



TOWN OF
QUEEN CREEK
ARIZONA

FY 22-23

Financial Report

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

Issued March 30, 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 \$3.5M, 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.

The FY 22-23 budget 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 423 single-family building permits, which is 61% 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. *Staff provided the Town Council an update to the Town's FY 22-23 revenue and growth projections on February 1st and this month's report reflects those updated projections.*

Total expenses to date are \$4.9M 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 \$11.3M. However, actual results to date are better than expected resulting in revenues exceeding expenses by \$19.7M, an improvement of \$8.4M or 75%.

The Operating Budget is projected to end the fiscal year with a fund balance of \$116.3M 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
- \$43.8M 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 February. Actual revenues are above expenses by \$19.7M due to a combination of strong revenue growth and expense savings. Additionally, \$11.8M has been transferred from the Operating Budget to cover scheduled debt service payments, and another \$1.4M 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 in December also accommodated a \$7.0M payment to PSPRS for the Police Pension Plan and \$2.4M for advanced purchase of vehicles and equipment that are needed to operate and maintain Frontier Family Park.

The Town's total Operating fund balance is expected to increase by \$2.3M and end the year at \$116.3M. 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 \$43.8M 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.

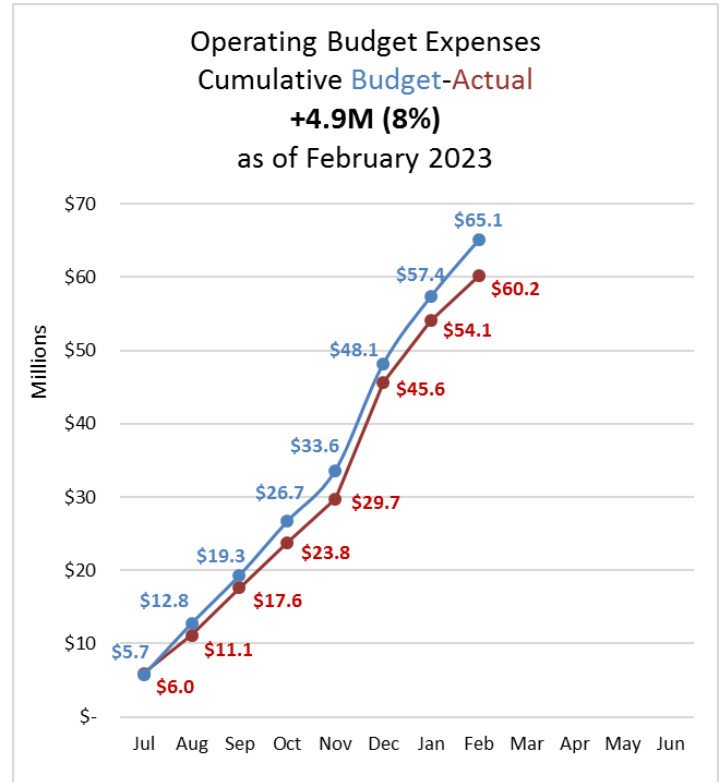
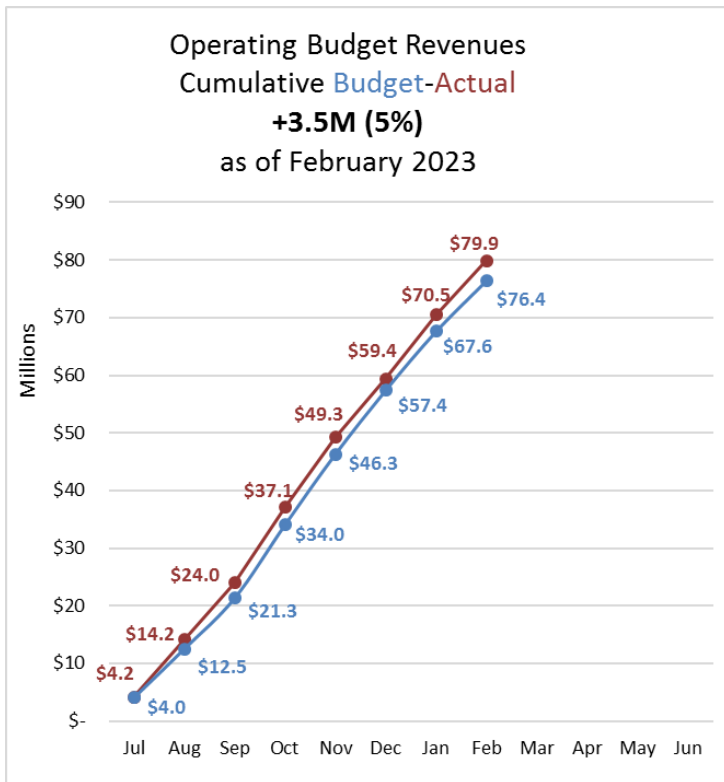
Summary FY 22-23 Operating Budget - February 2023

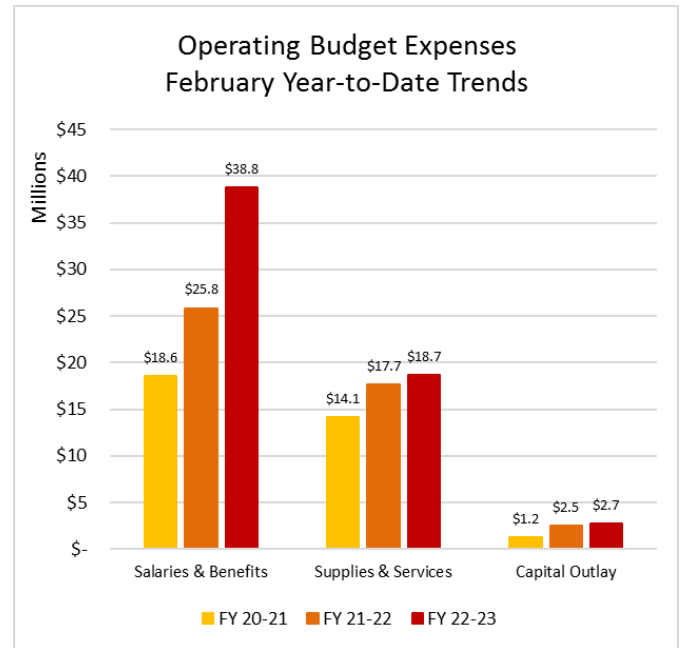
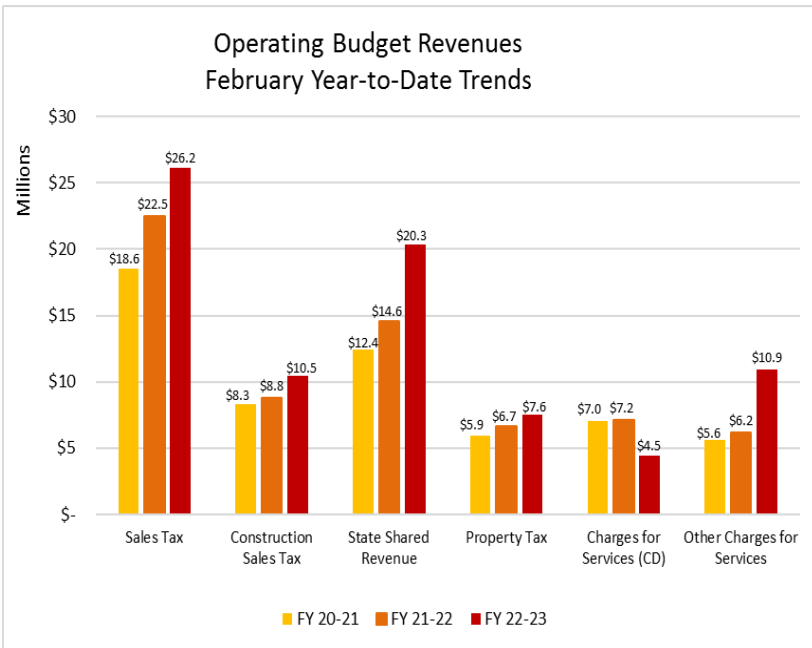
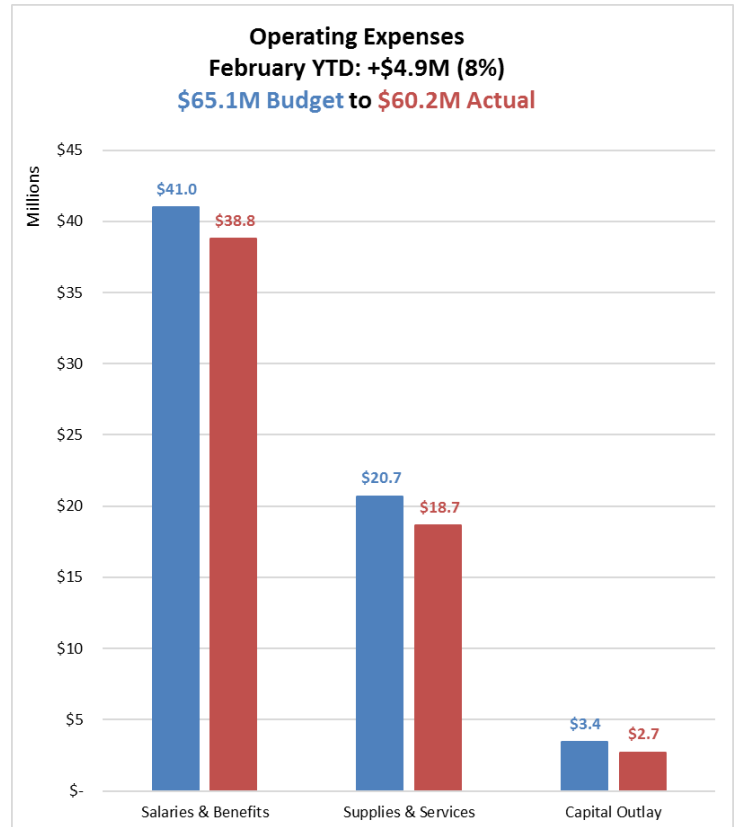
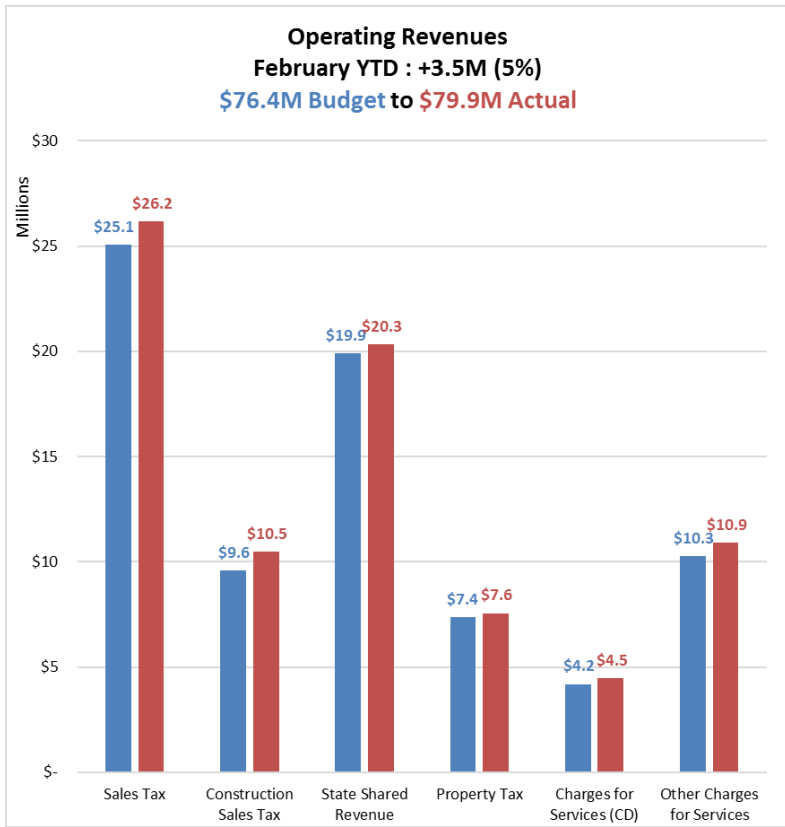
	FY 22-23 Total Adopted Budget	FY 22-23 Total Revised Budget	FY 22-23 Year-to-Date Budget	FY 22-23 Year-to-Date Actual
Revenues	\$ 118,766,835	\$ 126,652,165	\$ 76,371,428	\$ 79,889,773
Expenses	93,365,045	106,229,262	65,098,695	60,172,480
Operating Results	\$ 25,401,790	\$ 20,422,903	\$ 11,272,733	\$ 19,717,293
Transfers Out:				
Debt Service	\$ 11,686,817	\$ 11,749,287	\$ 11,768,899	\$ 11,768,899
CIP	5,460,000	6,408,695	1,381,938	1,381,938
Net Transfers Out	\$ (17,146,817)	\$ (18,157,982)	\$ (13,150,837)	\$ (13,150,837)
Net Operating Results	\$ 8,254,973	\$ 2,264,921	\$ (1,878,104)	\$ 6,566,456
Beginning Fund Balance	\$ 96,433,801	\$ 114,063,406		
Ending Fund Balance	\$ 104,688,774	\$ 116,328,327		
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	43,805,569		
Total Fund Balance	\$ 104,688,774	\$ 116,328,327		

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

	YTD Budget	YTD Actual	Variance Favorable (Unfavorable)		Total FY 22-23 Budget	YTD Actual as % of Total Budget
Revenues						
Sales Tax	\$ 25,071,223	\$ 26,152,083	\$ 1,080,861	4%	\$ 45,078,237	58%
Construction Sales Tax	9,584,816	10,470,787	885,971	9%	16,875,000	62%
State Shared Revenue	19,887,163	20,328,779	441,616	2%	30,480,037	67%
Property Tax	7,366,390	7,558,503	192,113	3%	12,470,641	61%
Charges for Services (CD)*	4,188,600	4,471,613	283,013	7%	6,640,000	67%
Other Charges for Services	10,273,237	10,908,008	634,772	6%	15,108,250	72%
Total Revenues	\$ 76,371,428	\$ 79,889,773	\$ 3,518,346	5%	\$ 126,652,165	63%
Expenditures						
Salaries & Benefits	\$ 40,981,195	\$ 38,801,216	\$ 2,179,979	5%	\$ 58,620,306	66%
Supplies & Services	20,701,115	18,663,680	2,037,435	10%	38,619,939	48%
Capital Outlay	3,416,385	2,707,584	708,801	21%	8,989,017	30%
Total Expenditures	\$ 65,098,695	\$ 60,172,480	\$ 4,926,214	8%	\$ 106,229,262	57%

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





Revenue Analysis

Through February, actual revenues are reporting a 5% overall favorable variance compared to budget. The variances of the Revenue Categories are explained below.

Note: On February 1, 2023 the Town Council approved budget adjustments to the Town's major revenue sources based on staff's updated population and revenue projections. The revised revenue budget amounts are reflected in this month's report.

Sales Tax

Sales tax revenue is currently \$1.1M or 4% above the current-year budget and 16% 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. Please refer to the Sales Tax Report (Appendix 1) for additional analysis of sales tax activity.

Construction Sales Tax

Construction sales tax revenue is \$886K or 9% above the revised budget and 19% higher than the same period last fiscal year. This positive variance comes from completions of new homes that were permitted several months ago and 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 \$442K 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 40% higher than the same period last fiscal year.

Based on these factors, the state-shared revenue budget adjustment in February was \$5.2M or 21% above the original projections.

Property Tax

Property tax revenue to date is \$192K or 3% 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 \$283K or 7% above the revised budget estimates, as presented in the following schedule:

February 2023 YTD Community Development Detailed Revenues

Charges for Services (CD)	<u>Budget</u>	<u>Actual</u>	<u>\$ Variance</u>	<u>% Variance</u>
Planning Revenue	\$ 141,600	\$ 146,960	\$ 5,360	4%
Engineering Revenue	960,000	1,049,760	89,760	9%
Building Permit Revenue	<u>3,087,000</u>	<u>3,274,893</u>	<u>187,893</u>	<u>6%</u>
Total Charges for Services (CD)	\$ 4,188,600	\$ 4,471,613	\$ 283,013	7%

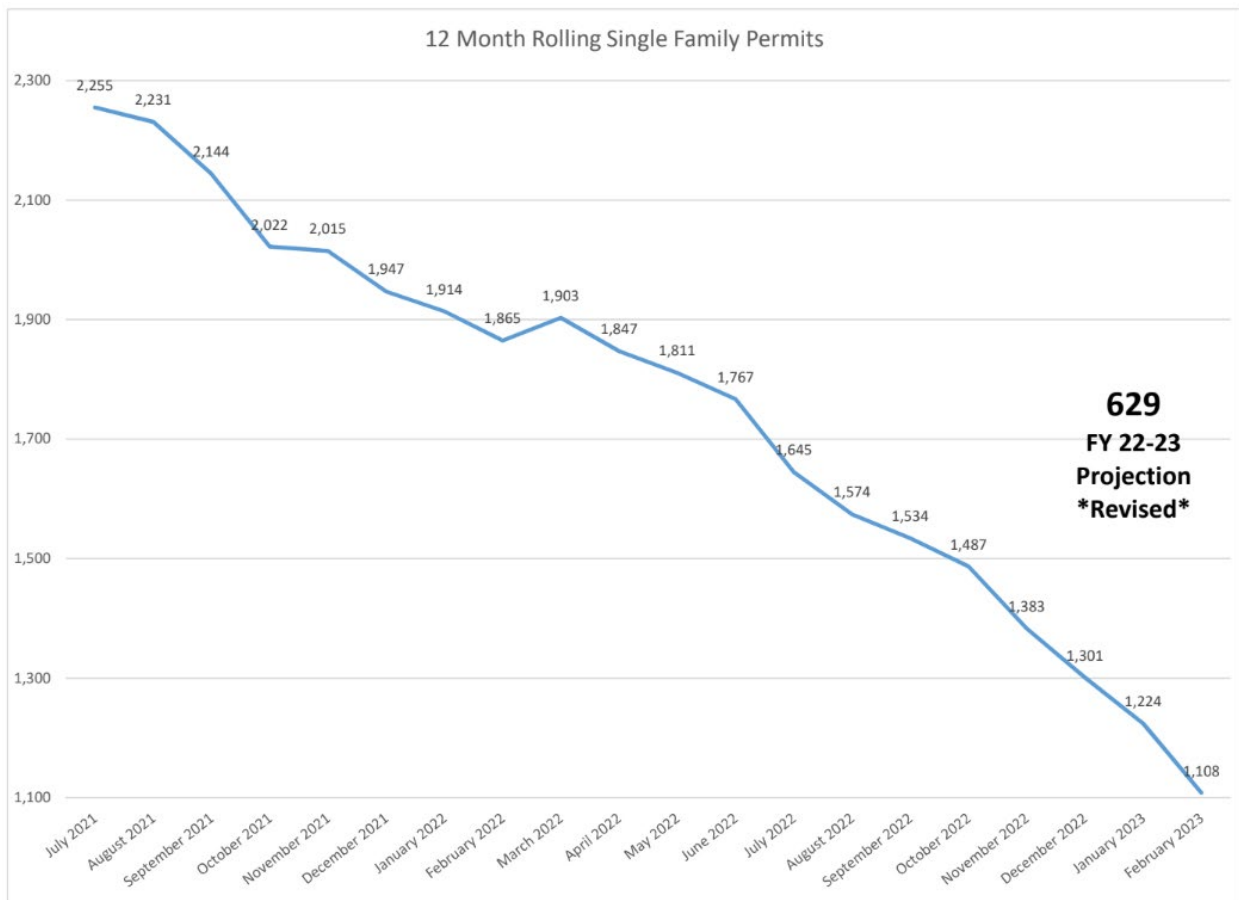
Community Development revenue is tied to new and proposed development activity in the town for new subdivisions, commercial developments, zoning changes, and annexations. Engineering revenues are above budget due to several new multi-family, commercial, and industrial developments that have submitted civil permits for site construction and development. These submittals are substantial and include reports, plan sets, sheets, and final plats and require more staff time for review compared to other applications such as single-family permits, residential additions, or sign permits.

In contrast, 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.

Two main factors are slowing the housing market. First, mortgage interest rates have risen from about 3.8% a year ago to about 6.7% (as of March 2nd). 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 5.2% increase from last year, on top of a 29.0% jump the year before. Recent months have seen median home prices come down from their record highs. For example, the median home price in Queen Creek has dropped from \$600,000 a year ago to \$520,610, a 13% reduction. 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 423 single-family building permits, which is 61% lower than the same period last fiscal year. On a rolling 12-month basis, single-family permits are tracking 38% lower than the original projection, as shown in the chart on the next page. Staff has revised the single-family permit projection down to 600 total units this fiscal year, which is reflected in the budget adjustment to Building Permit Revenue mentioned above.

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 99% above 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 \$635K or 6% positive variance. More than a third of this variance, \$258K, is due to higher than expected revenue from Recreation and HPEC activities, which are running 7% and 36% ahead of projections, respectively. The Town has also received \$98K 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 \$2.2M or 20% of the Other Revenue category. Departmental Support Revenue accounts for an additional \$2.7M 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 February, 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 \$2.2M or 5%. This variance is partly due to turnover in staff positions. At the end of February, the Town had 10 vacancies related to staff turnover in the Operating Budget. Additionally, of 59 new positions approved in the FY22-23 Operating Budget, 32 were not yet filled by the end of February, including 26 positions for the new ambulance services program that are expected to begin recruitment in early 2023. Recently the Town has experienced some difficulty filling positions due to low unemployment and a scarcity of qualified candidates in the current job market.

Supplies and Services

The Supplies and Services category shows a positive variance of \$2.0M or 10%. About 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

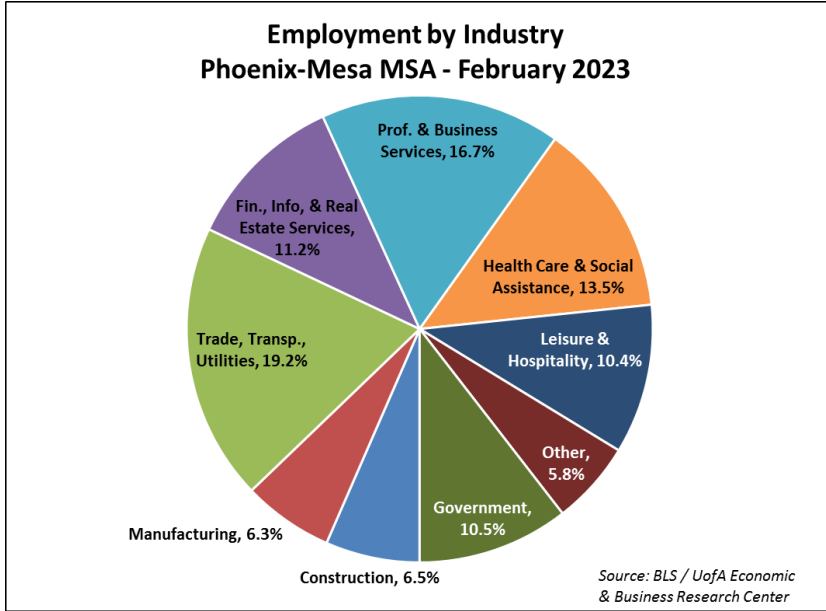
Capital Outlay expenses to date show a favorable variance of \$709K or 21%. The budgets in this category are for one-time purchases related to major equipment and special projects. Similar to Supplies and Services, vendors for capital items continue to struggle with supply-chain issues due to lingering effects of the 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

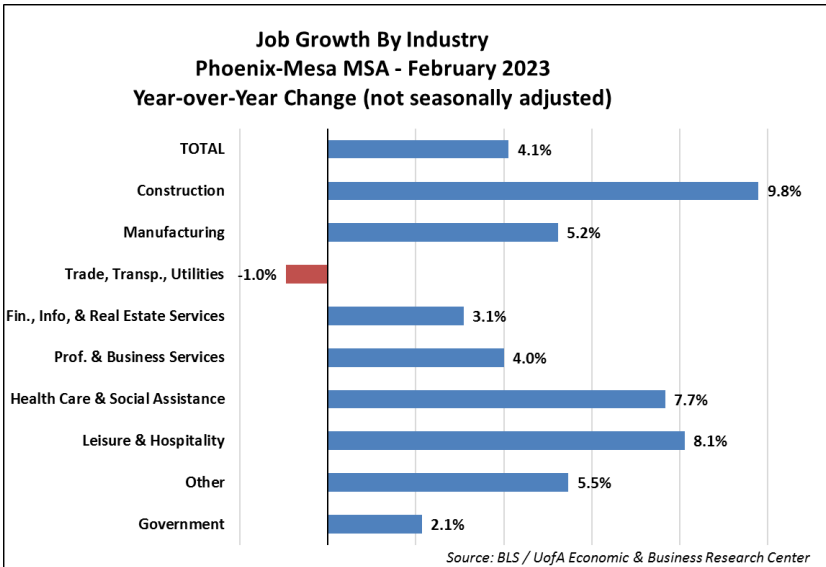
The following schedule displays YTD expenditures and outstanding encumbrances for the Supplies & Services and Capital Outlay categories. This schedule provides a view of both actual spending and contractual commitments relative to the total budgets in these categories. This data helps gauge the pace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

February 2023 (FY 22-23) Expenses and Encumbrances					
	YTD	Outstanding	Total Actual +	Total	YTD
Expenditure Category:	Actual	Encumbrances	Encumbrances	FY 22-23	Spent &
				Budget	Encumbered
Supplies & Services	18,663,680	8,172,041	26,835,721	38,619,939	69%
Capital Outlay	2,707,584	5,615,359	8,322,943	8,989,017	93%
Total	\$ 21,371,265	\$ 13,787,400	\$ 35,158,664	\$ 47,608,956	74%

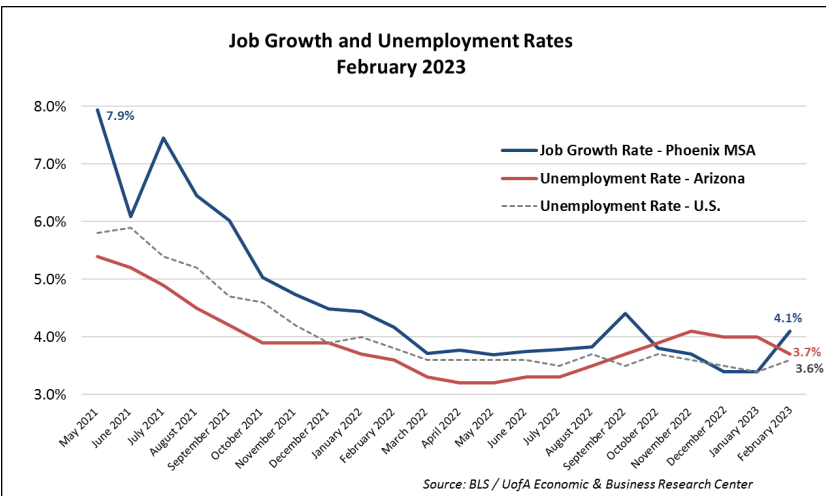
Economic Indicators



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.

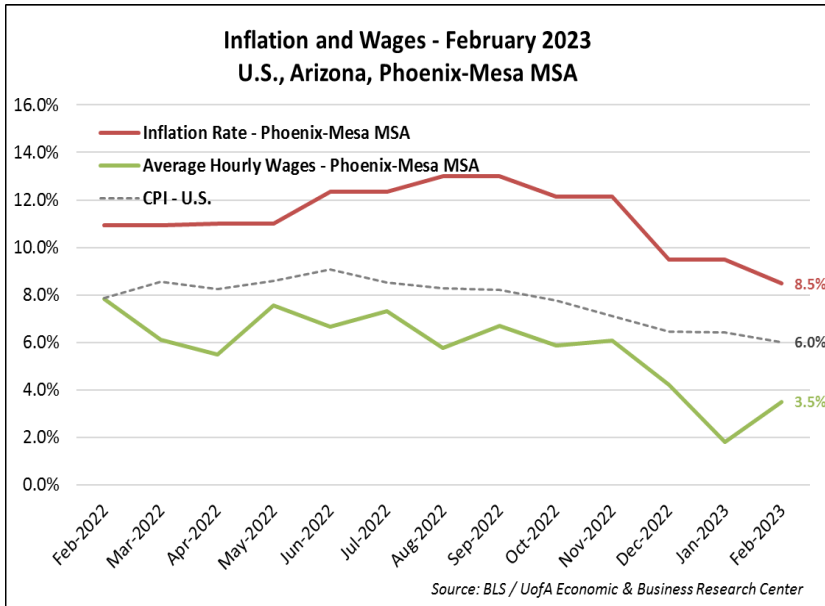


This chart demonstrates which industries have added or lost jobs, compared to the same month one year ago. This information is useful to identify which sectors may be growing or shrinking in the region. In the current environment, we are watching the Construction industry closely to gauge the impact 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 costs 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. Persistently high inflation that outpaces income growth can impact households' spending patterns. 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. February wage growth in the Phoenix region ticked up 3.5% after two months of declining. 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	555.8	5.2%
U.S.	310.9	373.0	(16.6)%
Median Home Prices:			
Queen Creek	\$ 520,610	\$ 600,000	(13.2)%
Phoenix-Mesa MSA	\$ 435,600	\$ 475,000	(8.3)%
Arizona	\$ 469,500	\$ 470,950	(0.3)%
U.S.	\$ 363,000	\$ 363,700	(0.2)%
Housing Cost vs. Wage Growth:			
30-Year Fixed Mortgage Interest Rate	6.65%	3.76%	--
Monthly Payment on QC Median Home ⁽¹⁾	\$ 2,659	\$ 2,219	19.8%
Average Hourly Wage - Phoenix-Mesa MSA	\$ 32.50	\$ 31.40	3.5%
Real Estate Activity			
SF Homes Sold - Queen Creek	107	136	(21.3)%
SF Days on Market - Queen Creek	85	30	183.3%
SF Homes Sold - Phoenix-Mesa MSA	4,557	6,427	(29.1)%
SF Active Listings - Phoenix-Mesa MSA	14,685	7,238	102.9%
New Single-Family Building Permits			
Queen Creek	50	166	(69.9)%
Phoenix / Pinal County Region	1,418	2,983	(52.5)%
Queen Creek 12-Month Rolling Total	1,108	1,865	(40.6)%
Regional 12-Month Rolling Total	20,777	31,882	(34.8)%

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.

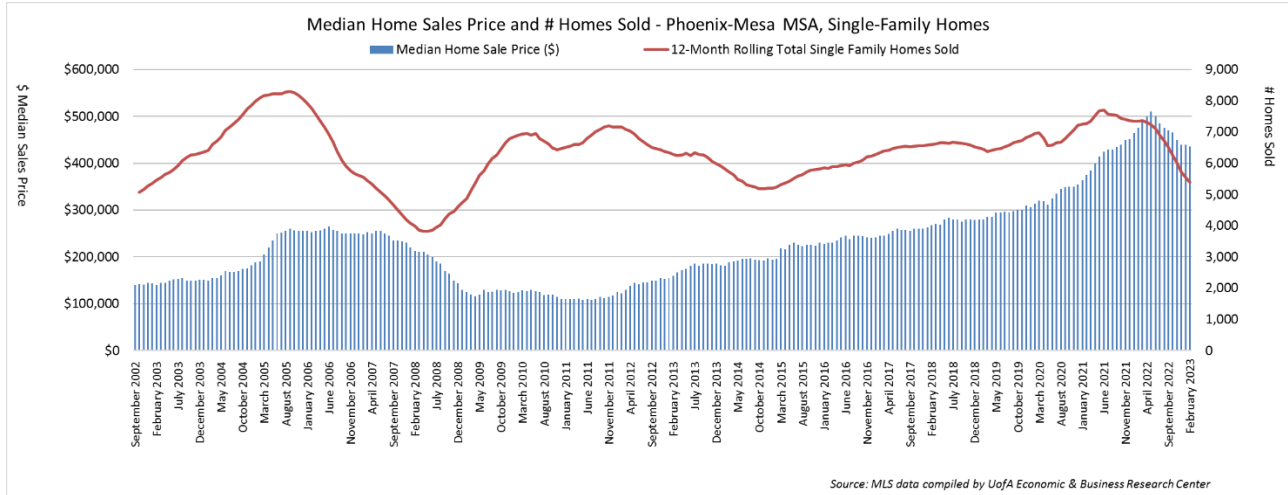
New SF Building Permits – The latest data show a drop in new home construction across the entire region, showing that Queen Creek's experience is similar to neighboring communities.

⁽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 recent drop in prices and volume since interest rates began rising in March 2022.





TOWN OF
QUEEN CREEK
ARIZONA

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

FY 22-23 Business Activity through January 2023*

(Unaudited)

Issued March 2023

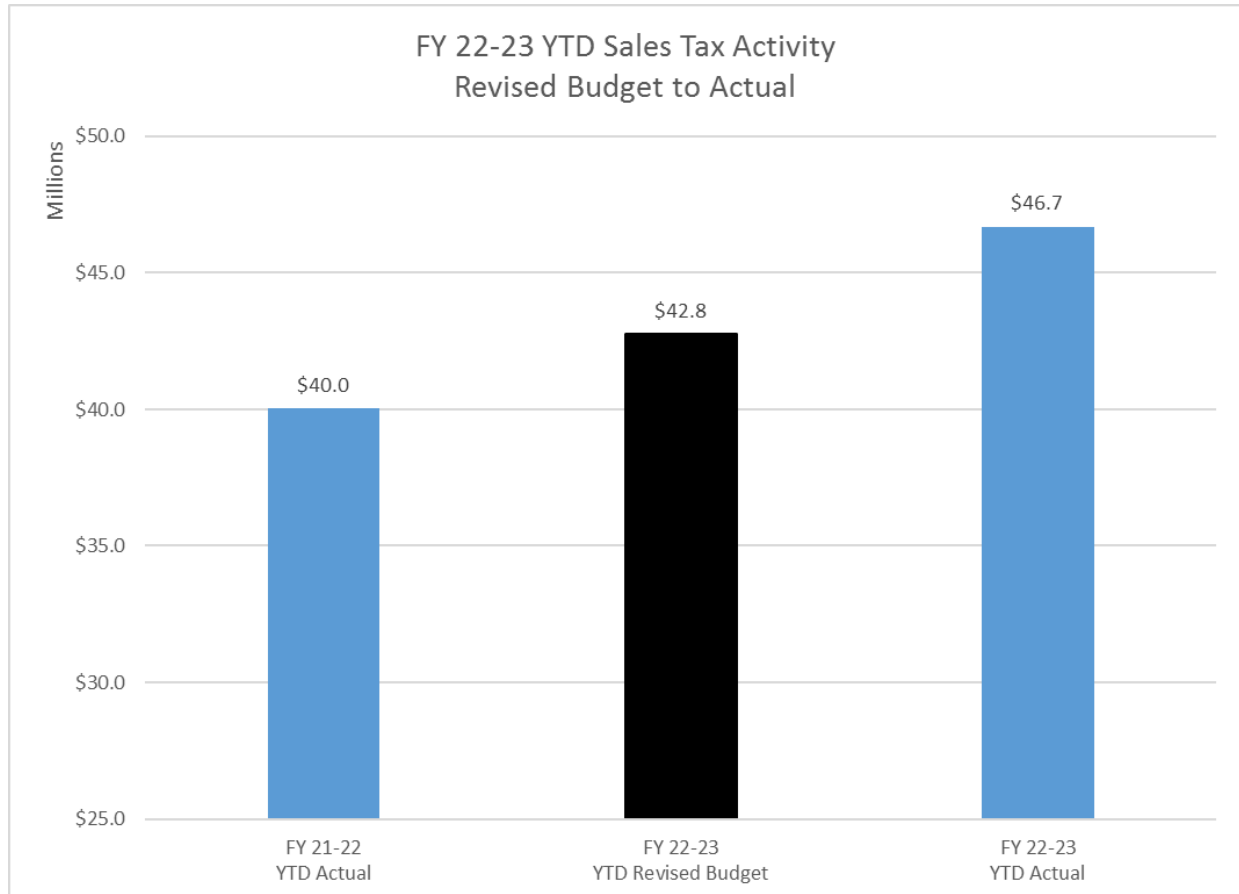
This report contains information regarding the actual revenue collections from the Town's 2.0% sales tax reflected in the General Fund, 0.25% dedicated EMS sales tax, 0.25% Town Center dedicated sales tax and the 2.0% Construction Contracting sales tax dedicated to infrastructure improvements.

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

OVERALL PERFORMANCE SUMMARY:

The FY23 sales tax revenue year-to-date total of \$46.7M exceeds the revised budget by 9%, or \$3.9M. Relative to the same period in FY 21-22, FY 22-23 actuals are 17%, or \$6.7M 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	\$ 16,596,092	\$ 17,151,859	\$ 19,778,153	\$ 2,626,294	15%	\$ 3,182,061	19%
Retail Trade	\$ 15,869,088	18,553,666	19,214,523	660,857	4%	3,345,435	21%
Communications & Utilities	\$ 1,337,995	1,450,892	1,473,925	23,033	2%	135,929	10%
Restaurant & Bar	\$ 2,970,073	3,317,356	3,420,241	102,885	3%	450,168	15%
Real Estate, Rental & Leasing	\$ 1,465,829	1,714,612	1,809,131	94,519	6%	343,303	23%
All Others**	\$ 1,788,834	585,091	993,714	408,623	70%	(795,120)	(44%)
Totals	\$ 40,027,911	\$ 42,773,476	\$ 46,689,686	\$ 3,916,210	9%	\$ 6,661,775	17%

**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

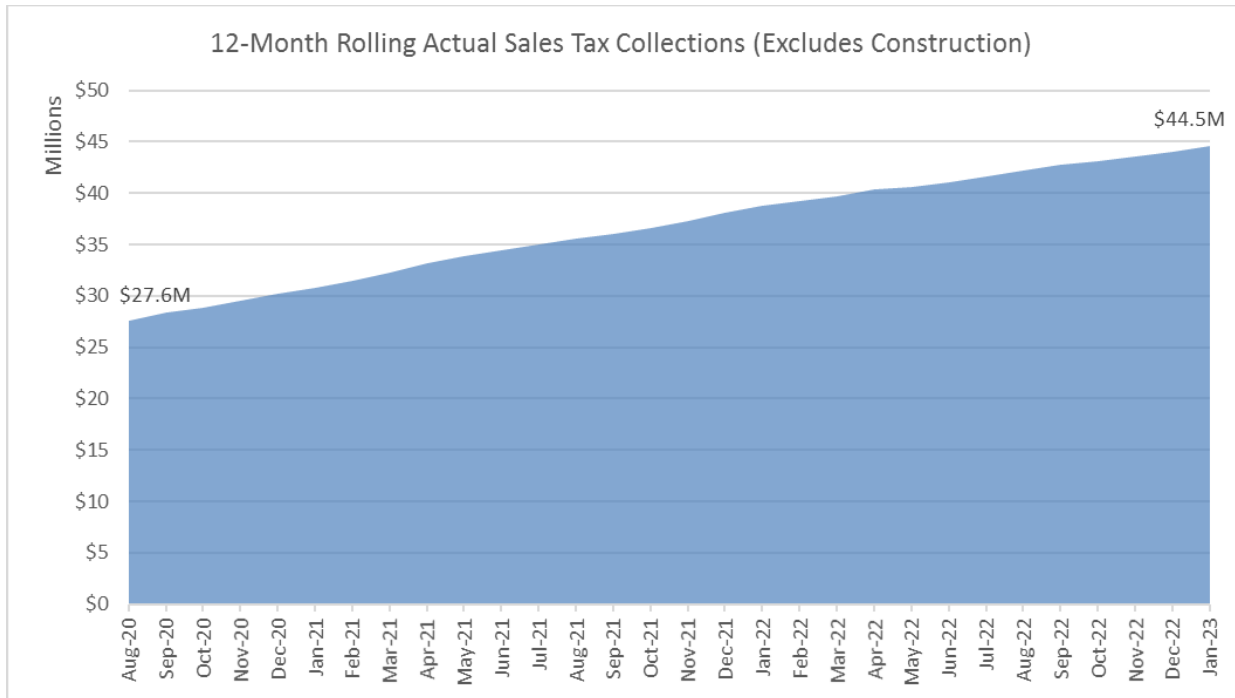
Town of Queen Creek sales tax collections are positively impacted by the high incomes of Town households. Per the 2021 American Communities Supplemental Survey data provided by the U.S. Census, Queen Creek's median household income is \$121,262, which is among the highest in the region for full-service cities and towns. 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 Mobylics, a platform that analyzes consumer foot traffic from mobile devices, over 65% of visitors to the Town Center retail locations live within 10 miles of Town Center.

January 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.

January 2022 Actuals: \$1.8M

FY 22-23 YTD Actuals: \$19.8M

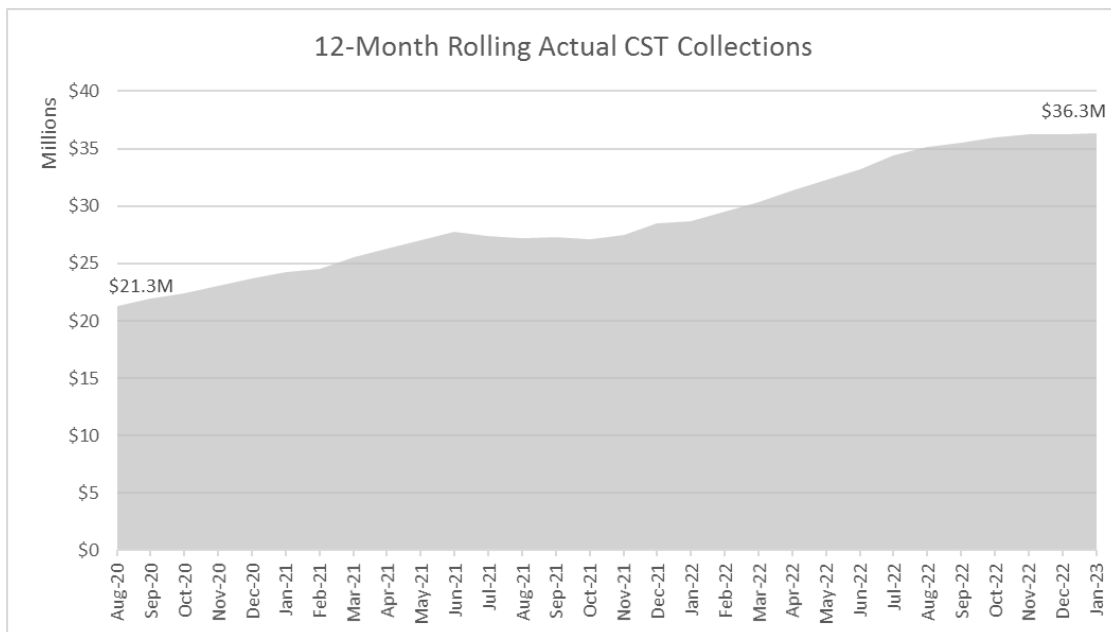
FY 22-23 YTD Revised Budget to Actual Variance of \$2.6M or 15%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$3.2M or 19%

FY 22-23 collections are higher than the FY 22-23 revised budget and the prior fiscal year actuals through January 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, high demand for new homes, 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 January, 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

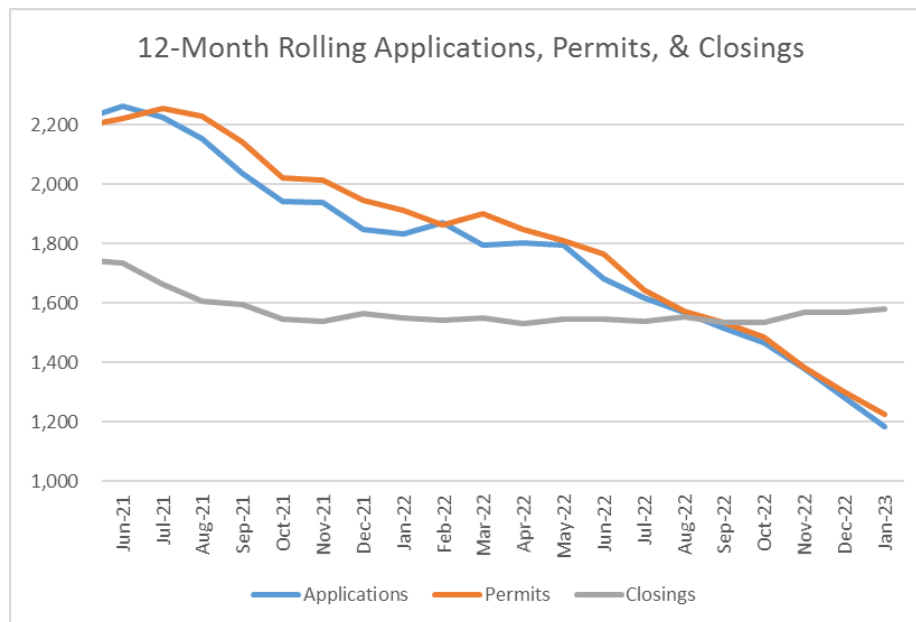
Appendix 1: Queen Creek Monthly Sales Tax Report

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.

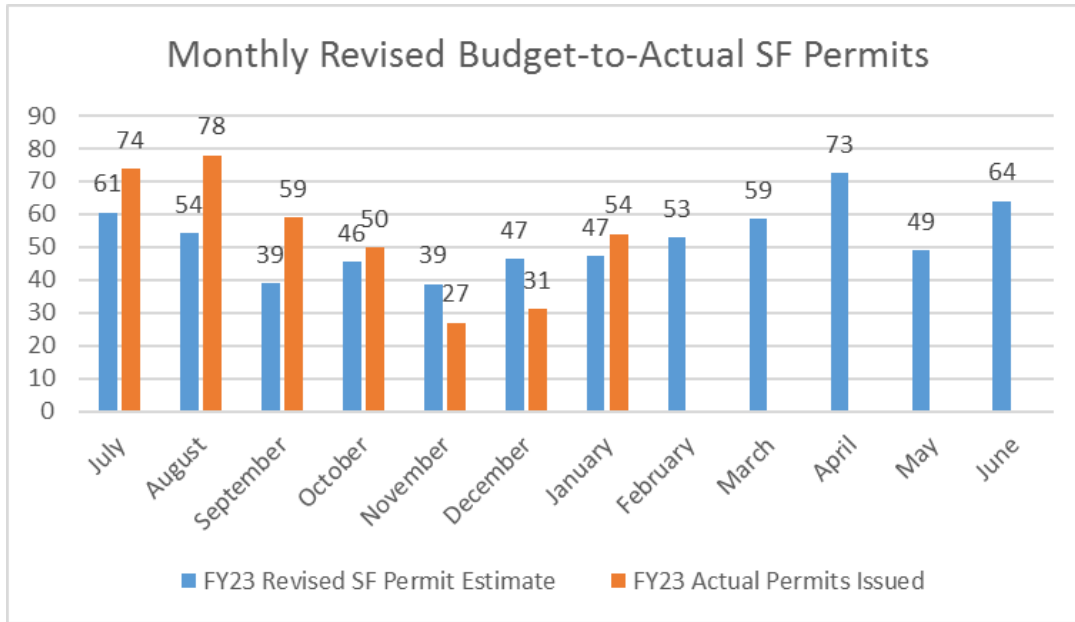
Business Type	FY21 YTD Actuals		FY22 YTD Actuals		FY23 YTD Actuals	
	Sales Tax (\$)	% of Total	Sales Tax (\$)	% of Total	Sales Tax (\$)	% of Total
Homebuilders	\$12.5M	80%	\$12.3M	74%	\$12.2M	62%
Gen. Contractors, Pool/ Landscape, & Other Specialized Trades	\$3.1M	20%	\$4.3M	26%	\$7.6M	38%
Total	\$15.6M	100%	\$16.6M	100%	\$19.8M	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 slight rebound in January. 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 110% of the revised budget year-to-date. Overall, the Town made up 6% of total NSF permits issued in the greater Phoenix area in January. 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 64 new home sales close in the month of January with an average sales price of \$692K for these homes. The following table shows the monthly closings by builder, average sale price and estimated gross revenue for the month of January 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	12	\$ 580,363	\$ 6,964,352
TAYLOR MORRISON	10	\$ 797,678	\$ 7,976,784
SHEA HOMES	8	\$ 672,027	\$ 5,376,217
RICHMOND AMERICAN	6	\$ 490,640	\$ 2,943,839
BEAZER HOMES	6	\$ 576,905	\$ 3,461,429
LENNAR HOMES	4	\$ 503,240	\$ 2,012,960
GEHAN HOMES	3	\$ 596,660	\$ 1,789,980
DAVID WEEKLEY HOMES	3	\$ 858,252	\$ 2,574,755
FULTON HOMES	3	\$ 642,361	\$ 1,927,083
MARACAY HOMES	3	\$ 684,443	\$ 2,053,330
MISC CUSTOM	2	\$ 2,137,500	\$ 4,275,000
PULTE HOMES	2	\$ 537,854	\$ 1,075,708
ELLIOTT HOMES	1	\$ 869,400	\$ 869,400
TOLL BROTHERS	1	\$ 1,015,438	\$ 1,015,438
GRAND TOTAL	64	\$ 692,442	\$ 44,316,275

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.

January 2022 Actuals: \$2.5M

FY 22-23 YTD Actuals: \$19.2M

FY 22-23 YTD Revised Budget to Actual Variance of \$660K or 4%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$3.3M or 21%

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 January, the top 20 payers of 5,672 total payers in the retail category delivered 61% of the revenue. The top 10 payers in the category account for 51% of the total.

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 January, at least \$440K, or 17%, is estimated to come from e-commerce transactions. January 2023 e-commerce sales tax collections are 2% lower than collections in January 2022.

COMMUNICATIONS/UTILITIES:

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

January 2022 Actuals: \$170K

FY 22-23 YTD Actuals: \$1.5M

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

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$136K or 10%

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.

January 2022 Actuals: \$500K

FY 22-23 YTD Actuals: \$3.4M

FY 22-23 YTD Revised Budget to Actual Variance of \$102K or 3%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$450K 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 restaurants and bars 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.

January 2022 Actuals: \$248K

FY 22-23 YTD Actuals: \$1.8M

FY 22-23 YTD Revised Budget to Actual Variance of \$95K or 6%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of \$343K or 23%

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.

January 2022 Actuals: \$406K

FY 22-23 YTD Actuals: \$994K

FY 22-23 YTD Revised Budget to Actual Variance of \$408K or 70%

FY 22-23 YTD Actual to FY 21-22 YTD Actual Increase of (\$795K) or (44%)

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 in the month of January due to a large lump-sum payment made by a single taxpayer. 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:

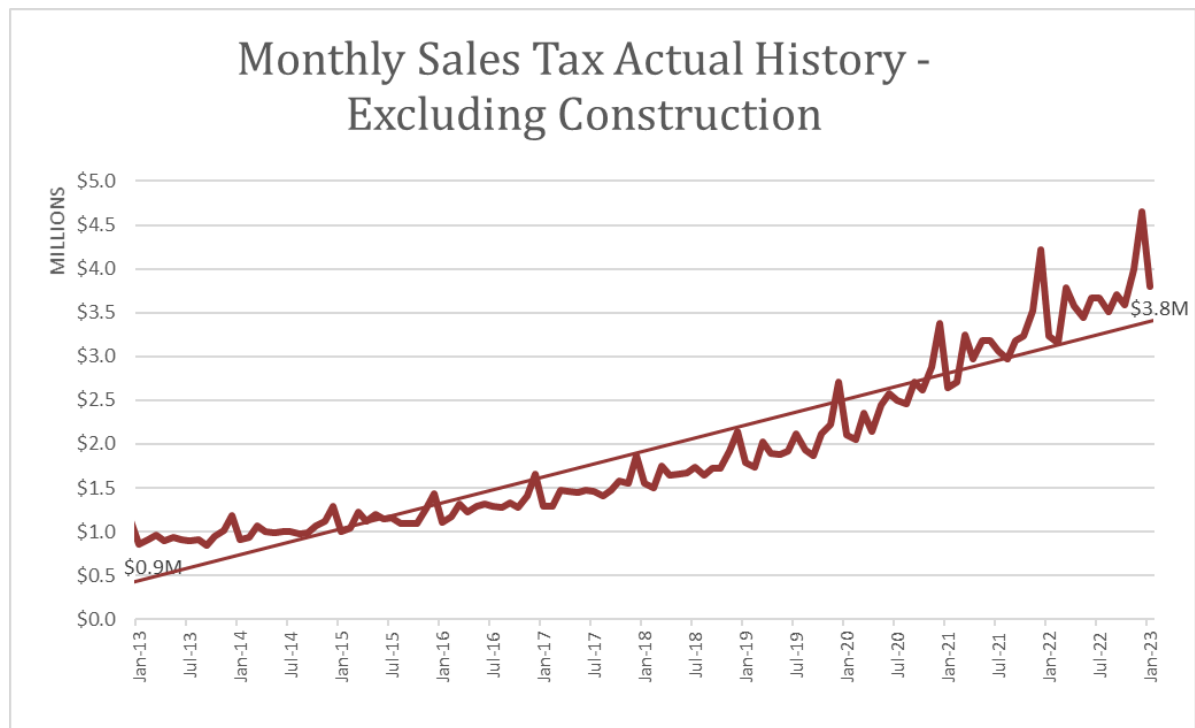
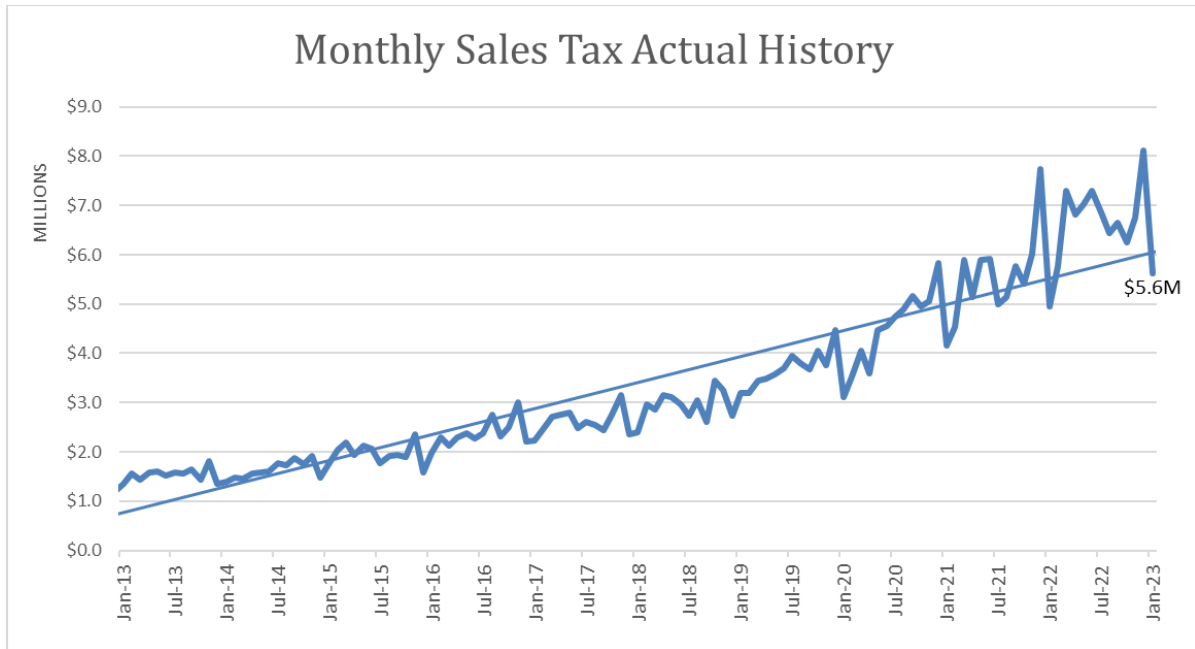
- 2.0% tax rate charged on all taxable activities within Town limits
 - Dedicated to the General Fund for general purpose government operations
- 0.25% tax rate charged on all taxable activities within Town limits
 - Dedicated to the Emergency Services (EMS) Fund to fund law enforcement and fire and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

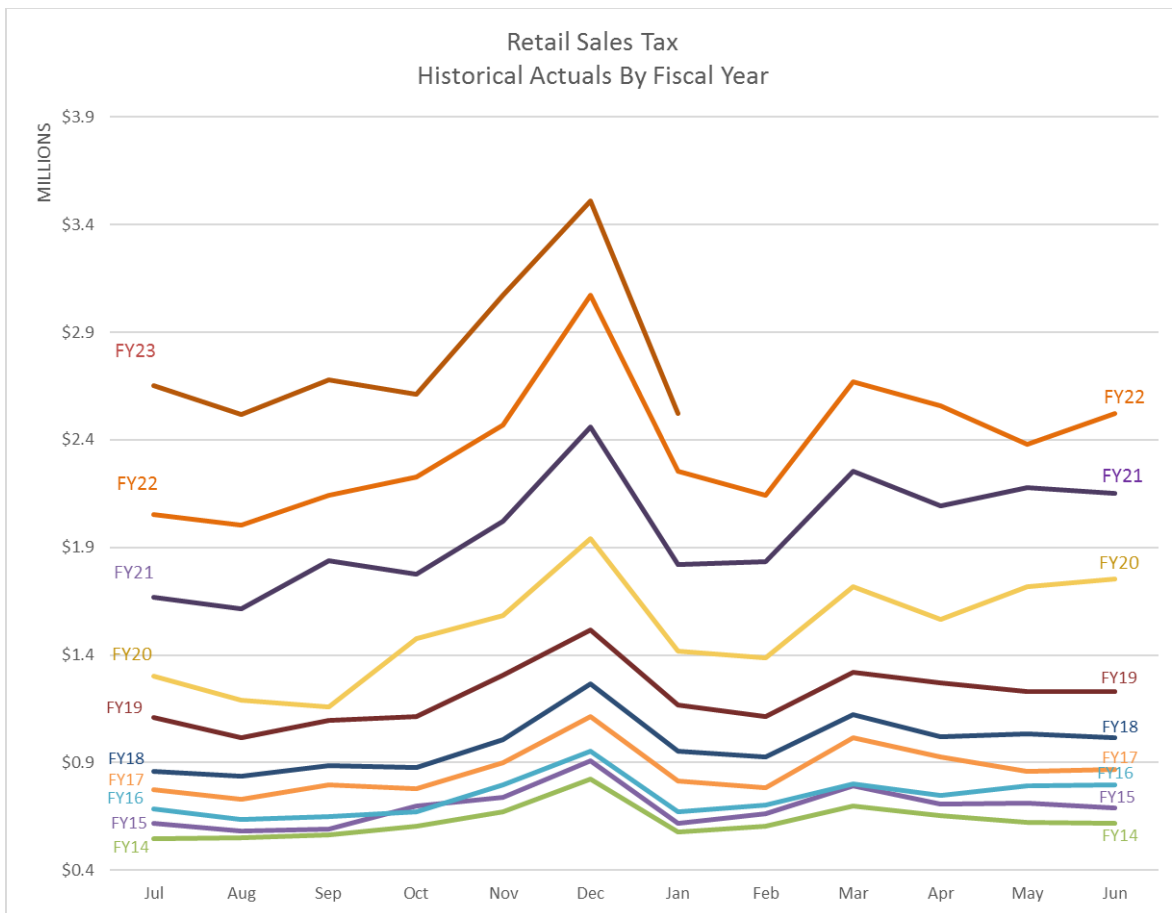
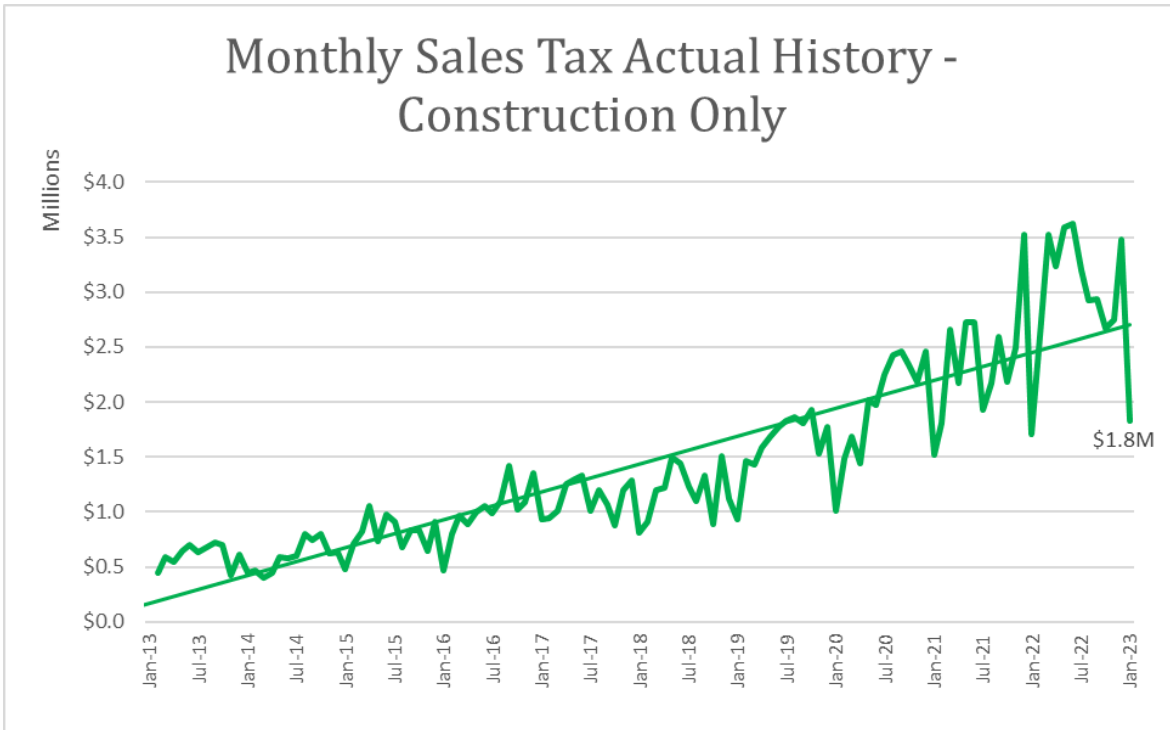
Revenue by Fund	YTD	% of Total
General Fund	\$ 32,540,285	69.7%
EMS Fund	4,067,536	8.7%
Town Center Fund	774,500	1.7%
Construction Fund	9,307,366	19.9%
Totals	\$ 46,689,686	100.0%

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	FY22-23 YTD				
General Fund	\$ 4,148,336	\$ 32,540,285				
EMS Fund	\$ 518,542	\$ 4,067,536				
Total Operating Budget	\$ 4,666,878	\$ 36,607,820				

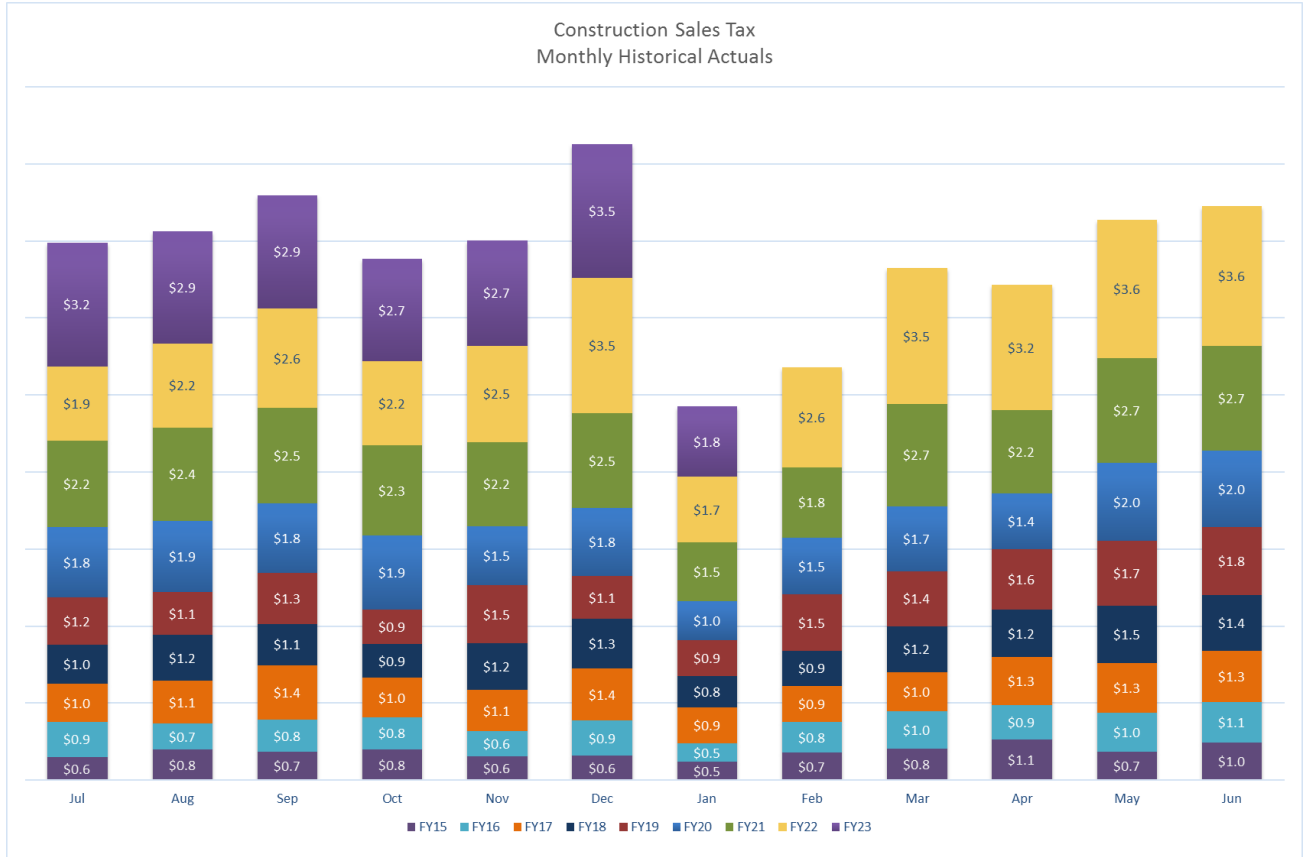
Historical Performance



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