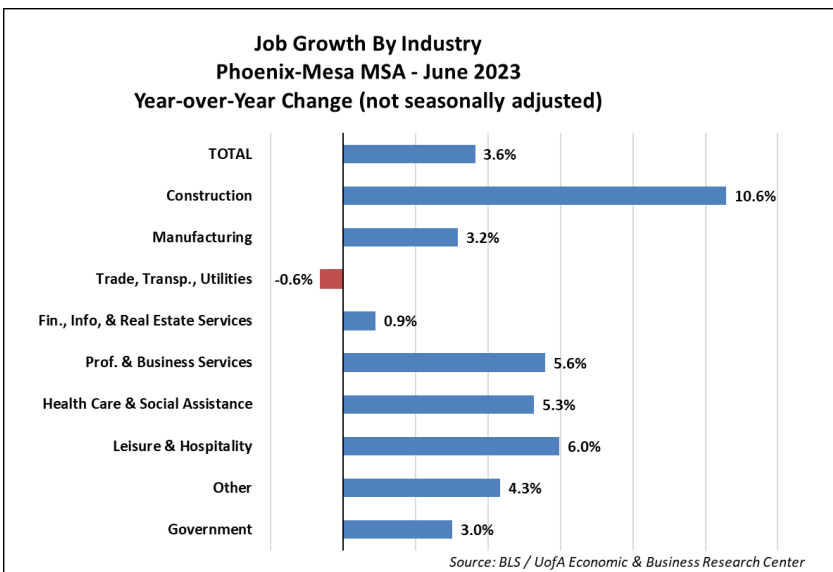
The following schedule displays total expenditures and outstanding encumbrances for the Supplies & Services and Capital Outlay categories. During the year, this data helps gauge the pace at which departments are committing Town funds relative to their total annual budgets. At the end of the fiscal year, the Outstanding Encumbrances amounts represent the purchase orders and contracts that will be carried forward into the next fiscal year.

Expenditure Category:	June 2023 (FY 22-23) Expenses and Encumbrances				
	YTD Actual	Outstanding Encumbrances	Total Actual + Encumbrances	Total FY 22-23 Budget	YTD Spent & Encumbered
Supplies & Services	33,124,064	697,820	33,821,884	38,869,822	87%
Capital Outlay	4,555,662	6,748,206	11,303,868	11,930,218	95%
Total	\$ 37,679,726	\$ 7,446,026	\$ 45,125,751	\$ 50,800,040	89%

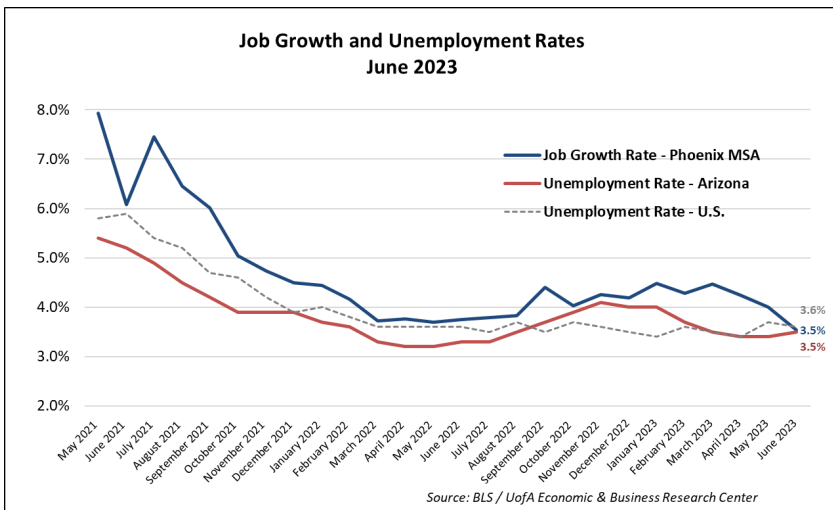
Economic Indicators



This chart shows the relative size of each major employment industry in the region. The Phoenix employment base is reasonably diversified with a healthy mix of industries, meaning the local economy is not overly reliant on one industry to maintain a stable job base.

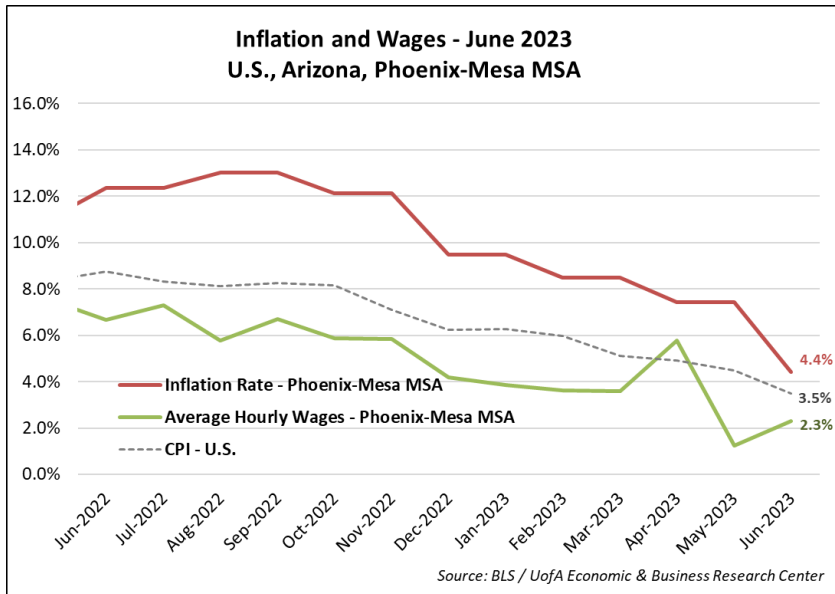


This chart demonstrates which industries have added or lost jobs, compared to the same month one year ago. This information is useful to identify which sectors may be growing or shrinking in the region. In the current environment, we are watching the Construction industry to gauge the impact of a volatile housing market versus continued growth in manufacturing and other industries that demand construction labor. In the last 12 months, all industries have added jobs except the Trade-Transportation-Utilities sector.



This chart tracks the rate at which jobs are being created and lost in the Phoenix metro area. Most economists consider an unemployment rate below 6% as "full employment." Low unemployment reflects a strong and growing economy, which is one factor that can impact future population growth. But a tight labor market puts pressure on wages as employers try to recruit and retain talent. In turn, this can drive inflation on the cost of goods and services.

Economic Indicators



This chart compares the rates of inflation and wage growth to gauge the extent to which wages are keeping up with inflation. Since March 2022 the Federal Reserve has been raising interest rates aggressively in an effort to bring down inflation. Continued inflation has increased sales tax collections to some extent as the prices of taxable goods goes up, but it is also increasing the Town’s cost of goods, services, and construction projects. Persistently high inflation that outpaces income growth can impact households’ spending patterns over time. June wage growth in the Phoenix region was 2.3%. Slower wage growth could help reduce inflation as wages are a key component of prices, but it may affect households’ ability to keep up with the cost of living.

Housing Market Indicators				
	Current	1 Year Prior	1 Year Change	
Home Prices and Affordability				
Federal Housing Finance Agency House Price Index:				
Phoenix-Mesa MSA	588.8	625.1	(5.8)%	
U.S.	397.7	386.0	3.0%	
Median Home Prices:				
Queen Creek	\$ 599,400	\$ 702,500	(14.7)%	
Phoenix-Mesa MSA	\$ 466,332	\$ 485,000	(3.8)%	
Arizona	\$ 510,000	\$ 500,000	2.0%	
U.S.	\$ 406,700	\$ 399,000	1.9%	
Housing Cost vs. Wage Growth:				
30-Year Fixed Mortgage Interest Rate	6.81%	5.30%	--	
Monthly Payment on QC Median Home ⁽¹⁾	\$ 3,112	\$ 3,107	0.1%	
Average Hourly Wage - Phoenix-Mesa MSA	\$ 32.09	\$ 31.37	2.3%	
Real Estate Activity				
SF Homes Sold - Queen Creek	130	87	49.4%	
SF Days on Market - Queen Creek	59	25	136.0%	
SF Homes Sold - Phoenix-Mesa MSA	4,725	4,873	(3.0)%	
SF Active Listings - Phoenix-Mesa MSA	11,412	17,992	(36.6)%	
New Single-Family Building Permits				
Queen Creek	99	133	(25.6)%	
Phoenix / Pinal County Region	1,886	1,787	5.5%	
Queen Creek 12-Month Rolling Total	862	1,767	(51.2)%	
Regional 12-Month Rolling Total	17,960	29,554	(39.2)%	
Source: Freddie Mac / Federal Reserve Bank of St. Louis / UofA Economic & Business Research Center / Redfin / QC Development Services				

These data points indicate how the price and volume of housing activity are changing in Queen Creek and the Phoenix Region.

Home Prices and Affordability – These factors measure the increase in the price of existing homes and the impact of higher interest rates. Price appreciation and rising mortgage rates have significantly increased the baseline monthly payment on a home in Queen Creek since last year. Wage growth in the area has not matched this rate of increase. As a result, some buyers are no longer able to afford a house in Queen Creek.

Real Estate Activity – These data points track the volume of existing home sales in Queen Creek and the Phoenix region. Trends in Queen Creek are following regional trends.

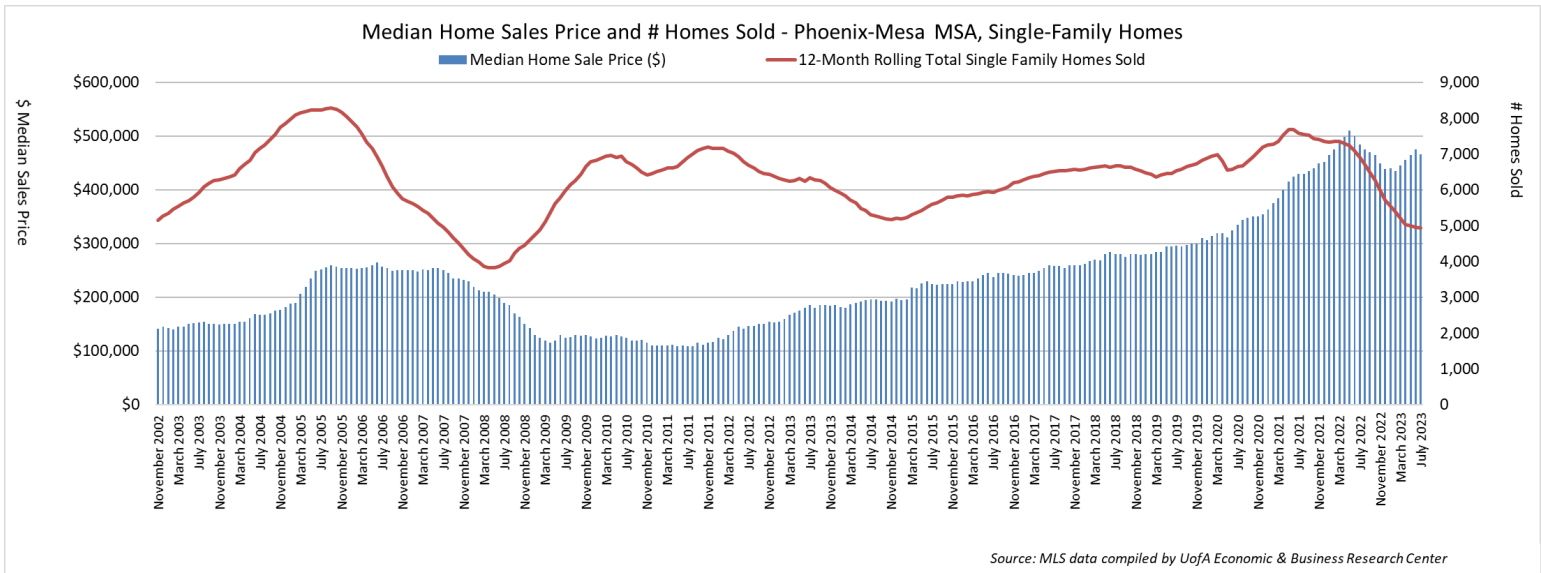
New SF Building Permits – The latest data show a drop in new home construction across the entire region, showing that Queen Creek’s experience is similar to neighboring communities.

⁽¹⁾ Assumes 20% down, 30-year conventional mortgage

Economic Indicators

Historical Single-Family Housing Prices and Sales

This chart provides a 20-year history of existing single-family home prices and sales volumes in the Phoenix Metro area. Two decades of data are provided to give context and order-of-magnitude perspective to the current market compared to prior periods of growth and contraction, including the historical downturn of 2008-2010. This chart shows a rapid acceleration in existing home prices at the onset of the COVID-19 pandemic in March 2020 and then a drop in prices and volume since long-term interest rates began rising in April 2022. The drop in sales of existing homes reflects both higher costs of buying a home and a shortage of available inventory. However, lower inventory of existing homes can be a major factor that booms new home construction in the region.





TOWN OF
QUEEN CREEK
ARIZONA

FY 22-23 Year-to-Date Sales Tax Report

FY 22-23 Business Activity through May 2023*

(Unaudited)

Issued August 2023

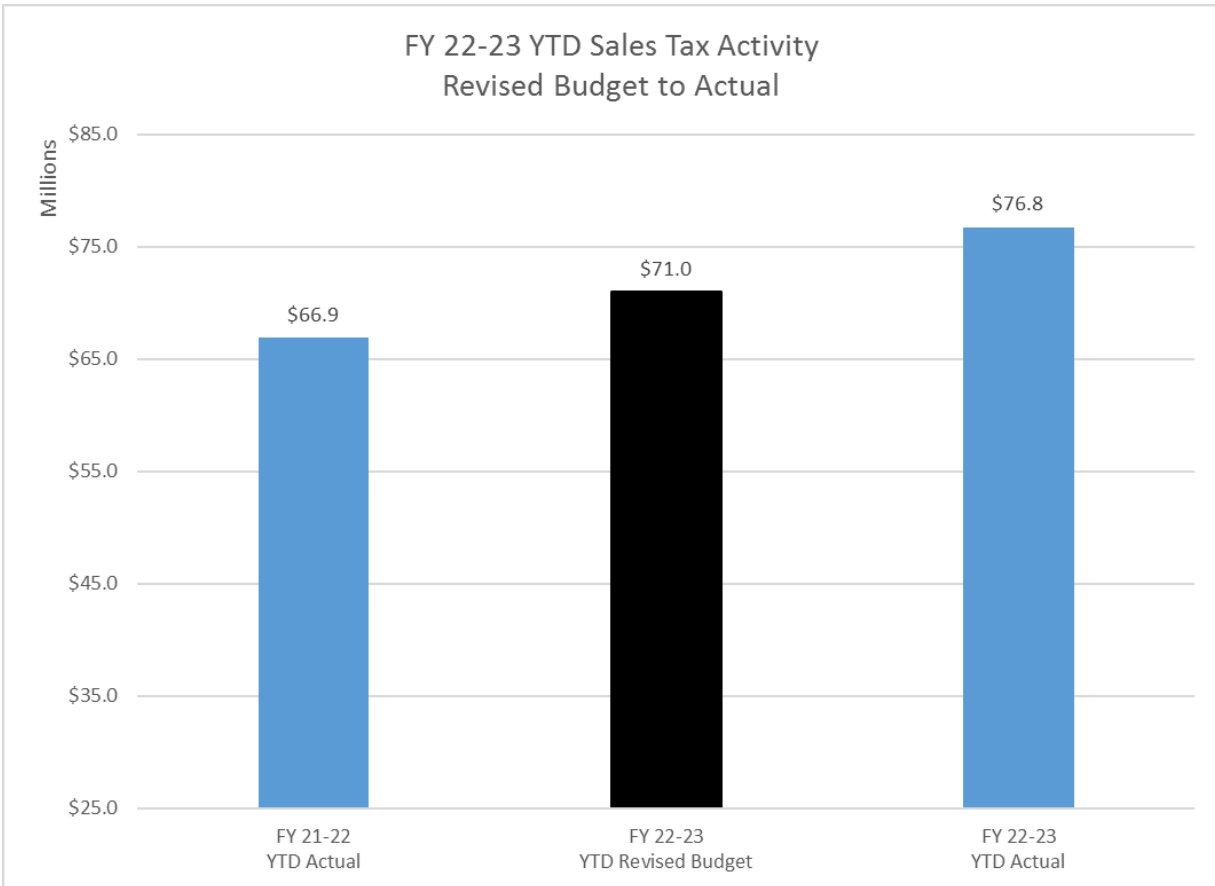
This report contains information regarding the actual revenue collections from the Town's 2.0% sales tax reflected in the General Fund, 0.25% dedicated EMS sales tax, 0.25% Town Center dedicated sales tax and the 2.0% Construction Contracting sales tax dedicated to infrastructure improvements.

The information herein is provided for reference only, is not intended to contain information material to a decision to purchase or sell obligations, and does not, and is not intended to, indicate future or continuing trends of the financial condition or other affairs of the Town. No representation is made as to the materiality of such information. Any budgeted information, unaudited information, forecasts, projections, opinions, assumptions or estimates contained herein are "forward looking statements" that must be read with an abundance of caution and may not be realized or may not occur in the future.

YEAR-TO-DATE FY 22-23 SALES TAX ACTIVITY

OVERALL PERFORMANCE SUMMARY:

The FY23 sales tax revenue year-to-date total of \$76.8M exceeds the revised budget by 8%, or \$5.8M. Relative to the same period in FY 21-22, FY 22-23 actuals are 15%, or \$9.8M higher than the previous year.



Sales Category	FY 21-22 YTD Actual	FY 22-23		FY 22-23 YTD Revised Budget-To-Actual		FY21-22 YTD Actual to FY 22-23 YTD Actual	
		YTD Revised Budget	YTD Actual	\$ Variance	% Variance	\$ Increase	% Increase
Construction	\$ 29,546,838	28,560,244	33,069,185	4,508,941	16%	\$ 3,522,347	12%
Retail Trade	\$ 25,416,655	31,159,243	31,342,995	183,752	1%	5,926,340	23%
Communications & Utilities	\$ 1,953,790	2,133,557	2,202,689	69,132	3%	248,898	13%
Restaurant & Bar	\$ 4,881,530	5,442,498	5,569,691	127,193	2%	688,161	14%
Real Estate, Rental & Leasing	\$ 2,388,134	2,739,008	3,018,172	279,164	10%	630,038	26%
All Others**	\$ 2,749,136	937,508	1,558,331	620,823	66%	(1,190,805)	(43%)
Totals	\$ 66,936,083	\$ 70,972,057	\$ 76,761,062	\$ 5,789,005	8%	\$ 9,824,979	15%

**All Others includes transportation, wholesale trade, finance and insurance, services, arts and entertainment, and other categories. The large negative change from FY21-22 to FY22-23 is due to the Use Tax collections moving from All Others to the Retail Trade sales category.

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

ANALYSIS

Town of Queen Creek sales tax collections are positively impacted by the high incomes of Town households. Per the 2021 American Communities Supplemental Survey data provided by the U.S. Census, Queen Creek's median household income is \$121,262, which is among the highest in the region for full-service cities and towns.

The Town is subscribed to Buxton Mobilytics, a platform that analyzes consumer foot traffic from mobile devices and provides customized reports for different geographical areas and time periods. This subscription is being used to monitor the number of visits to commercial developments within the town and compare current foot traffic with prior periods. When looking at data from June 2022 through May 2023, the number of visits to the Town Center area increased by about 75%. A further discussion of this data can be found in the Retail Trade section.

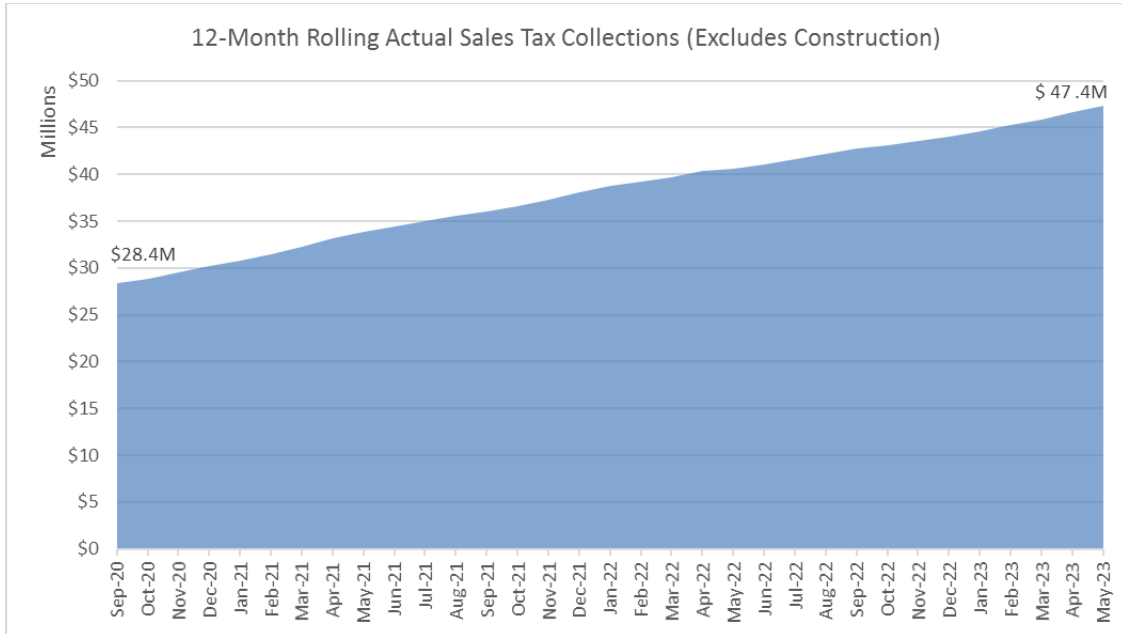
Additionally, taxable spending from an estimated 100K+ population from Eastmark master-planned community (Mesa) and unincorporated San Tan Valley has a significant impact on the Town's sales tax revenues. According to Mobilytics, approximately 37% of visits to the Town Center area from June 2022 through May 2023 were from individuals living in zip code 85142. An additional 36% of visits to the Town Center during the same time period were made by individuals living in zip codes covering San Tan Valley, Florence, and Eastmark.

May sales tax collections in FY 22-23 were higher than in FY 21-22. The strong levels of sales tax collections can be attributed to the continuing growth in population due to development both within the Town and in surrounding areas, new businesses continuing to open, and the Town's ability to collect sales taxes on e-commerce transactions.

In the past year, inflation levels have impacted the price of goods. The higher prices of goods are anticipated to cause further increases in sales tax collections for the Town for the foreseeable future, but only to a point as local wages are not currently keeping up with inflation. Higher prices with little increase in income may force households to cut back on spending in some areas over time.

HISTORICAL 12 MONTH ROLLING PERIODS

The following section contains a 12-month rolling historical actuals chart for the sales tax base (everything except construction). This chart is useful to identify the overall data trends since FY21 in all sales tax categories, excluding construction. 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.



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.

May 2023 Actuals: \$3.7M

FY 22-23 YTD Actuals: \$33.1M

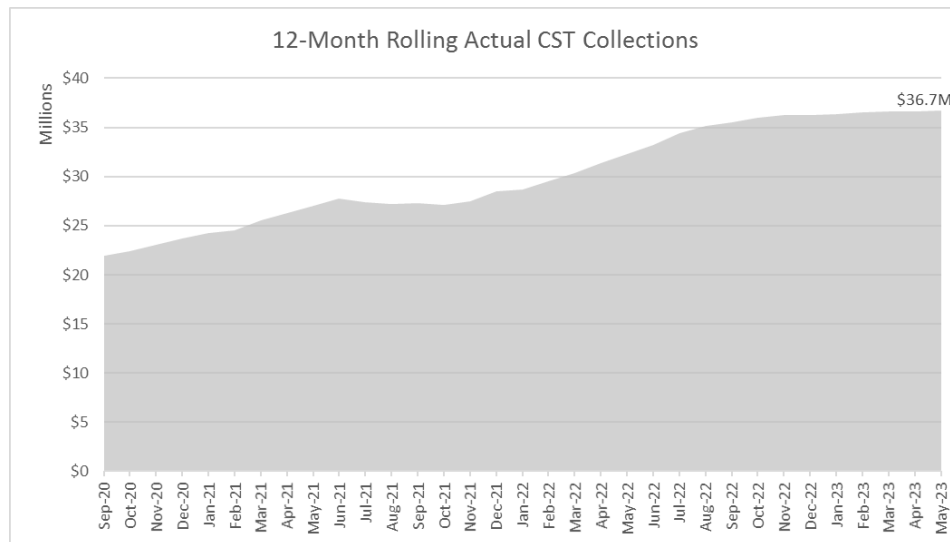
FY 22-23 YTD Revised Budget to Actual Variance of \$4.5M or 16%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$3.5M or 12%

FY 22-23 collections are higher than the FY 22-23 revised budget and the prior fiscal year actuals through May activity.

Sales Tax Discussion

Performance in construction contracting has been largely dependent in recent years on new home sales and in particular, the large-scale homebuilders. Homebuilders have been impacted by supply chain issues stemming from the COVID-19 pandemic and increasing home prices throughout the greater Phoenix region. Additionally, rising interest rates are also impacting affordability, resulting in reduced demand for new homes. Despite reduced demand for new single family homes, the 12-month rolling sales tax collections from construction contracting has grown since FY21, which can be seen in the following graph.



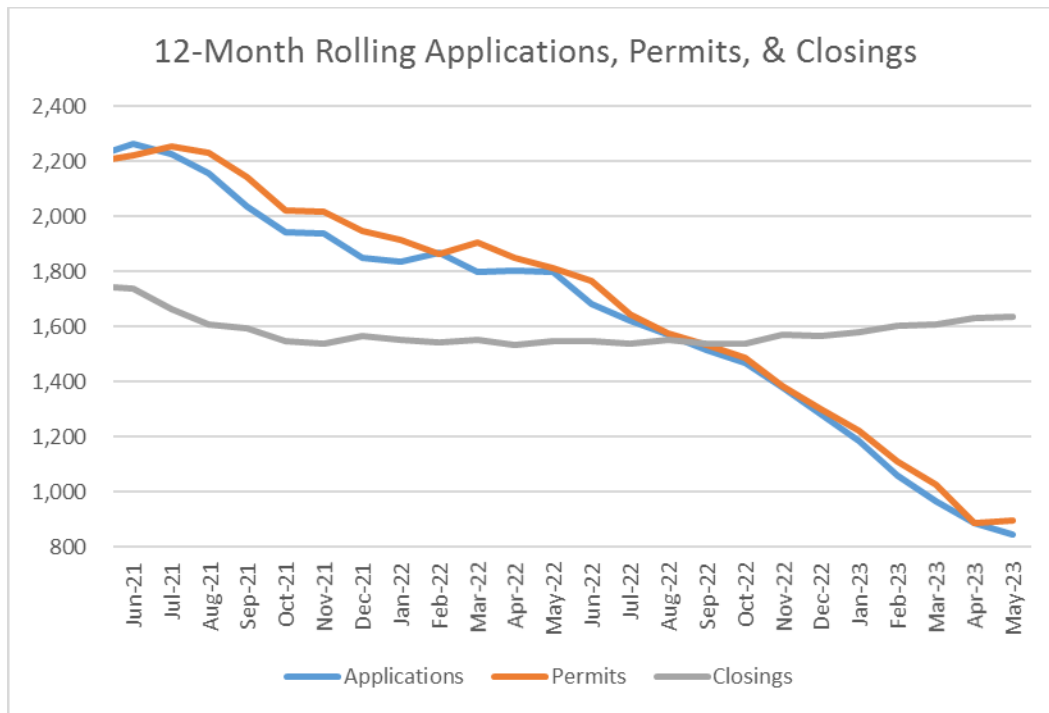
Though known major homebuilders accounted for the majority of construction contracting sales tax revenues for the month of May, construction of multi-family and commercial developments is responsible for a growing share. As seen below, the share of construction sales tax revenues coming from non-homebuilders has grown in the past few years. This shows that despite lower demand for single family homes since July 2022, multi-family and non-residential activity is remaining strong and making up the difference in construction sales tax revenues.

Appendix 1: Queen Creek Monthly Sales Tax Report

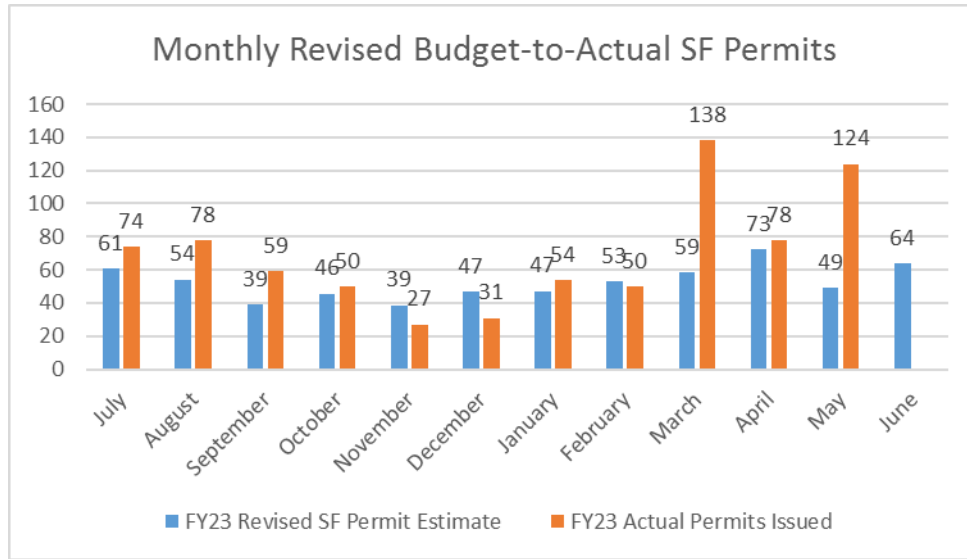
Business Type	FY21 YTD Actuals		FY22 YTD Actuals		FY23 YTD Actuals	
	Sales Tax (\$)	% of Total	Sales Tax (\$)	% of Total	Sales Tax (\$)	% of Total
Homebuilders	\$19.6M	78%	\$20.8M	70%	\$21.3M	64%
Gen. Contractors, Pool/ Landscape, & Other Specialized Trades	\$5.4M	22%	\$8.8M	30%	\$11.8M	36%
Total	\$25.0M	100%	\$29.6M	100%	\$33.1M	100%

New Single Family Home Applications, Permits, and Closings

Town staff is also monitoring single family home permit applications, permit issuances, and closings to better understand how the aforementioned factors are impacting the Town’s single family home market. The following graph displays new single-family home (NSF) applications, permits issued, and home completions over a rolling 12-month period dating back to June 2021:



Appendix 1: Queen Creek Monthly Sales Tax Report



As seen in the graphs above, the 12-month rolling applications and permits have decreased steadily over the past year, but saw a rebound at the start of 2023. In February 2023, the FY 22-23 permit estimate of 1,786 was revised down to about 600 in order to account for the slowdown in single family permitting so far this fiscal year. Compared to the revised budgeted monthly permit issuance for FY23, actual permits issued have been about 135% of the revised budget year-to-date. Overall, the Town made up 5.8% of total NSF permits issued in the greater Phoenix area in May. The rolling 12-month closings have stayed relatively consistent over the past year.

New Home Closings and Prices

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 133 new home sales close in the month of May with an average sales price of \$750K for these homes. The following table shows the monthly closings by builder, average sale price and estimated gross revenue for the month of May for permits issued within the Town.

Appendix 1: Queen Creek Monthly Sales Tax Report

BUILDER	# CLOSINGS	AVG. SALE PRICE	EST. GROSS REVENUE
SHEA HOMES	20	\$ 782,561	\$ 15,651,225
MARACAY HOMES	16	\$ 710,433	\$ 11,366,930
TAYLOR MORRISON	15	\$ 930,036	\$ 13,950,542
WILLIAM LYON HOMES	15	\$ 552,079	\$ 8,281,181
FULTON HOMES	13	\$ 678,399	\$ 8,819,181
BEAZER HOMES	10	\$ 569,446	\$ 5,694,455
TOLL BROTHERS	9	\$ 1,398,248	\$ 12,584,228
LENNAR HOMES	8	\$ 491,115	\$ 3,928,920
RICHMOND AMERICAN	6	\$ 743,092	\$ 4,458,550
PULTE HOMES	4	\$ 561,573	\$ 2,246,290
GEHAN HOMES	4	\$ 593,923	\$ 2,375,690
DAVID WEEKLEY HOMES	3	\$ 931,000	\$ 2,793,000
ELLIOTT HOMES	3	\$ 908,462	\$ 2,725,386
CRESLEIGH HOMES	3	\$ 547,044	\$ 1,641,131
PROVIDENCE HOMES	1	\$ 1,449,000	\$ 1,449,000
MISC CUSTOM	1	\$ 1,040,000	\$ 1,040,000
WOODSIDE HOMES	1	\$ 411,990	\$ 411,990
MERITAGE HOMES	1	\$ 590,000	\$ 590,000
GRAND TOTAL	133	\$ 751,938	\$ 100,007,699

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. Use tax is also included in this category.

May 2023 Actuals: \$3.0M

FY 22-23 YTD Actuals: \$31.3M

FY 22-23 YTD Revised Budget to Actual Variance of \$184K or 1%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$5.9M or 23%

FY 22-23 YTD collections in the retail category were equal to the FY 22-23 revised budget and slightly higher than prior year actual collections. The large increase between the FY 22-23 and FY 21-22 actuals can be partially attributed to the movement of use tax collections (business codes 29 and 30) from the Other category to the Retail Trade category starting in FY 22-23.

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 May, the top 20 payers of 5,750 total payers in the retail category delivered 64% of the revenue. The top 10 payers in the category account for 55% of the total.

According to data from Buxton Mobilytics, the rolling annual total visits to the Town Center area have increased by about 75% between June 2022 and May 2023. The Town Center area includes large shopping centers in town such as Queen Creek Marketplace, QC District, Cornerstone at Queen Creek, Terravella, and Queen Creek Crossing (Costco development). The large increase in visits year-over-year can be attributed to the opening of Costco in January 2023, the increase in population in Queen Creek and the surrounding area, and continued traffic from Eastmark, San Tan Valley, southeast Gilbert, and Florence. Additionally, visits to the QC Town Center for the month of May 2023 were up approximately 50% from

Appendix 1: Queen Creek Monthly Sales Tax Report

the prior month. This growth may be attributed to the opening of Dave & Busters in Queen Creek Marketplace in mid-May.

High inflation has a direct impact on the collections in the retail category. Retail sales tax collections increase as prices rise, but collections are also impacted by changes in consumer behavior that may come as a result of those increased prices (buying less items, switching to generic brands, etc.).

Of the total retail sales tax activity in May, at least \$465K, or 15%, is estimated to come from e-commerce transactions. May 2023 e-commerce sales tax collections are 9% higher than collections in May 2022.

COMMUNICATIONS/UTILITIES:

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

May 2023 Actuals: \$222K

FY 22-23 YTD Actuals: \$2.2M

FY 22-23 YTD Revised Budget to Actual Variance of \$69K or 3%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$249K or 13%

Year-to-date collections in the communications/utilities category are slightly higher than the revised FY 22-23 budget and prior year collections.

RESTAURANTS & BARS:

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

May 2023 Actuals: \$523K

FY 22-23 YTD Actuals: \$5.6M

FY 22-23 YTD Revised Budget to Actual Variance of \$127K or 2%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$688K or 14%

This category is slightly above the current year revised budget and prior year actual collections. Performance in this category has been strong for existing restaurants and bars and new establishments continue to open in the Town.

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.

May 2023 Actuals: \$294K

FY 22-23 YTD Actuals: \$3.0M

FY 22-23 YTD Revised Budget to Actual Variance of \$279K or 10%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$630K or 26%

This category's collections are above the revised budget and prior year collections. This can be attributed to the continued development of commercial and residential properties that have become available for

Appendix 1: Queen Creek Monthly Sales Tax Report

rent to tenants this year. Additionally, an increase in rent prices may contribute to the year-over-year increase.

ALL OTHER CATEGORIES:

The categories included here are transportation, accommodations, manufacturing, wholesale trade, finance and insurance, services, and arts and entertainment.

May 2023 Actuals: \$99K

FY 22-23 YTD Actuals: \$1.6M

FY 22-23 YTD Revised Budget to Actual Variance of \$620K or 66%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of (\$1.2M) or (43%)

This category is above the current year revised budget and lower than prior year actual collections. The year-to-date total in this category increased dramatically due to large lump-sum payments made by a single taxpayer in recent months. The negative trend between FY21-22 and FY22-23 is attributed to removing use tax collections from the Other category and moving it to the Retail Trade category.

Of the existing categories in the All Other category, the arts and entertainment and services categories have performed better than anticipated due to the opening of new businesses and strong performance of these types of businesses in the Town.

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:

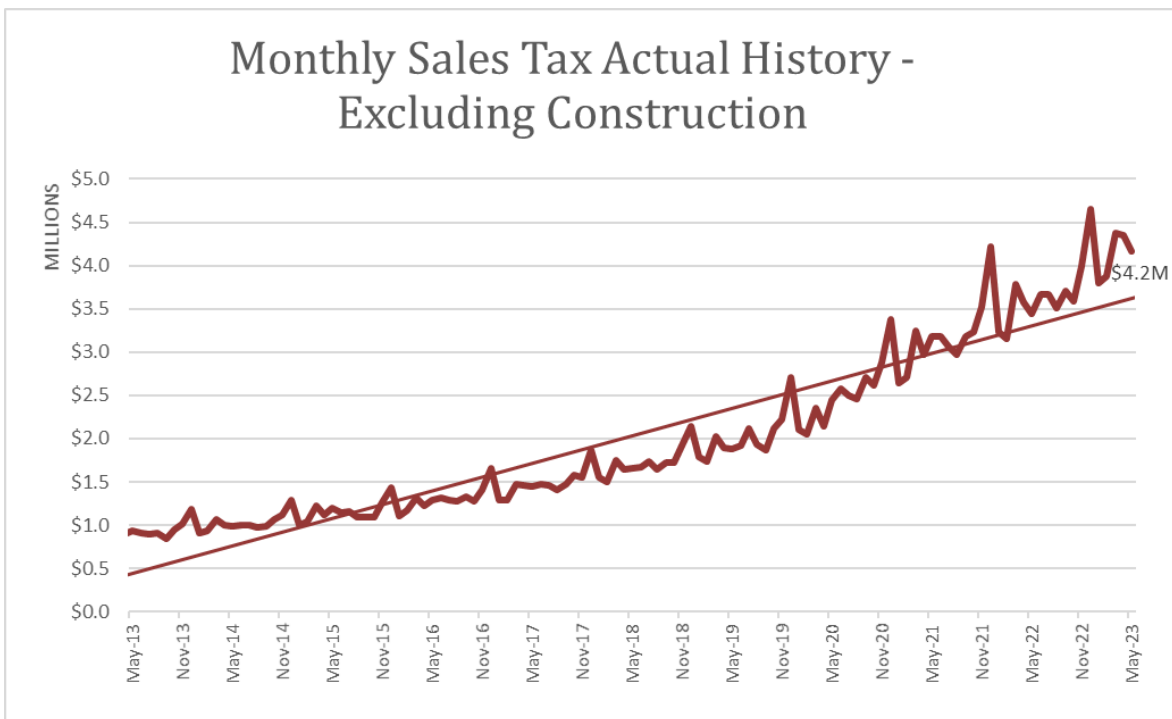
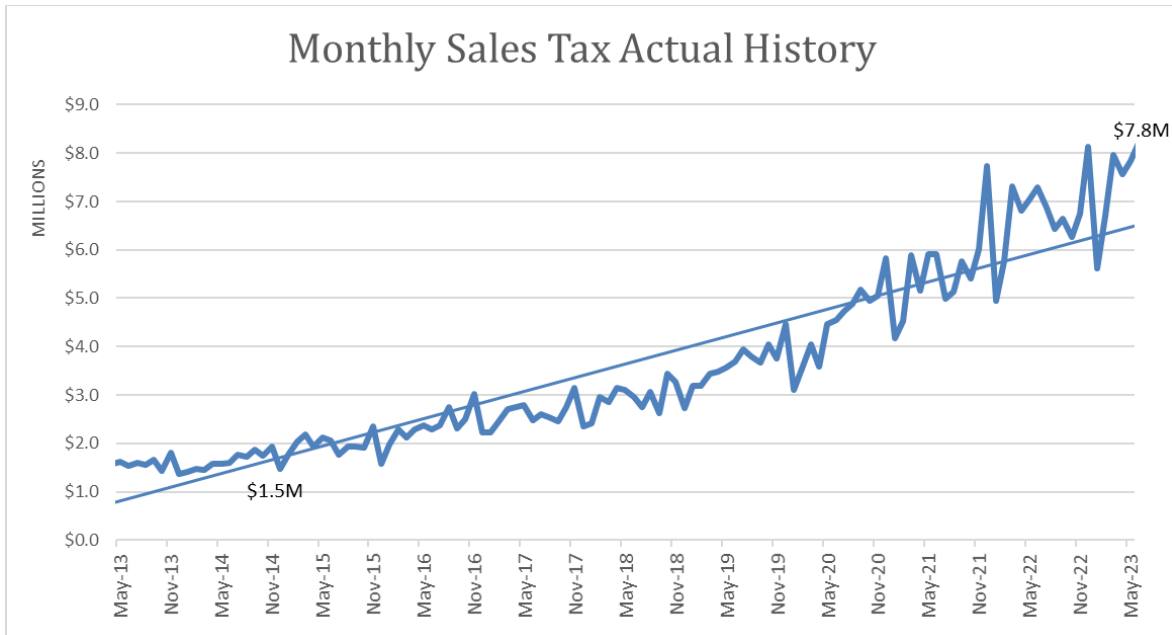
- 2.0% tax rate charged on all taxable activities within Town limits
 - Dedicated to the General Fund for general purpose government operations
- 0.25% tax rate charged on all taxable activities within Town limits
 - Dedicated to the Emergency Services (EMS) Fund to fund law enforcement and fire and 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%

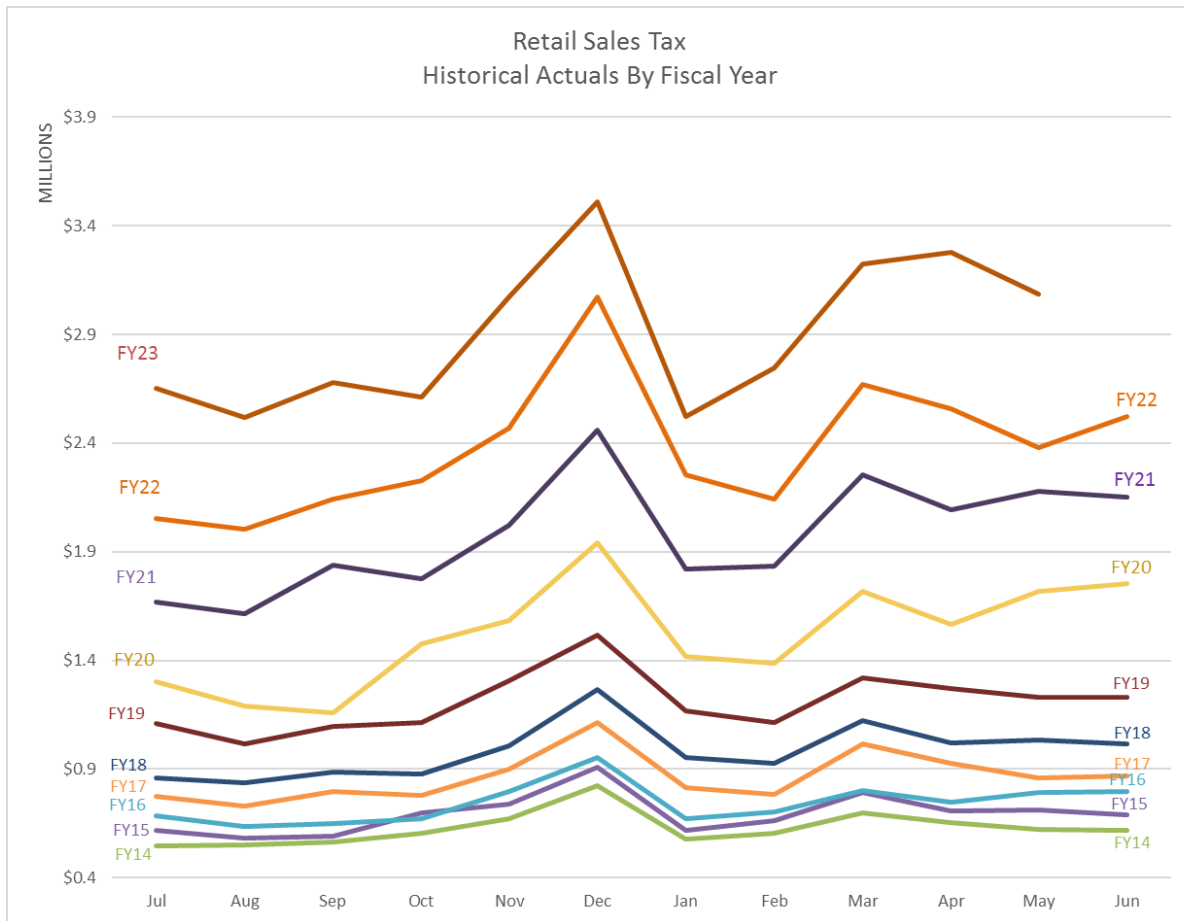
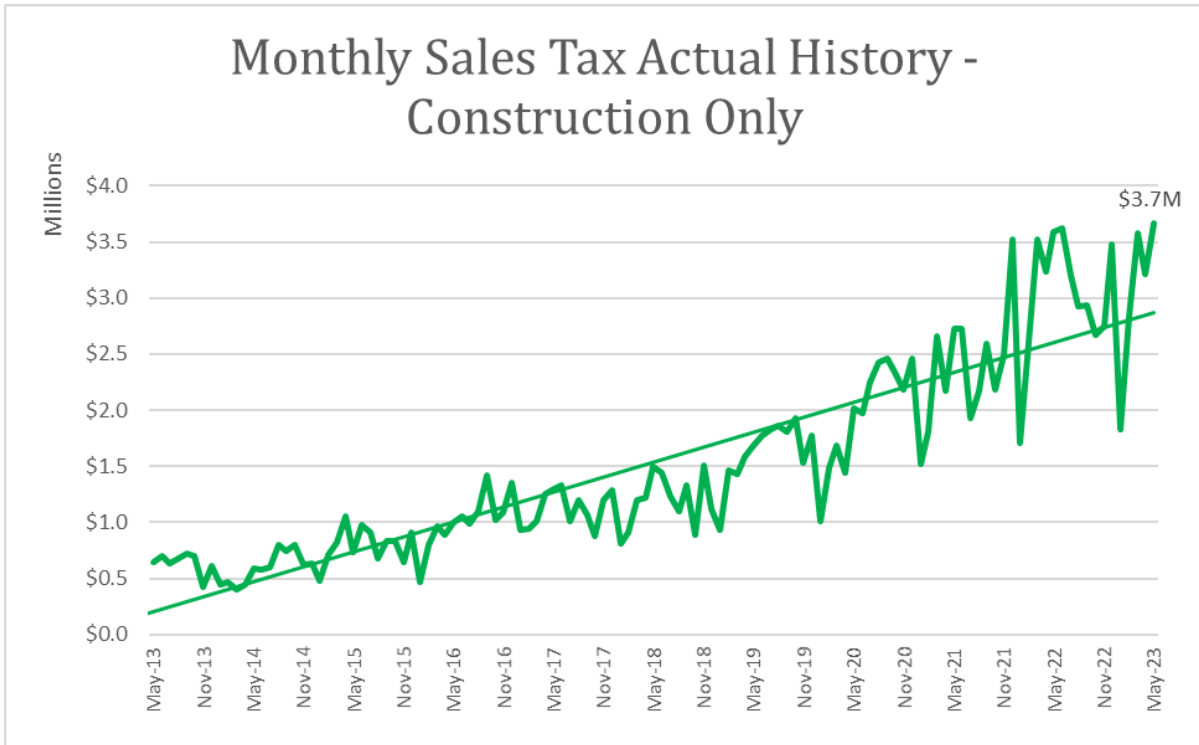
Revenue by Fund	YTD	% of Total
General Fund	\$ 53,304,270	69.4%
EMS Fund	6,663,034	8.7%
Town Center Fund	1,231,789	1.6%
Construction Fund	15,561,969	20.3%
Totals	\$ 76,761,062	100.0%

Operating Budget	Jul	Aug	Sep	Oct	Nov	Dec
General Fund	\$ 4,671,976	\$ 4,405,380	\$ 4,575,385	\$ 4,358,367	\$ 4,746,409	\$ 5,634,431
EMS Fund	\$ 583,997	\$ 550,673	\$ 571,923	\$ 544,796	\$ 593,301	\$ 704,304
Total Operating Budget	\$ 5,255,973	\$ 4,956,053	\$ 5,147,308	\$ 4,903,163	\$ 5,339,711	\$ 6,338,735
Operating Budget	Jan	Feb	Mar	Apr	May	FY22-23 YTD
General Fund	\$ 4,148,336	\$ 4,693,858	\$ 5,445,496	\$ 5,286,587	\$ 5,338,043	\$ 53,304,270
EMS Fund	\$ 518,542	\$ 586,732	\$ 680,687	\$ 660,823	\$ 667,255	\$ 6,663,034
Total Operating Budget	\$ 4,666,878	\$ 5,280,591	\$ 6,126,183	\$ 5,947,411	\$ 6,005,299	\$ 59,967,304

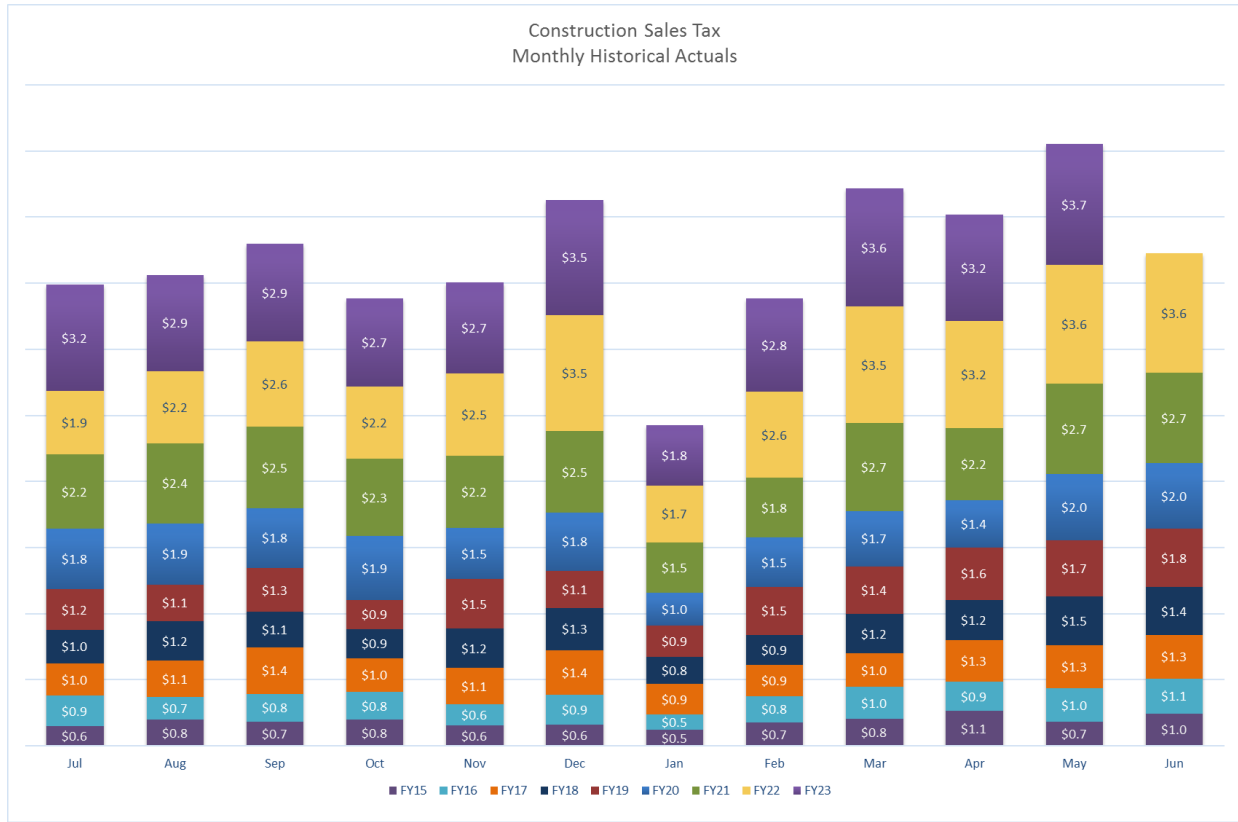
Historical Performance



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:

BUSINESS CODE CATEGORY	REGION CODE	BUSINESS CODE	TAX RATE	REPORTING CATEGORY
Advertising	QC	018	2.25%	All Others
Amusements	QC	012	2.25%	All Others
Contracting-Prime	QC	015	4.25%	Construction Contracting
Contracting-Speculative Builders	QC	016	4.25%	Construction Contracting
Contracting – Owner Builder	QC	037	4.25%	Construction Contracting
Job Printing	QC	010	2.25%	All Others
Manufactured Buildings	QC	027	2.25%	Construction Contracting
Timbering & Other Extraction	QC	020	0.10%	All Others
Severance – Metal Mining	QC	019	2.25%	All Others
Publication	QC	009	2.25%	All Others
Hotels	QC	044	2.25%	All Others
Hotel/Motel (Additional Tax)	QC	144	3.00%	All Others
Residential Rental, Leasing & Licensing for Use	QC	045	2.25%	Rental, R.E. & Leases
Commercial Rental, Leasing & Licensing for Use	QC	213	2.25%	Rental, R.E. & Leases
Rental, Leasing & Licensing for Use	QC	214	2.25%	Rental, R.E. & Leases
Restaurants & Bars	QC	011	2.25%	Restaurants & Bars
Retail Sales	QC	017	2.25%	Retail Sales
Retail Sales Food for Home	QC	062	2.25%	Retail Sales
MRRA	QC	315	2.25%	All Others
Communications	QC	005	2.25%	Comm. & Utilities
Transporting	QC	006	2.25%	All Others
Utilities	QC	004	2.25%	Comm. & Utilities
Use Tax Purchases	QC	029	2.25%	All Others
Use Tax from Inventory	QC	030	2.25%	All Others
Retail Sales for Remote Sellers	QC	605	2.25%	Retail Sales
Retail Sales Food for Home Consumption Remote Sellers	QC	606	2.25%	Retail Sales
Marijuana Sales	QC	420	2.25%	Retail Sales
Medical Marijuana Sales	QC	203	2.25%	Retail Sales

Queen Creek Special District Tax Rates (Town Center):

BUSINESS CODE CATEGORY	REGION CODE	BUSINESS CODE	TAX RATE	REPORTING CATEGORY
Amusements	QD	012	2.50%	All Others
Job Printing	QD	010	2.50%	All Others
Publication	QD	009	2.50%	All Others
Hotels	QD	044	2.50%	All Others
Hotel/Motel (Additional Tax)	QD	144	3.00%	All Others
Restaurants & Bars	QD	011	2.50%	Restaurants & Bars
Retail Sales	QD	017	2.50%	Retail Sales
Retail Sales Food for Home	QD	062	2.50%	Retail Sales
MRRA	QD	315	2.50%	All Others
Communications	QD	005	2.50%	Comm. & Utilities
Utilities	QD	004	2.50%	Comm. & Utilities
Retail Sales for Remote Sellers	QD	605	2.50%	Retail Sales
Retail Sales Food for Home Consumption Remote Sellers	QD	606	2.50%	Retail Sales