



TOWN OF
QUEEN CREEK
ARIZONA

FY 22-23

Financial Report

Operating Budget to Actual Performance
Fiscal Year to Date through April 2023
(Unaudited)

Issued May 25, 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 to date shows favorable variances for both revenues and expenses. Actual revenues are performing well with receipts exceeding expectations by \$4.1M, or 4%. 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.

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. To date, the Town has issued 639 single-family building permits, which is 58% lower than the same period last fiscal year. However, staff estimates that the Town will issue permits for 1,074 multi-family units this fiscal year, or 533 multi-family units above the budgeted amount. Because we estimate that the same number of people will live in a multi-family unit as a single-family home, the Town's population projection is expected to be materially correct. This population growth will continue to drive higher sales tax and state-shared revenues.

Total expenses to date are \$6.3M or 8% 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, and minor equipment.

The Revised Operating Budget anticipated that year-to-date expenses (before transfers) would exceed revenues by \$20.8M. However, actual results to date are better than expected resulting in revenues exceeding expenses by \$31.2M, an improvement of \$10.4M or 50%.

The Operating Budget is projected to end the fiscal year with a fund balance of \$115.6M broken down as follows:

- \$32.6M in the 25% Operating Reserves
- \$38.4M in PSPRS and ASRS pension reserves
- \$1.5M in the newly created Road Replacement reserve
- \$43.0M 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, new multi-family developments will continue to bring new residents to Queen Creek in the near future. We expect this 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 for the fiscal year through April. Actual revenues are above expenses by \$31.2M due to a combination of strong revenue growth and expense savings. Additionally, \$11.7M has been transferred from the Operating Budget to cover scheduled debt service payments, and another \$1.5M has been transferred to cover expenses for a new fire truck and capital improvements at the Field Operations Facility.

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 advanced purchase of vehicles and equipment that were approved in December 2022 and March 2023.

The Town's total Operating fund balance, based on the Revised Budget, is expected to increase by \$1.7M and end the year at \$115.6M. Of this total, \$38.4M is reserved for pension funding and \$32.6M 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 Town Council approved a new reserve account for future road replacement projects. It was established in FY 21-22 at an initial amount of \$500,000, and the annual contribution amount will increase by \$500,000 each year going forward. The remaining fund balance of \$43.0M 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.

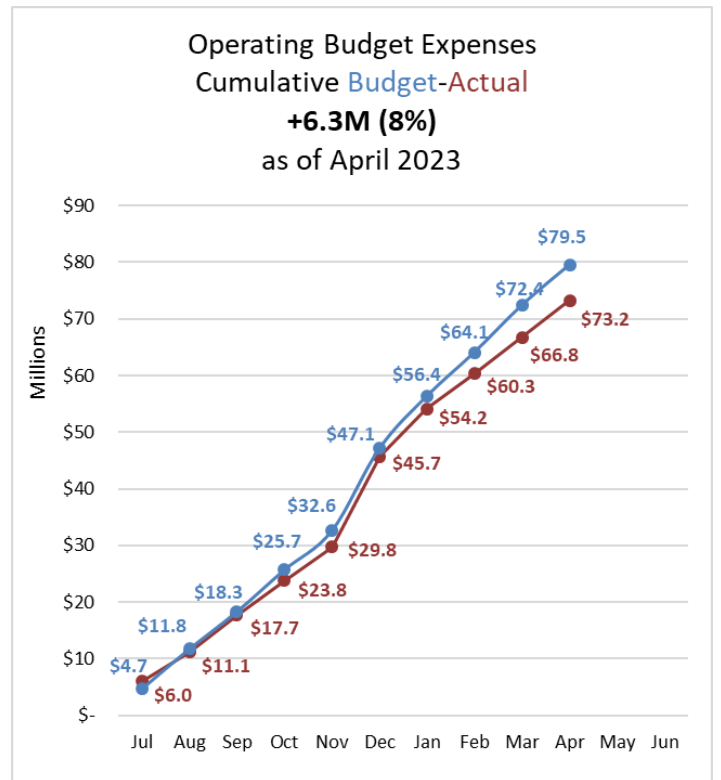
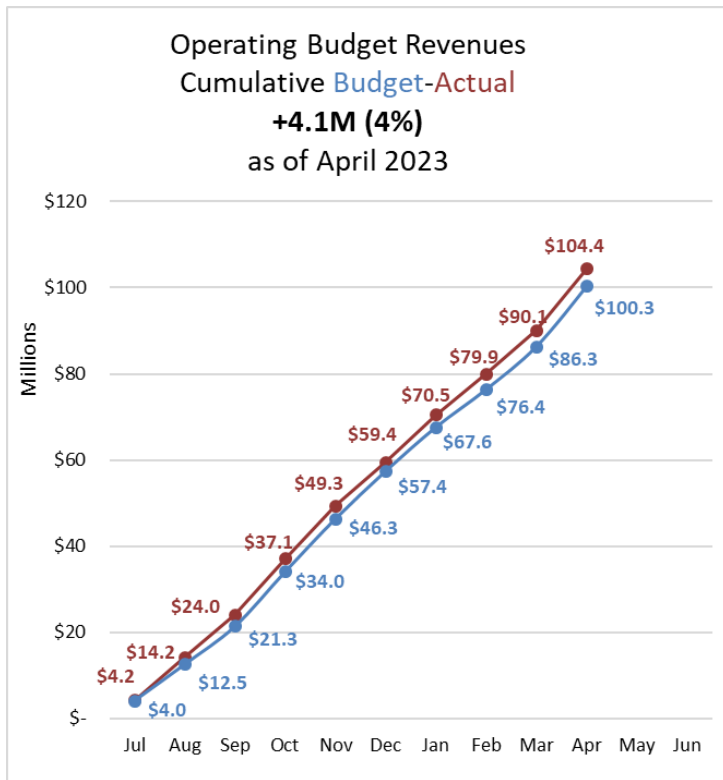
Summary FY 22-23 Operating Budget - April 2023

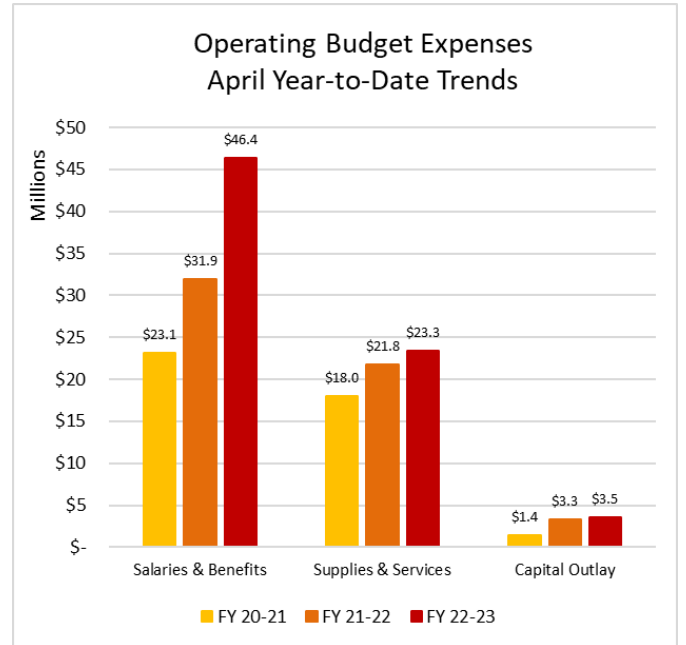
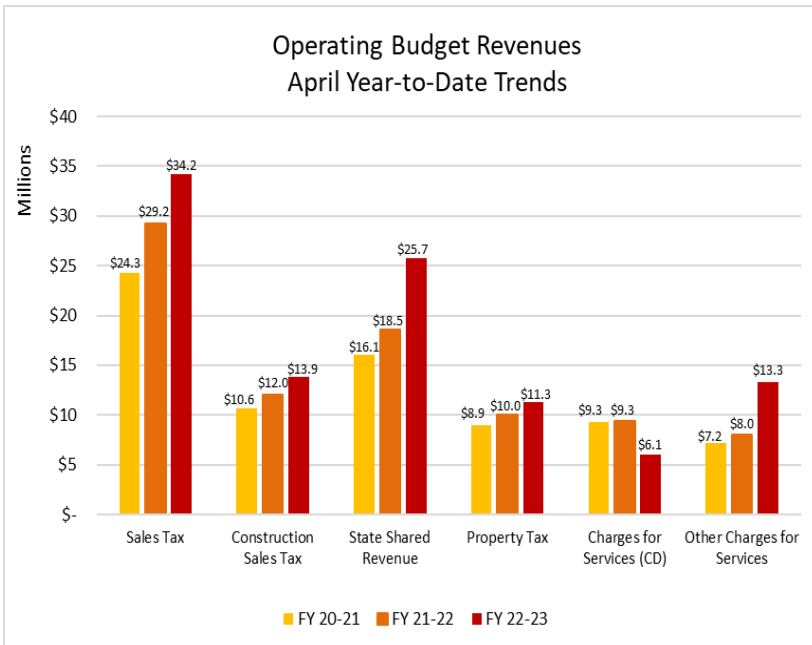
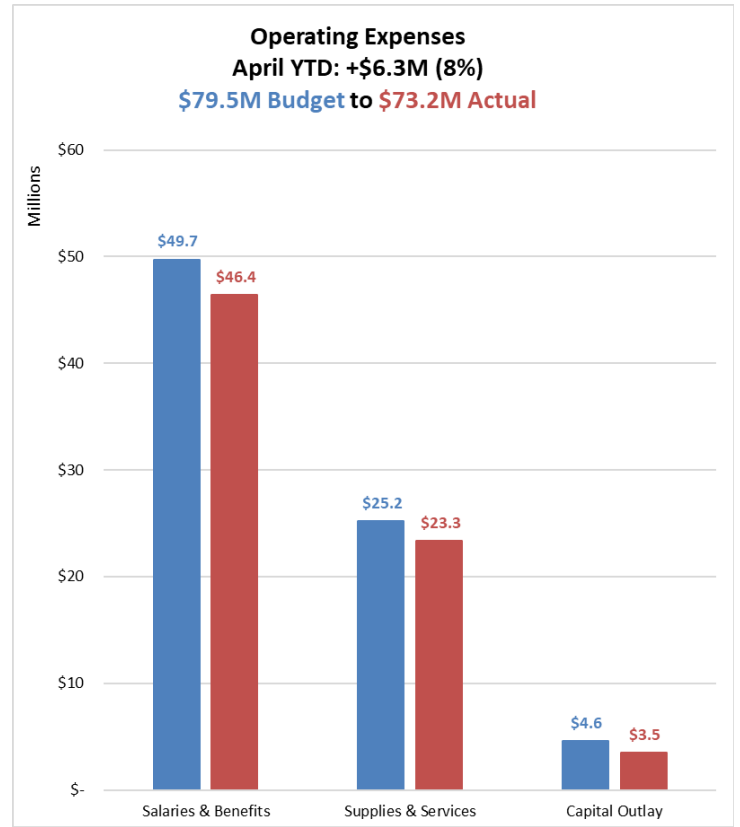
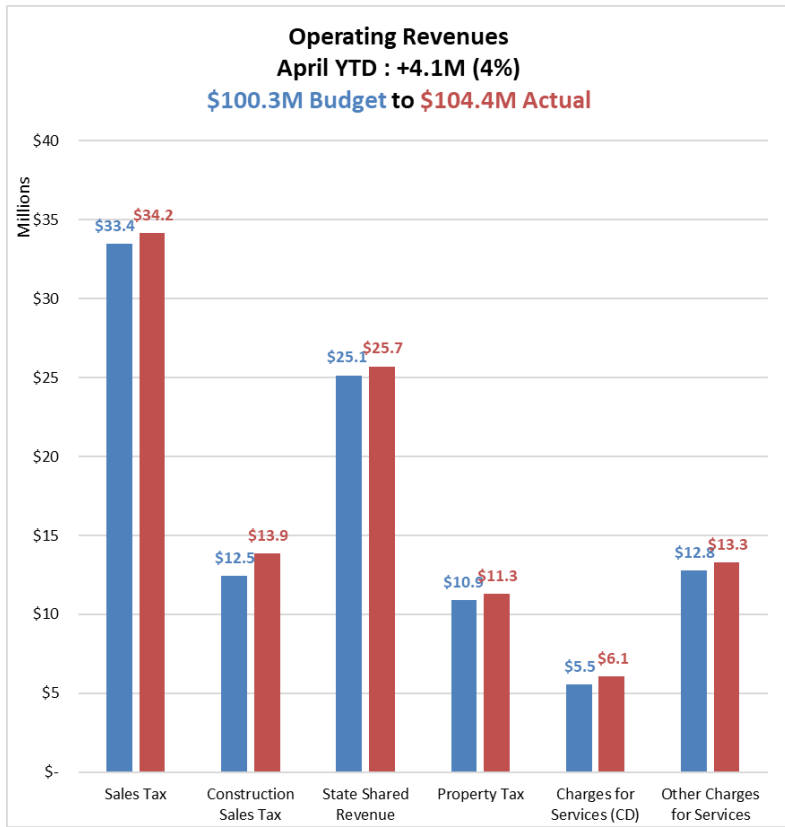
	FY 22-23 Total Adopted Budget	FY 22-23 Total Revised Budget	FY 22-23 Year-to-Date Budget	FY 22-23 Year-to-Date Actual
Revenues	\$ 118,766,835	\$ 126,892,165	\$ 100,282,356	\$ 104,405,281
Expenses	93,365,045	107,242,027	79,525,645	73,248,232
Operating Results	\$ 25,401,790	\$ 19,650,138	\$ 20,756,711	\$ 31,157,049
Transfers Out:				
Debt Service	\$ 11,686,817	\$ 11,749,287	\$ 11,729,286	\$ 11,729,286
CIP	5,460,000	6,408,695	1,518,313	1,518,313
Net Transfers Out	\$ (17,146,817)	\$ (18,157,982)	\$ (13,247,599)	\$ (13,247,599)
Net Operating Results	\$ 8,254,973	\$ 1,492,156	\$ 7,509,112	\$ 17,909,450
Beginning Fund Balance	\$ 96,433,801	\$ 114,063,406		
Ending Fund Balance	\$ 104,688,774	\$ 115,555,562		
25% Revenue Reserve	\$ 32,508,250	\$ 32,617,950		
Police Unfunded Pension Liability Reserve	26,334,929	19,334,929		
ASRS Unfunded Pension Liability Reserve	23,607,520	19,069,879		
Road Replacement Funding Reserve	1,500,000	1,500,000		
Available Fund Balance	20,738,075	43,032,804		
Total Fund Balance	\$ 104,688,774	\$ 115,555,562		

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

Revenues	YTD		Variance		Total FY 22-23 Budget	YTD Actual as % of Total Budget
	Budget	Actual	Favorable (Unfavorable)			
Sales Tax	\$ 33,448,660	\$ 34,163,790	\$ 715,130	2%	\$ 45,078,237	76%
Construction Sales Tax	12,453,566	13,865,854	1,412,288	11%	16,875,000	82%
State Shared Revenue	25,136,932	25,703,265	566,333	2%	30,480,037	84%
Property Tax	10,914,180	11,313,663	399,483	4%	12,470,641	91%
Charges for Services (CD)*	5,538,000	6,054,787	516,787	9%	6,640,000	91%
Other Charges for Services	12,791,018	13,303,922	512,904	4%	15,348,250	87%
Total Revenues	\$ 100,282,356	\$ 104,405,281	\$ 4,122,925	4%	\$ 126,892,165	82%
Expenditures						
Salaries & Benefits	\$ 49,729,141	\$ 46,401,318	\$ 3,327,823	7%	\$ 59,028,408	79%
Supplies & Services	25,226,432	23,337,174	1,889,258	7%	39,153,392	60%
Capital Outlay	4,570,072	3,509,233	1,060,840	23%	9,060,227	39%
Total Expenditures	\$ 79,525,645	\$ 73,248,232	\$ 6,277,413	8%	\$ 107,242,027	68%

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





Revenue Analysis

Through April, actual revenues are reporting a 4% overall favorable variance compared to budget. The variances of the Revenue Categories are explained below.

Sales Tax

Sales tax revenue is currently \$715k or 2% above the current-year budget and 17% higher than the same period last fiscal year. 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 have increased by about 74% 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 covering 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 is \$1.4m or 11% above the revised budget and 16% higher than the same period last fiscal year. 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, recent 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 is currently \$566K or 2% above the revised budget. This year's state-shared revenue distributions have been 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 39% higher than the same period last fiscal year.

Property Tax

Property tax revenue to date is \$399K or 4% above budget. The Town receives the majority of its property tax distributions in October and November, and the remainder in April and June, 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. Fiscal year 22-23 CD revenue to date is \$517K or 9% above the revised budget estimates, as presented in the following schedule:

April 2023 YTD Community Development Detailed Revenues

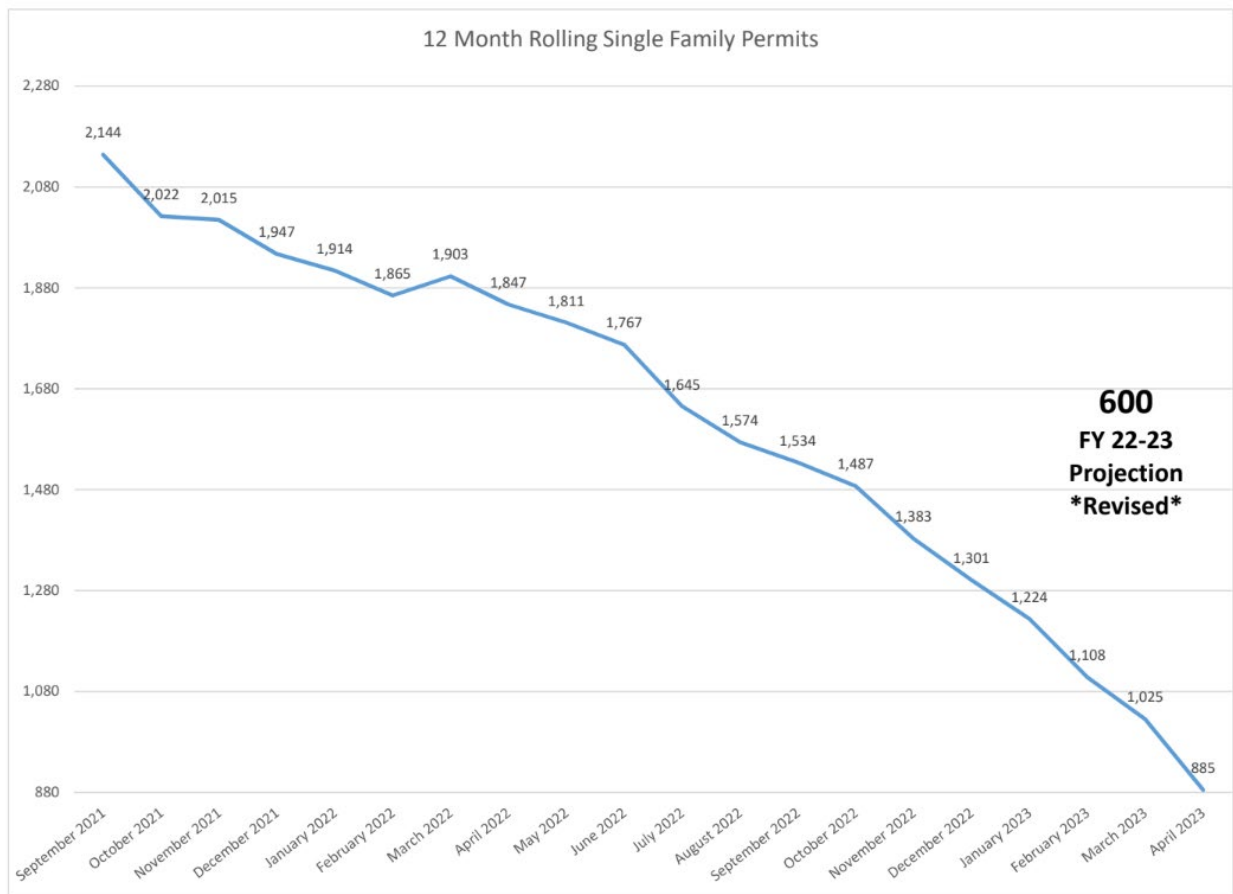
Charges for Services (CD)	<u>Budget</u>	<u>Actual</u>	<u>\$ Variance</u>	<u>% Variance</u>
Planning Revenue	\$ 192,000	\$ 173,881	\$ (18,119)	(9%)
Engineering Revenue	1,230,000	1,178,461	(51,539)	(4%)
Building Permit Revenue	<u>4,116,000</u>	<u>4,702,445</u>	<u>586,445</u>	<u>14%</u>
Total Charges for Services (CD)	\$ 5,538,000	\$ 6,054,787	\$ 516,787	9%

Community Development revenue is tied to new and proposed development activity in the town for new subdivisions, commercial developments, zoning changes, and annexations. The Town has seen a significant reduction in the number of new single-family building permits compared to recent years, which has impacted revenues in this category. The February revenue budget adjustments included a \$4.4M or 47% reduction to Building Permit Revenue based on revised single-family permit projections. The numbers in the table above reflect the revised budget amounts.

Two main factors are slowing the housing market. First, mortgage interest rates have been increasing since April 2022 above historically low levels of 3% or less. The current 30-year mortgage rate is now about 6.4% (as of April 28th). 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 slight 0.8% decrease from this time last year, but it jumped 29% the year before during the pandemic buying frenzy. In Queen Creek, the median home price has dropped from \$655,000 a year ago to \$572,750, a 13% reduction and a sign that local prices are coming down from record highs. However, a combination of higher interest rates and higher housing costs remain a challenge for many would-be home buyers.

The FY 22-23 budget included an original projection of 1,786 new single-family permits and 541 multi-family units, for a total of 2,327 residential units. To date, the Town has issued 639 single-family building permits, which is 58% lower than the same period last fiscal year. On a rolling 12-month basis, single-family permits are tracking 46% lower than the prior year, as shown in the chart on the next page. In February, staff revised the single-family permit projection down to 600 total units this fiscal year. With higher than expected permit activity in March and April the Town will exceed the FY 22-23 projection, but the housing market continues to face challenges of inflation, supply chain and labor shortages, and higher borrowing costs for developers and homebuyers.

In contrast to single-family permits, multi-family housing continues to expand in Queen Creek. Development Services estimates that, based on approved construction plans and site work currently underway, the Town will issue permits for 1,074 multi-family units this fiscal year, which is 533 units or nearly double the original projection. Because we estimate that the same number of people will live in a multi-family unit as a single-family home, the Town’s population projection is expected to be materially correct. This population growth will continue to drive growth in sales tax and state-shared revenues. 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 is currently reporting a \$513K or 4% positive variance. Nearly two thirds of this variance, \$330K, is due to higher than expected revenue from Recreation and HPEC activities, which are running 13% and 33% ahead of projections, respectively. The Town has also received \$133K in grant revenue for the Police Department and \$199K in proceeds from disposal of old vehicles and equipment, which amounts were not included in the adopted budget.

Other revenues in this category include Utility ROI and Utility Franchise Fees from the Town’s Water and Sewer utility operations, which together account for \$2.7M or 21% of the Other Revenue category. Departmental Support Revenue accounts for an additional \$3.4M or 25% 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

Through April, expenditures are showing a favorable variance of 8% under budget. The variances of the Expenditure Categories are explained below.

Salaries and Benefits

Salaries and Benefits expenses are currently showing a positive variance of \$3.3M or 7%. Of this amount, \$2.4M is related to 26 new positions for the Fire/Medical Department's ambulance service program that will begin recruitment in May. Four other new positions approved in the FY22-23 Operating Budget were also not yet filled by the end of April. 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 April, the Town had 9 vacancies related to staff turnover in the Operating Budget.

Supplies and Services

The Supplies and Services category shows a positive variance of \$1.9M or 7%. Almost half 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. The remainder of the savings comes from several other categories including software support, employee uniforms, personal protective clothing, and minor equipment. As mentioned, global supply-chain disruptions continue to affect the Town's ability to acquire needed supplies and materials. Staff continues to work with vendors to find solutions to these issues, but until supply-chain problems diminish we expect the Operating Budget will continue to report positive variances in Supplies and Services through the end of the fiscal year.

Capital Outlay

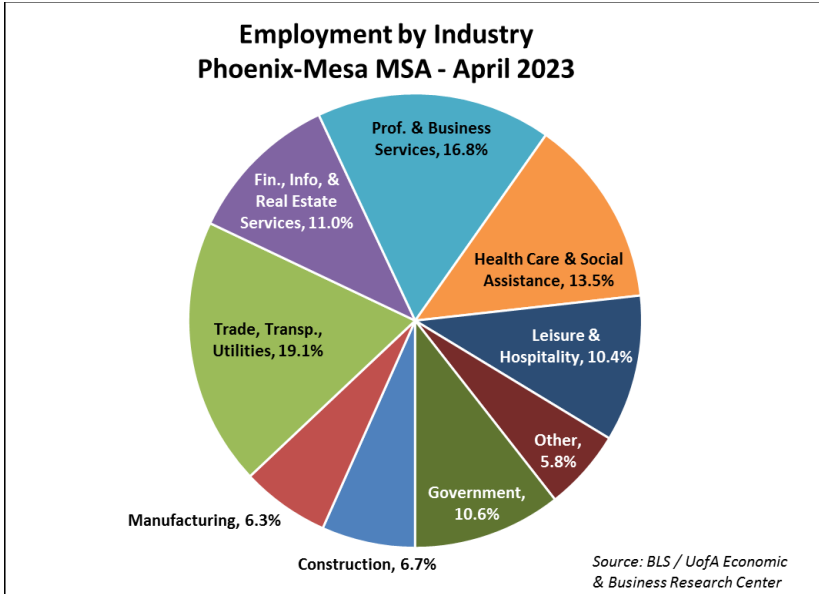
Capital Outlay expenses to date show a favorable variance of \$1.1M or 23%. The budgets in this category are for one-time purchases related to major equipment and special projects. Similar to Supplies and Services, vendors for capital items continue to struggle with supply-chain issues due to lingering 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.

Outstanding Encumbrances

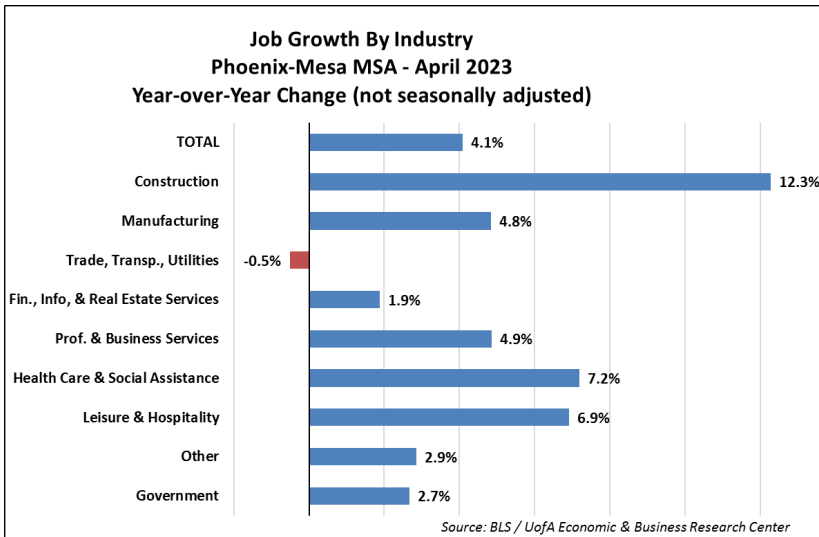
The following schedule displays YTD expenditures and outstanding encumbrances for the Supplies & Services and Capital Outlay categories. This schedule provides a view of both actual spending and contractual commitments relative to the total budgets in these categories. This data helps gauge the pace at which departments are committing Town funds relative to their total annual budgets.

Expenditure Category:	April 2023 (FY 22-23) Expenses and Encumbrances				
	YTD Actual	Outstanding Encumbrances	Total Actual + Encumbrances	Total FY 22-23 Budget	YTD Spent & Encumbered
Supplies & Services	23,337,174	7,298,224	30,635,398	39,153,392	78%
Capital Outlay	3,509,233	5,321,329	8,830,562	9,060,227	97%
Total	\$ 26,846,407	\$ 12,619,552	\$ 39,465,960	\$ 48,213,619	82%

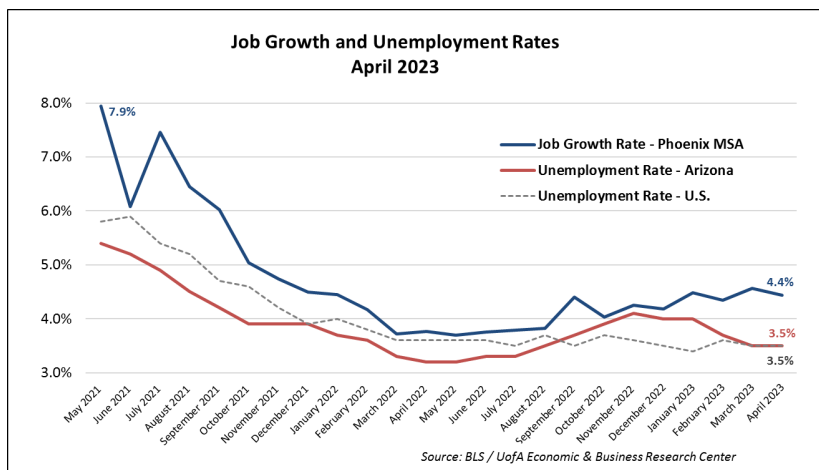
Economic Indicators



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.

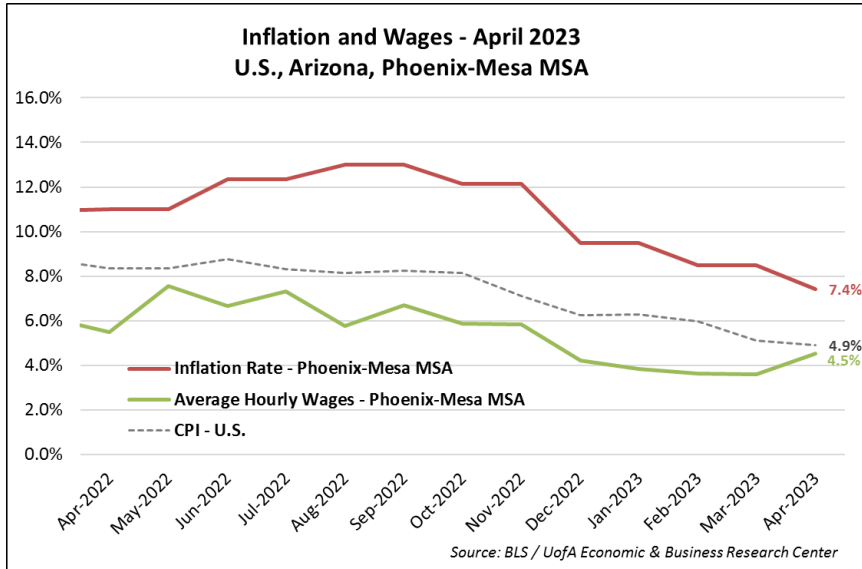


This chart demonstrates which industries have added or lost jobs, compared to the same month one year ago. This information is useful to identify which sectors may be growing or shrinking in the region. In the current environment, we are watching the Construction industry to gauge the impact of a slowing 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. April wage growth in the Phoenix region was relatively stable at 4.5%. 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	584.8	589.5	(0.8)%
U.S.	394.8	390.4	1.1%
Median Home Prices:			
Queen Creek	\$ 572,750	\$ 655,000	(12.6)%
Phoenix-Mesa MSA	\$ 455,400	\$ 499,000	(8.7)%
Arizona	\$ 495,000	\$ 499,000	(0.8)%
U.S.	\$ 388,800	\$ 395,500	(1.7)%
Housing Cost vs. Wage Growth:			
30-Year Fixed Mortgage Interest Rate	6.43%	5.10%	--
Monthly Payment on QC Median Home ⁽¹⁾	\$ 2,860	\$ 2,833	0.9%
Average Hourly Wage - Phoenix-Mesa MSA	\$ 32.82	\$ 31.40	4.5%
Real Estate Activity			
SF Homes Sold - Queen Creek	128	135	(5.2)%
SF Days on Market - Queen Creek	63	28	125.0%
SF Homes Sold - Phoenix-Mesa MSA	5,310	7,348	(27.7)%
SF Active Listings - Phoenix-Mesa MSA	12,998	8,769	48.2%
New Single-Family Building Permits			
Queen Creek	78	218	(64.2)%
Phoenix / Pinal County Region	1,785	2,647	(32.6)%
Queen Creek 12-Month Rolling Total	885	1,847	(52.1)%
Regional 12-Month Rolling Total	18,392	31,563	(41.7)%
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.

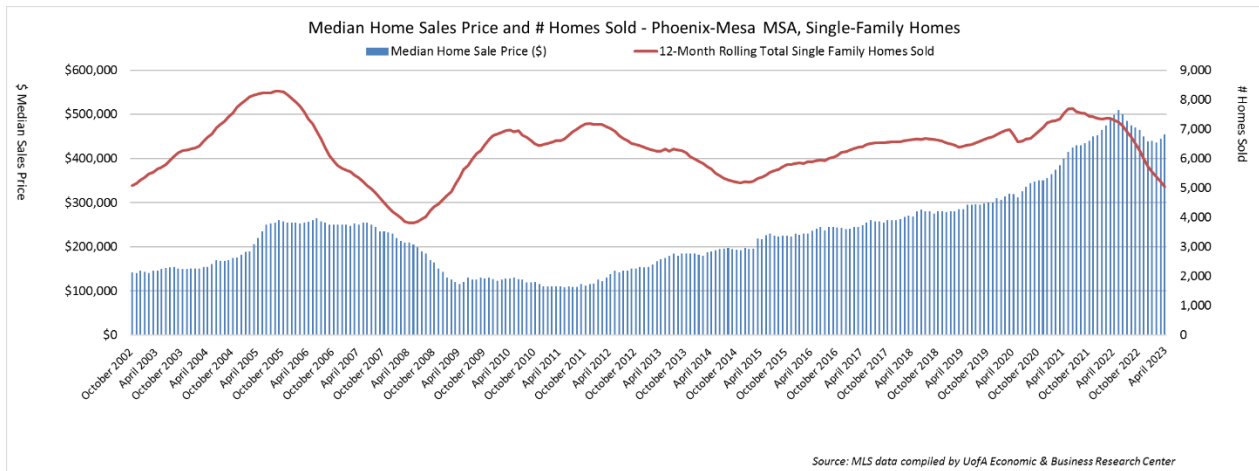
New SF Building Permits – The latest data show a drop in new home construction across the entire region, showing that Queen Creek’s experience is similar to neighboring communities.

⁽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 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 home prices at the onset of the COVID-19 pandemic in March 2020 and then a drop in prices and volume since interest rates began rising in March 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 buoys 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 March 2023*

(Unaudited)

Issued May 2023

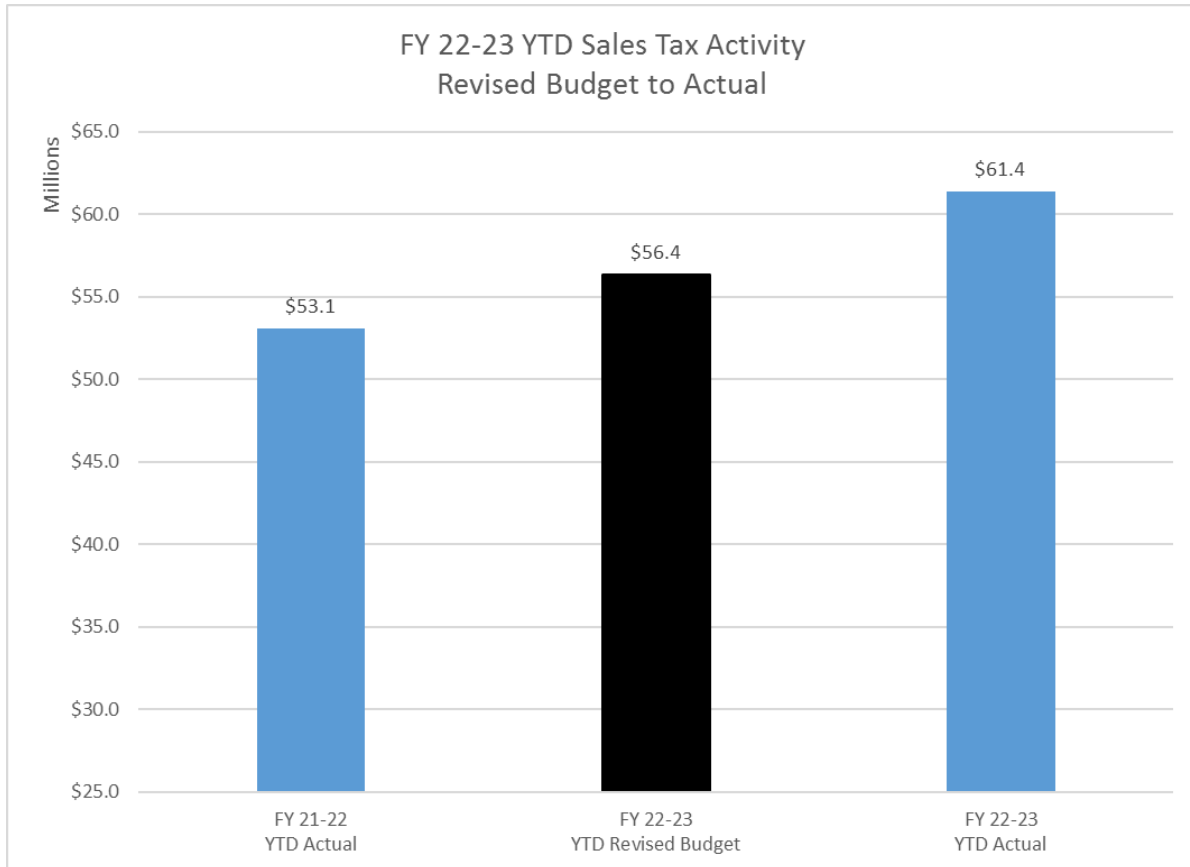
This report contains information regarding the actual revenue collections from the Town's 2.0% sales tax reflected in the General Fund, 0.25% dedicated EMS sales tax, 0.25% Town Center dedicated sales tax and the 2.0% Construction Contracting sales tax dedicated to infrastructure improvements.

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 \$61.4M exceeds the revised budget by 9%, or \$5.0M. Relative to the same period in FY 21-22, FY 22-23 actuals are 16%, or \$8.3M higher than the previous year.



Sales Category	FY 21-22 YTD Actual	FY 22-23 YTD Revised Budget	FY 22-23 YTD Actual	FY 22-23 YTD Revised Budget-To-Actual		FY21-22 YTD Actual to FY 22-23 YTD Actual	
				\$ Variance	% Variance	\$ Increase	% Increase
Construction	\$ 22,716,181	22,476,463	26,191,057	3,714,594	17%	\$ 3,474,876	15%
Retail Trade	\$ 20,581,854	24,733,788	25,083,591	349,803	1%	4,501,737	22%
Communications & Utilities	\$ 1,627,281	1,764,387	1,814,922	50,535	3%	187,641	12%
Restaurant & Bar	\$ 3,918,634	4,388,944	4,517,697	128,753	3%	599,063	15%
Real Estate, Rental & Leasing	\$ 1,936,782	2,233,129	2,403,268	170,139	8%	466,486	24%
All Others**	\$ 2,310,472	761,873	1,347,535	585,662	77%	(962,937)	(42%)
Totals	\$ 53,091,203	\$ 56,358,584	\$ 61,358,070	\$ 4,999,485	9%	\$ 8,266,867	16%

**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 Other 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 recently 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 April 2022 through March 2023, the number of visits to the Town Center area increased by about 74%. A further discussion of this data can be found in the Retail Trade section.

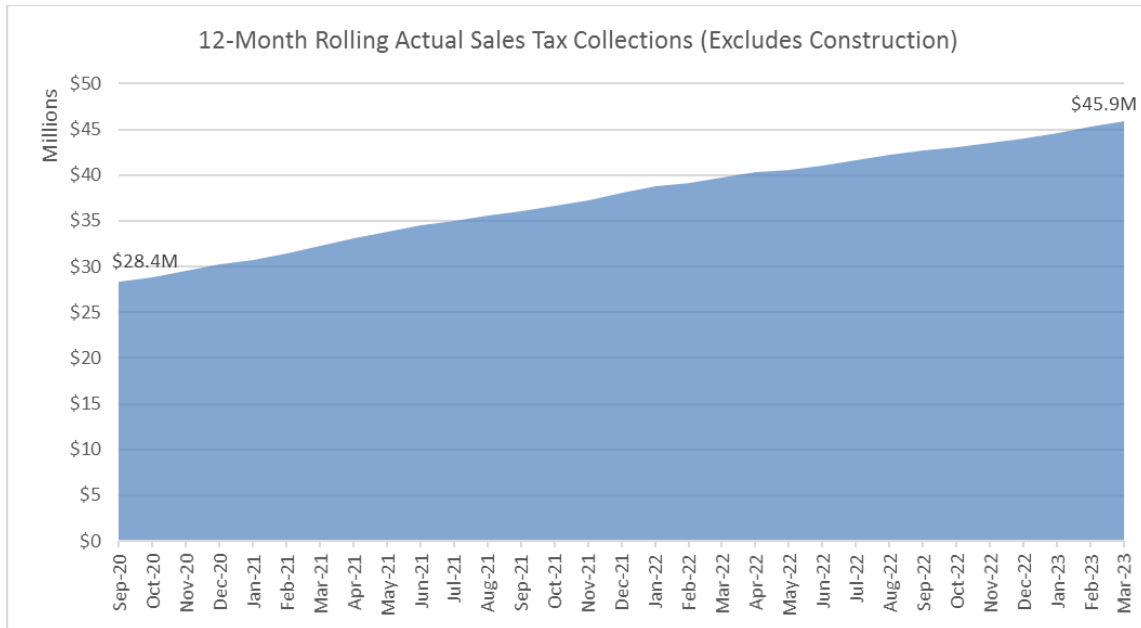
Additionally, taxable spending from an estimated 100K+ population from Eastmark master-planned community (Mesa) and unincorporated San Tan Valley has a significant impact on the Town's sales tax revenues. According to Mobilytics, approximately 38% of visits to the Town Center area from April 2022 through March 2023 were from individuals living in zip code 85142. An additional 38% 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.

March 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 recent months, inflation levels have risen along with 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.

March 2023 Actuals: \$3.8M

FY 22-23 YTD Actuals: \$26.2M

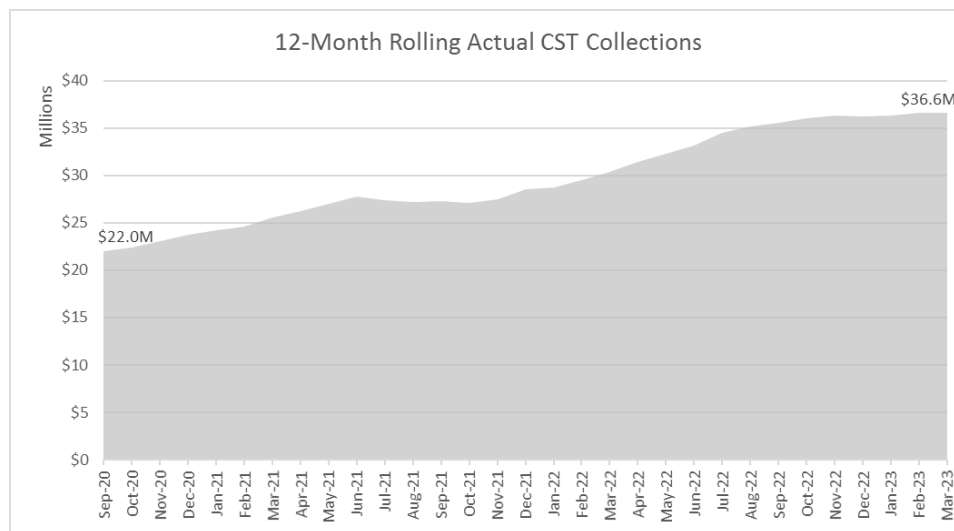
FY 22-23 YTD Revised Budget to Actual Variance of \$3.7M or 17%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$3.5M or 15%

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



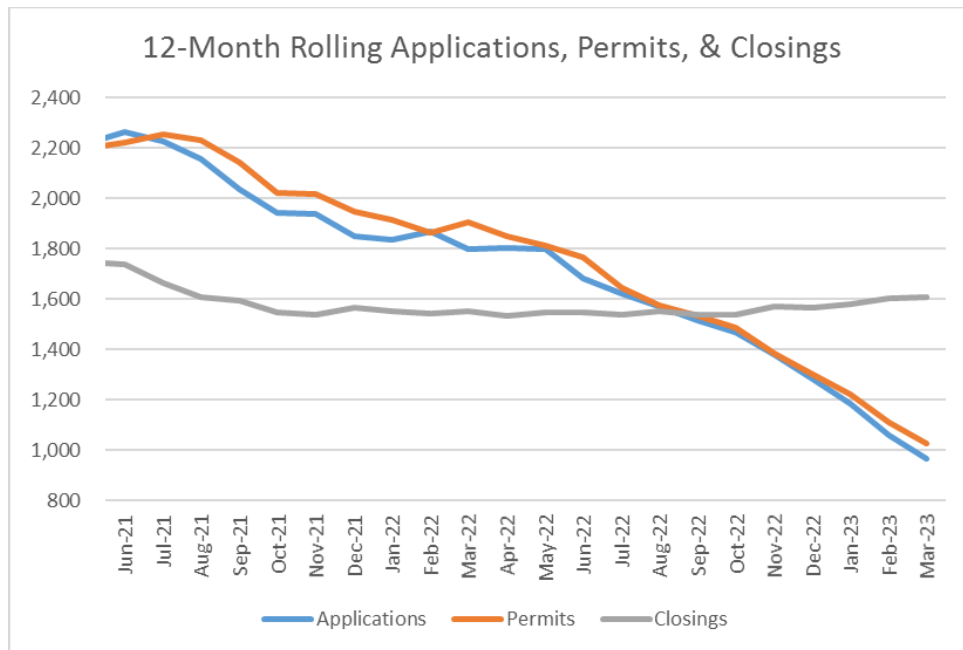
Though known major homebuilders accounted for the majority of construction contracting sales tax revenues for the month of March, construction of multi-family and commercial developments is responsible for a growing share. As seen below, the share of construction sales tax revenues coming from non-homebuilders has grown in the past few years. This shows that despite the slowing 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

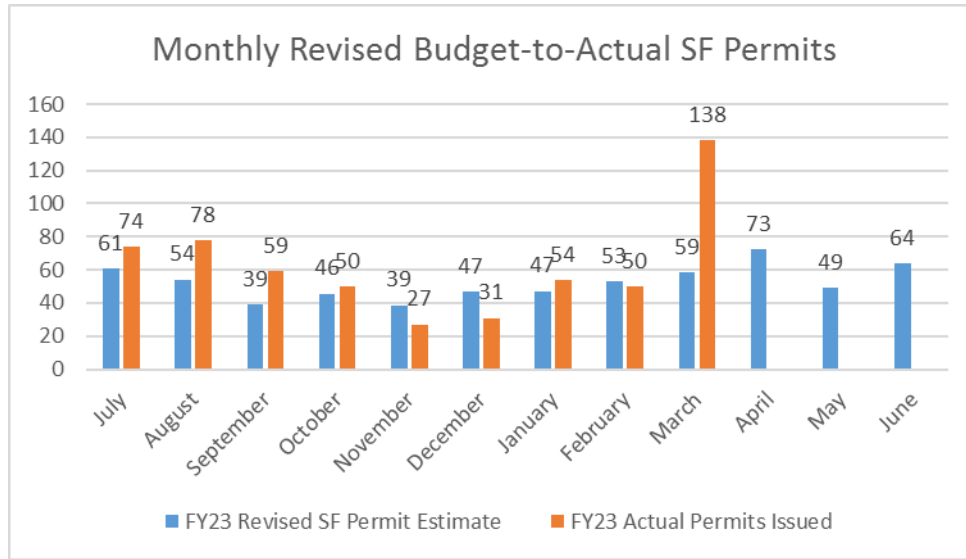
Business Type	FY21 YTD Actuals		FY22 YTD Actuals		FY23 YTD Actuals	
	Sales Tax (\$)	% of Total	Sales Tax (\$)	% of Total	Sales Tax (\$)	% of Total
Homebuilders	\$15.9M	79%	\$16.4M	72%	\$16.8M	64%
Gen. Contractors, Pool/ Landscape, & Other Specialized Trades	\$4.2M	21%	\$6.3M	28%	\$9.4M	36%
Total	\$20.1M	100%	\$22.7M	100%	\$26.2M	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 with an especially large number of permits issued in March. 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 127% of the revised budget year-to-date. Overall, the Town made up 6.8% of total NSF permits issued in the greater Phoenix area in March. 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 146 new home sales close in the month of March with an average sales price of \$695K for these homes. The following table shows the monthly closings by builder, average sale price and estimated gross revenue for the month of March for permits issued within the Town.

Appendix 1: Queen Creek Monthly Sales Tax Report

BUILDER	# CLOSINGS	AVG. SALE PRICE	EST. GROSS REVENUE
WILLIAM LYON HOMES	51	\$ 613,941	\$ 31,310,980
TAYLOR MORRISON	19	\$ 938,915	\$ 17,839,379
MARACAY HOMES	12	\$ 726,103	\$ 8,713,230
FULTON HOMES	12	\$ 682,433	\$ 8,189,199
BEAZER HOMES	9	\$ 519,038	\$ 4,671,343
SHEA HOMES	8	\$ 695,755	\$ 5,566,040
PULTE HOMES	7	\$ 590,095	\$ 4,130,664
DAVID WEEKLEY HOMES	6	\$ 772,703	\$ 4,636,215
LENNAR HOMES	5	\$ 484,340	\$ 2,421,700
TOLL BROTHERS	5	\$ 1,208,981	\$ 6,044,904
RICHMOND AMERICAN	5	\$ 552,781	\$ 2,763,905
ELLIOTT HOMES	2	\$ 869,706	\$ 1,739,411
GEHAN HOMES	2	\$ 646,060	\$ 1,292,120
LUXE HOMES	1	\$ 1,099,900	\$ 1,099,900
ABSOLUTE REMODELING & CONST	1	\$ 500,000	\$ 500,000
CRESLEIGH HOMES	1	\$ 550,000	\$ 550,000
GRAND TOTAL	146	\$ 694,993	\$ 101,468,990

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.

March 2023 Actuals: \$3.2M

FY 22-23 YTD Actuals: \$25.1M

FY 22-23 YTD Revised Budget to Actual Variance of \$350K or 1%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$4.5M or 22%

FY 22-23 YTD collections in the retail category were higher than the FY 22-23 revised budget and 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 March, the top 20 payers of 6,180 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 74% between March 2022 and March 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 March 2023 were down approximately 3% from the prior month.

Appendix 1: Queen Creek Monthly Sales Tax Report

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 collections in March, at least \$464K, or 15%, is estimated to come from e-commerce transactions. March 2023 e-commerce sales tax collections are 3% higher than collections in March 2022.

COMMUNICATIONS/UTILITIES:

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

March 2023 Actuals: \$155K

FY 22-23 YTD Actuals: \$1.8M

FY 22-23 YTD Revised Budget to Actual Variance of \$50K or 3%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$187K or 12%

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.

March 2023 Actuals: \$564K

FY 22-23 YTD Actuals: \$4.5M

FY 22-23 YTD Revised Budget to Actual Variance of \$129K or 3%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$600K or 15%

This category is 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.

March 2023 Actuals: \$324K

FY 22-23 YTD Actuals: \$2.4M

FY 22-23 YTD Revised Budget to Actual Variance of \$170K or 6%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$466K or 24%

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 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.

March 2023 Actuals: \$160K

FY 22-23 YTD Actuals: \$1.3M

FY 22-23 YTD Revised Budget to Actual Variance of \$585K or 77%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of (\$963K) or (42%)

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:

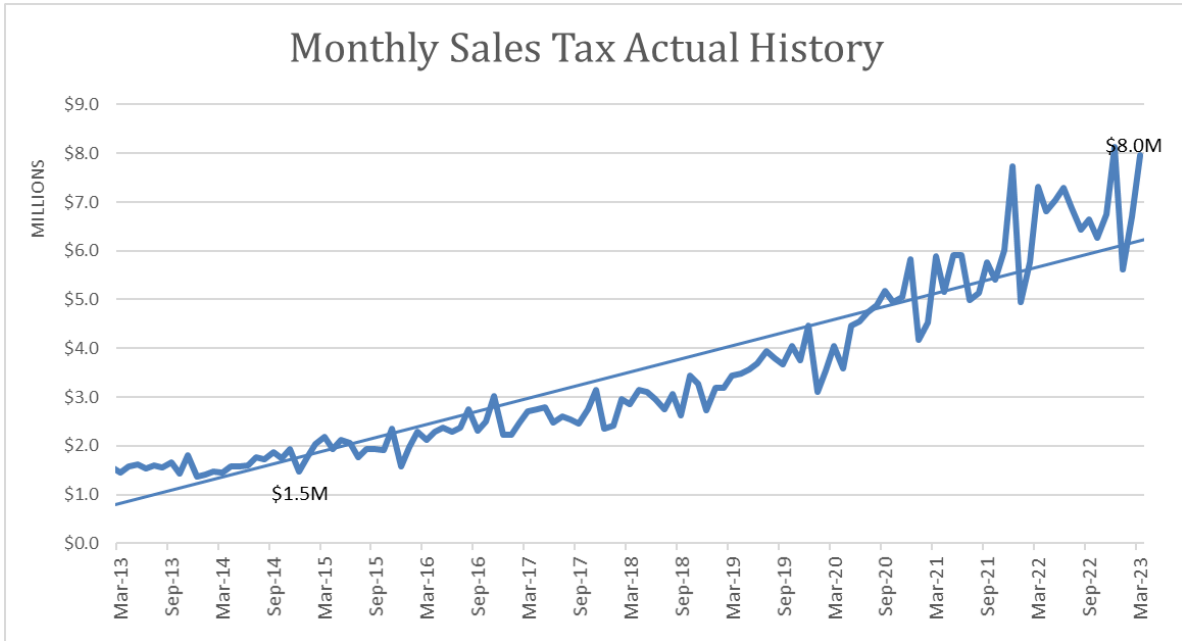
- 2.0% tax rate charged on all taxable activities within Town limits
 - Dedicated to the General Fund for general purpose government operations
- 0.25% tax rate charged on all taxable activities within Town limits
 - Dedicated to the Emergency Services (EMS) Fund to fund law enforcement and fire and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

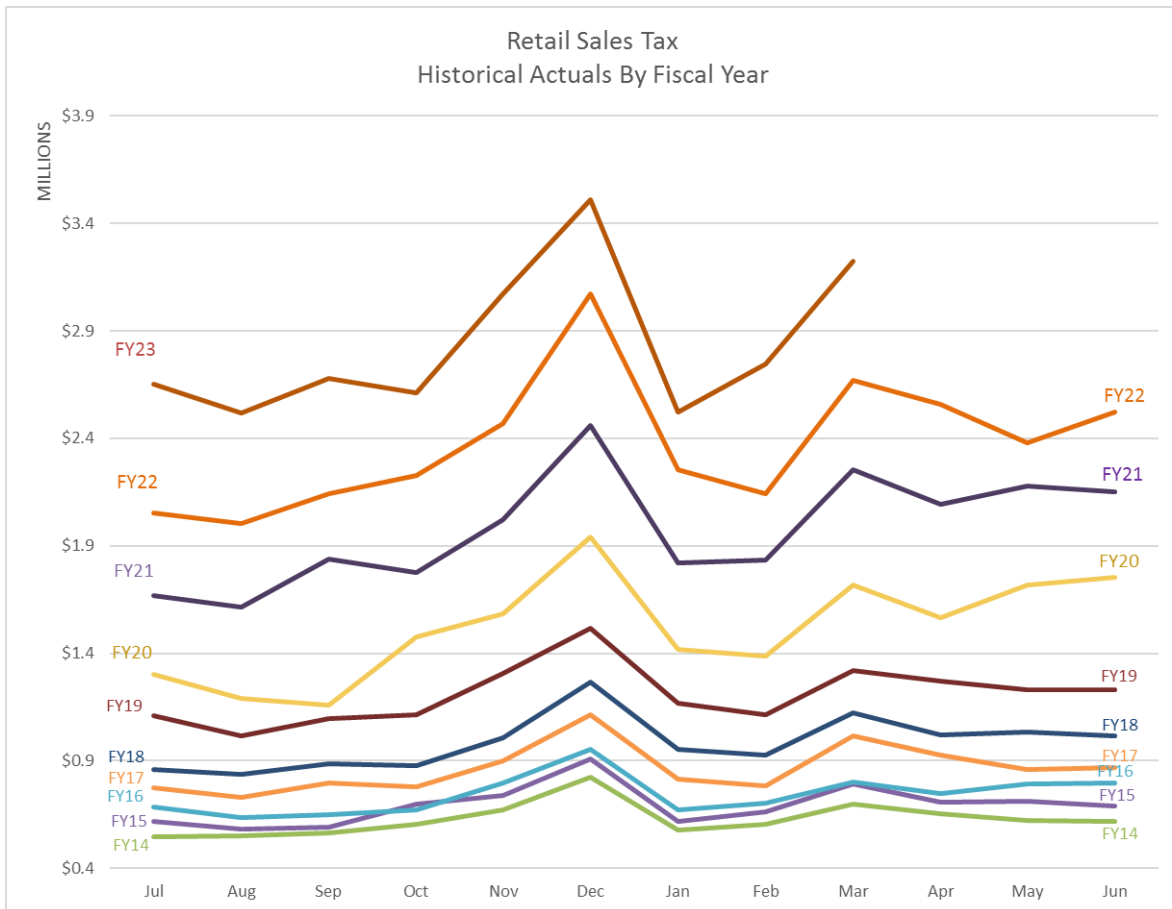
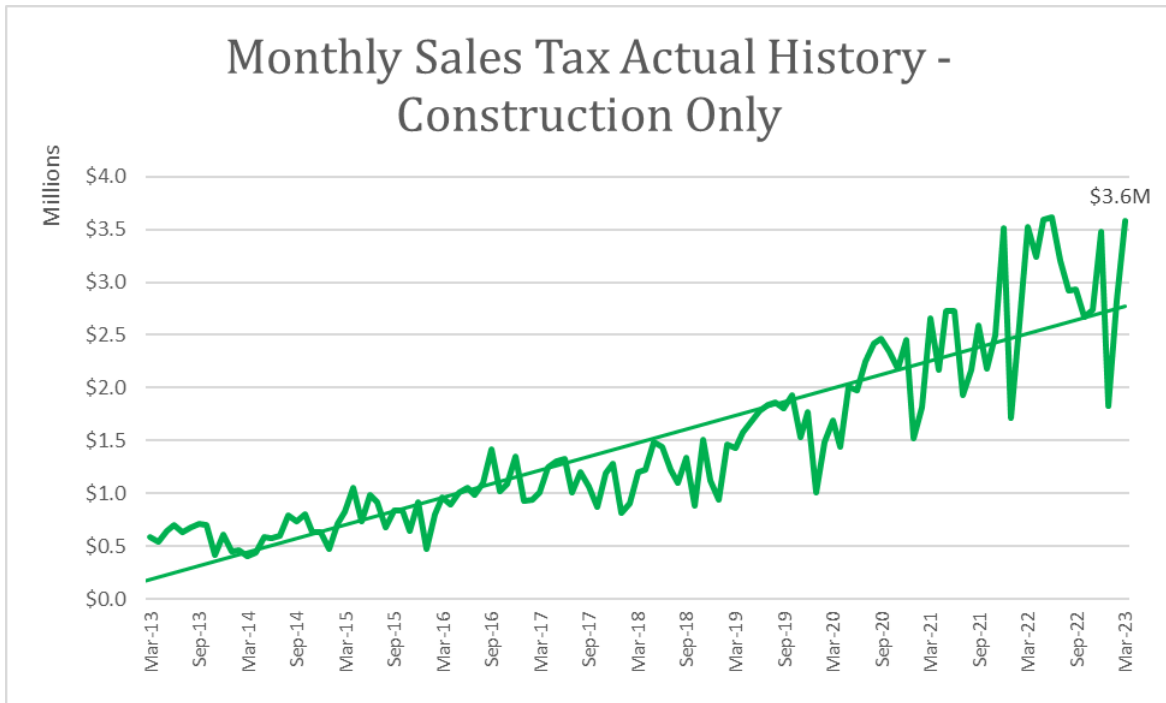
Revenue by Fund	YTD	% of Total
General Fund	\$ 42,679,639	69.6%
EMS Fund	5,334,955	8.7%
Town Center Fund	1,018,272	1.7%
Construction Fund	12,325,203	20.1%
Totals	\$ 61,358,070	100.0%

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	FY22-23 YTD		
General Fund	\$ 4,148,336	\$ 4,693,858	\$ 5,445,496	\$ 42,679,639		
EMS Fund	\$ 518,542	\$ 586,732	\$ 680,687	\$ 5,334,955		
Total Operating Budget	\$ 4,666,878	\$ 5,280,591	\$ 6,126,183	\$ 48,014,594		

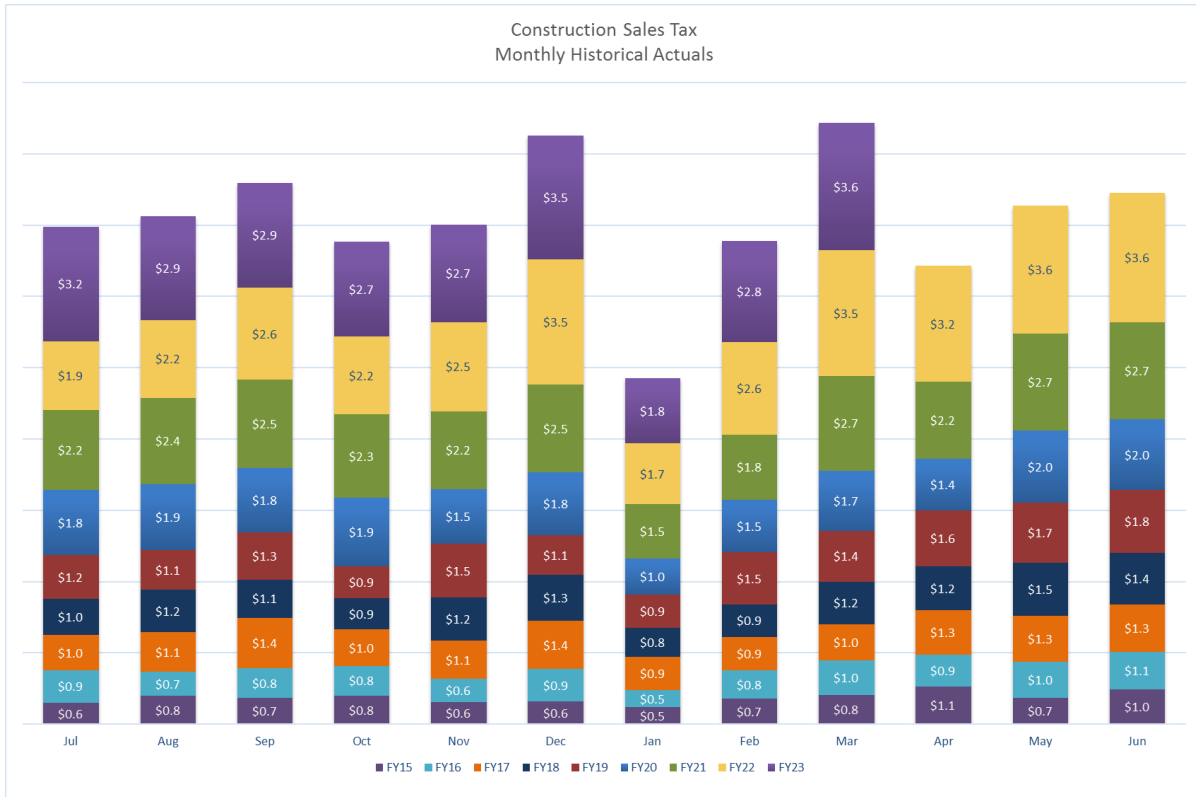
Historical Performance



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