



TOWN OF
QUEEN CREEK
ARIZONA

FY 21-22 Year to Date Financial Report

Operating Budget to Actual Performance
Fiscal Year to Date through May 2022

Issued June 30, 2022

Executive Summary

The Town's budget-to-actual performance for FY 21-22 through May shows favorable variances for both revenues and expenses. Actual revenues are performing well with receipts exceeding expectations by \$6.7M, or 7%. This is the result of Sales Tax, Construction Sales Tax, and Building/Engineering Revenues all performing better than expected due to continued residential and commercial growth throughout the Town. The FY 21-22 budget anticipated a moderation in the Town's rate of growth compared to the prior year. For example, the revised budget projects 1,801 single-family permits for the fiscal year, in contrast to a record 2,223 permits issued last fiscal year. To date the Town has issued 1,634 single-family permits including 113 permits issued in May. The revenue budget amounts in this report include higher revenue estimates that were approved by the Town Council in February 2022.

Total expenses to date are \$4.5M or 7% less than budget. The favorable variance is driven by savings in staff vacancies and various supplies and materials that remain on back-order due to nationwide supply-chain issues. The revised budget includes expenditure budget adjustments that have been approved by the Town Council since the beginning of the fiscal year.

The revised Operating Budget anticipated that expenses (before transfers) would exceed revenues by \$25.1M through May. However, actual results to date are better than expected resulting in revenues exceeding expenses by \$36.3M, an improvement of \$11.2M or 44%.

The Operating Budget remains financially sound with healthy reserve balances, including \$25.5M in operating reserves and \$45.7M in pension reserves. Of note, the pension reserves are fully funded, representing 100% of the Town's estimated unfunded pension liabilities as of June 30, 2021, per the Town's Pension Funding Policy.

Recently, Standard & Poor's (S&P) and Fitch both upgraded the Town's bond ratings one step, from "AA" to "AA+" with a stable outlook. This upgrade places the Town's bond rating just one notch below the highest rating possible of "AAA." Both rating agencies cited several positive factors in their reports, including the following:

- Stable and diverse revenue base
- Expected strong revenue growth and resiliency through economic cycles
- Strong Arizona economy and connectivity to Phoenix-Metro Area
- Elimination of unfunded pension liabilities and manageable pension costs
- Increasing reserves
- Very strong financial management policies and practices

This higher bond rating means lower interest rates on the Town's future debt issues, which will save the Town's taxpayers hundreds of thousands of dollars in interest costs over time. The Town will use the comments in the ratings reports as a roadmap to our ultimate goal of achieving a "AAA" rating.

Operating Budget

The Operating Budget includes activity in the General, Streets (HURF), Emergency Services and Horseshoe Park Equestrian Center funds. The schedule below is a summary of the FY 21-22 Operating Budget results year to date. This year's budgeted revenues are expected to exceed expenses by \$20.1M, with additional amounts being transferred out to other funds to cover the non-growth share of debt payments and capital improvements. To date, \$915K has been transferred from the EMS Fund toward the cost of a replacement fire truck that was approved in the FY21-22 budget, and \$8.0M has been transferred from the Operating Budget to cover scheduled debt service payments.

The revised expense budget reflects \$3.5M that was carried forward from the previous fiscal year to provide spending authority for various projects and equipment needs, nearly half of which was for starting up the police department. Other recent budget adjustments have taken \$5.5M from contingency funds to provide budget authority for additional police equipment and staffing, advance purchase orders for long-lead items such as vehicles and heavy equipment, and a year-end transfer of \$6.5M from the General Fund for costs of new facilities for Public Works and the CIP Department that are expected to be built next fiscal year. After these adjustments, the revised budget anticipates the Town will add \$771K to fund balance by the end of the fiscal year.

The Town's Operating fund balance is expected to end the fiscal year at \$92.4M. Of the total fund balance, \$45.7M is reserved for pension funding and \$25.5M 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, 2021. The remaining fund balance of \$21.2M is available to fund future operating and capital needs.

Summary FY 21-22 Operating Budget

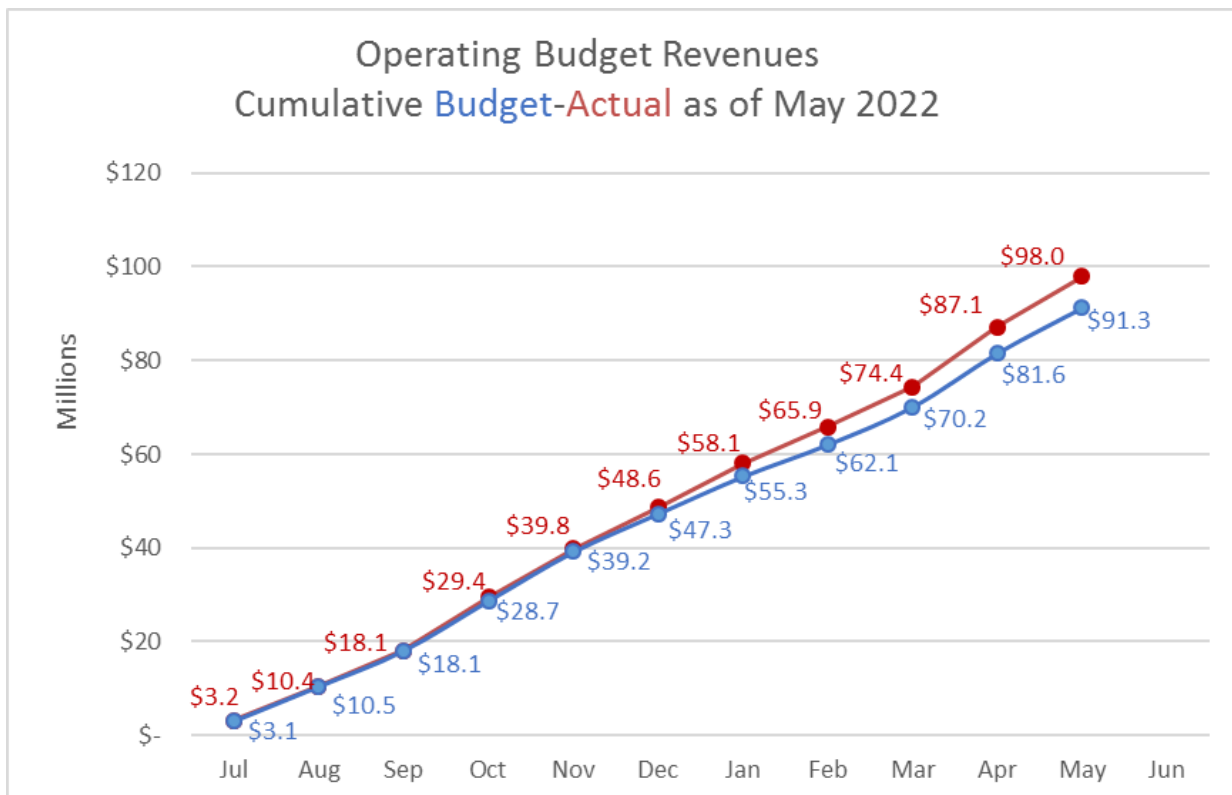
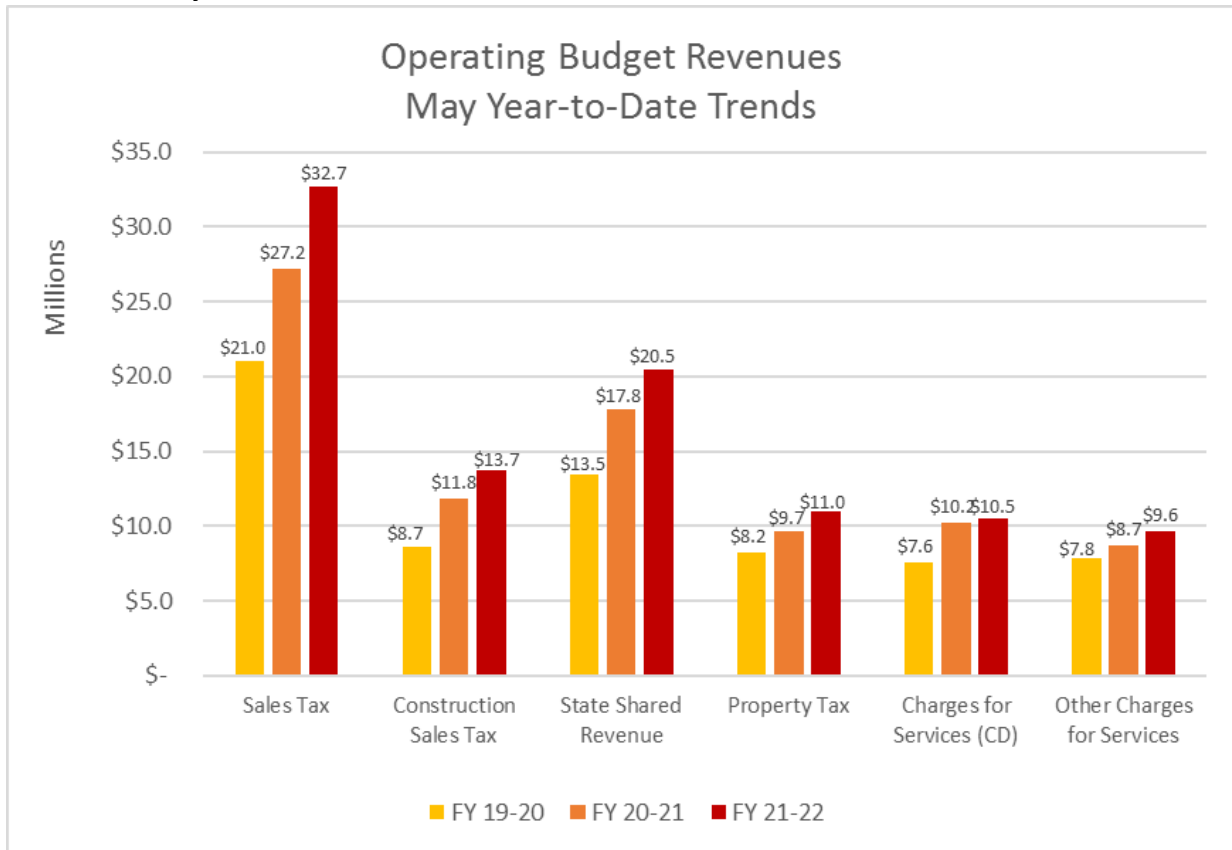
	FY 21-22 Total Adopted Budget	FY 21-22 Total Revised Budget	FY 21-22 Year-to-Date Budget	FY 21-22 Year-to-Date Actual
Revenues	\$ 95,823,650	\$ 105,778,056	\$ 91,318,867	\$ 97,957,117
Expenses	76,565,289	85,634,991	66,195,759	61,674,660
Operating Results	\$ 19,258,361	\$ 20,143,065	\$ 25,123,108	\$ 36,282,458
Transfers Out:				
Debt Service	\$ 8,026,251	\$ 8,016,251	\$ 8,047,142	\$ 8,047,142
CIP	4,856,300	11,356,300	915,467	915,467
Net Transfers Out	\$ (12,882,551)	\$ (19,372,551)	\$ (8,962,610)	\$ (8,962,610)
Net Operating Results	\$ 6,375,810	\$ 770,514	\$ 16,160,498	\$ 27,319,848
Beginning Fund Balance	\$ 81,365,269	\$ 91,672,388		
Ending Fund Balance	\$ 87,741,079	\$ 92,442,902		
25% Revenue Reserve	\$ 25,512,450	\$ 25,512,450		
Police Unfunded Pension Liability Reserve	25,232,142	26,334,929		
ASRS Unfunded Pension Liability Reserve	18,503,805	19,409,088		
Available Fund Balance	18,492,682	21,186,435		
Total Fund Balance	\$ 87,741,079	\$ 92,442,902		

May 2022 Year-to-Date Results

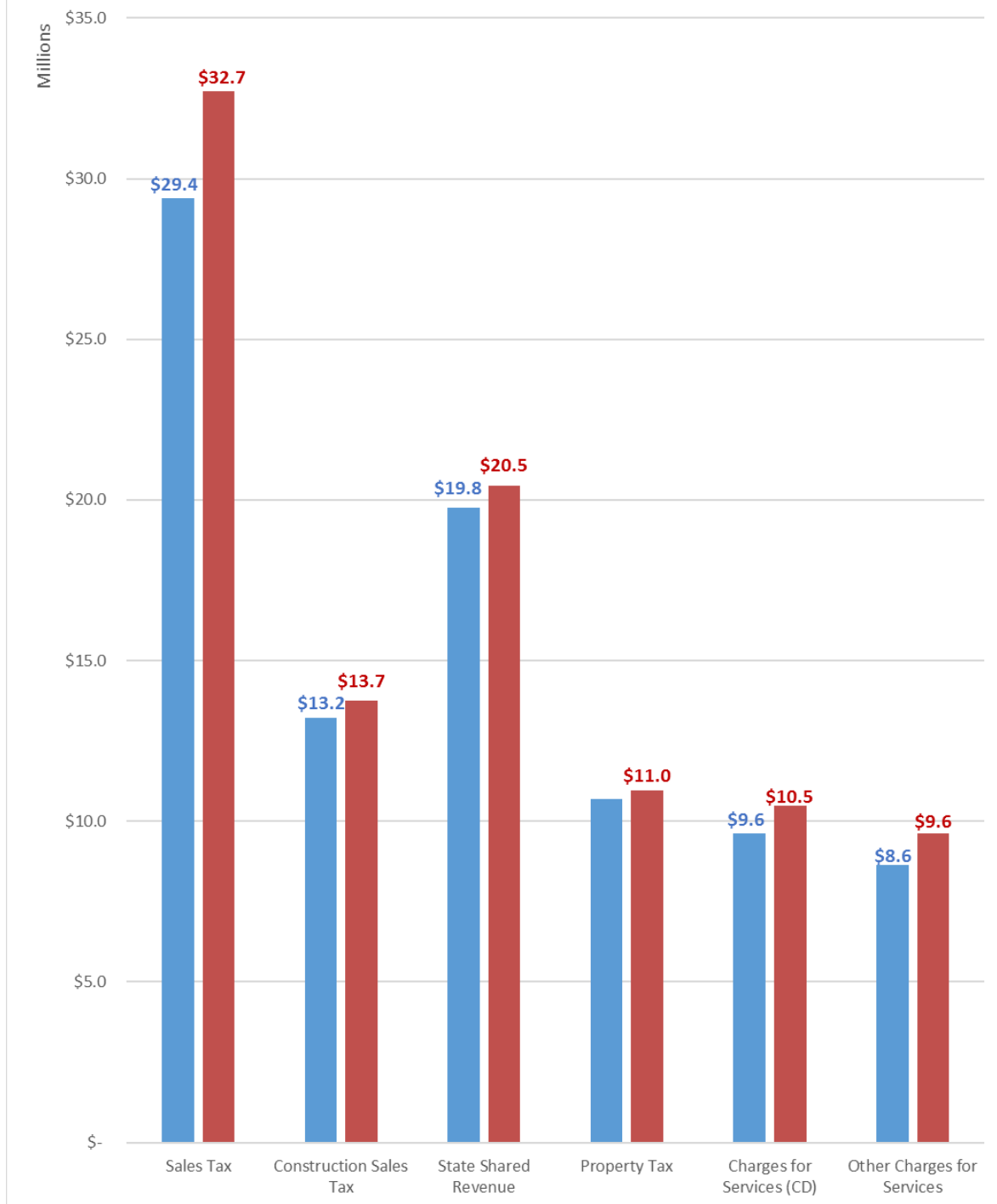
	<u>YTD</u>	<u>YTD</u>	<u>\$ Variance</u>	<u>% Variance</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>	
Revenues				
Sales Tax	\$ 29,381,041	\$ 32,710,403	\$ 3,329,362	11%
Construction Sales Tax	13,226,659	13,740,564	513,905	4%
State Shared Revenue	19,750,951	20,455,857	704,906	4%
Property Tax	10,701,560	10,955,930	254,370	2%
Charges for Services (CD)*	9,617,746	10,473,016	855,270	9%
Other Charges for Services	8,640,910	9,621,347	980,437	11%
Total Revenues	\$ 91,318,867	\$ 97,957,117	\$ 6,638,250	7%
Expenditures				
Salaries & Benefits	\$ 35,589,079	\$ 35,129,993	\$ 459,086	1%
Supplies & Services	22,331,867	19,331,945	2,999,923	13%
Maricopa County Sheriff	3,925,000	3,758,144	166,856	4%
Capital Outlay	4,349,813	3,454,578	895,235	21%
Total Expenditures	\$ 66,195,759	\$ 61,674,660	\$ 4,521,100	7%

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

Revenue Analysis



Operating Revenue FYTD May: +6.7M (+7%)
\$91.3M FY21-22 Budget to \$98.0M FY21-22 Actual



Overall, actual revenues are showing a 7% favorable variance compared to the revised budget. The variances of the Revenue Categories are explained below.

Sales Tax

Sales tax revenue for FY 21-22 is currently \$3.3M or 11% above budget. This positive performance is attributed to the Town's fast-growing population, growth in e-commerce from more residents shopping online rather than at stores in other cities, and new businesses that continue to open in Queen Creek. Please refer to the Sales Tax Report (Appendix 1) for additional information on sales tax activity.

Construction Sales Tax

Construction sales tax revenue is currently \$514K or 4% above the revised budget. Though smaller than prior months, this positive variance reflects a continuation of the strong residential and commercial construction activity that the Town has seen over the last three years. Please refer to the Sales Tax Report (Appendix 1) for additional information on construction sales tax activity.

State-Shared Revenue

State-Shared Revenue is \$705K or 4% above the revised budget. The State of Arizona as a whole is seeing better-than-expected performance in sales tax activity. When combined with Queen Creek's population growth, this has increased the Town's share of state TPT distributions compared to prior years. In contrast, the estimates for the Town's share of HURF and Vehicle License Tax were lowered in February due to lower than expected distributions, which appears to be a statewide trend partially due to lingering effects of the COVID-19 pandemic.

Property Tax

Property tax revenue to date is \$254K or 2% above budget. The Town receives the majority of its property tax distributions in October and November, and the remainder in April and May, due to Arizona's statutes that allow property owners to pay their annual property taxes in two installments.

Charges for Services – Community Development (CD)

Charges for Services-CD accounts for planning, engineering and building permit revenues. Fiscal year 21-22 CD revenue to date is favorable by \$855K or 9%, as presented in the following schedule:

May 2022 YTD Community Development Detailed Revenues

Charges for Services (CD)	<u>Budget</u>	<u>Actual</u>	<u>\$ Variance</u>	<u>% Variance</u>
Planning Revenue	\$ 230,746	\$ 273,628	\$ 42,882	19%
Engineering Revenue	1,575,000	1,723,815	148,815	9%
Building Permit Revenue	<u>7,812,000</u>	<u>8,475,574</u>	<u>663,574</u>	<u>8%</u>
Total Charges for Services (CD)	\$ 9,617,746	\$ 10,473,016	\$ 855,270	9%

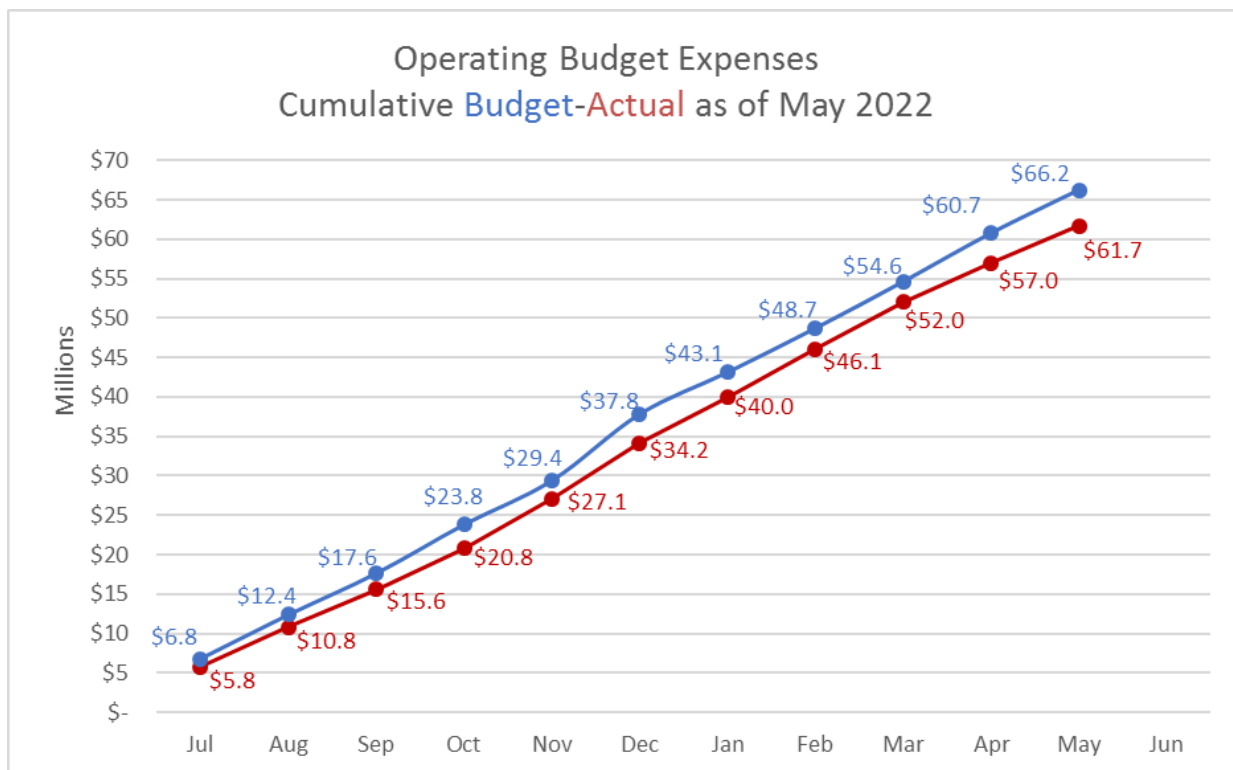
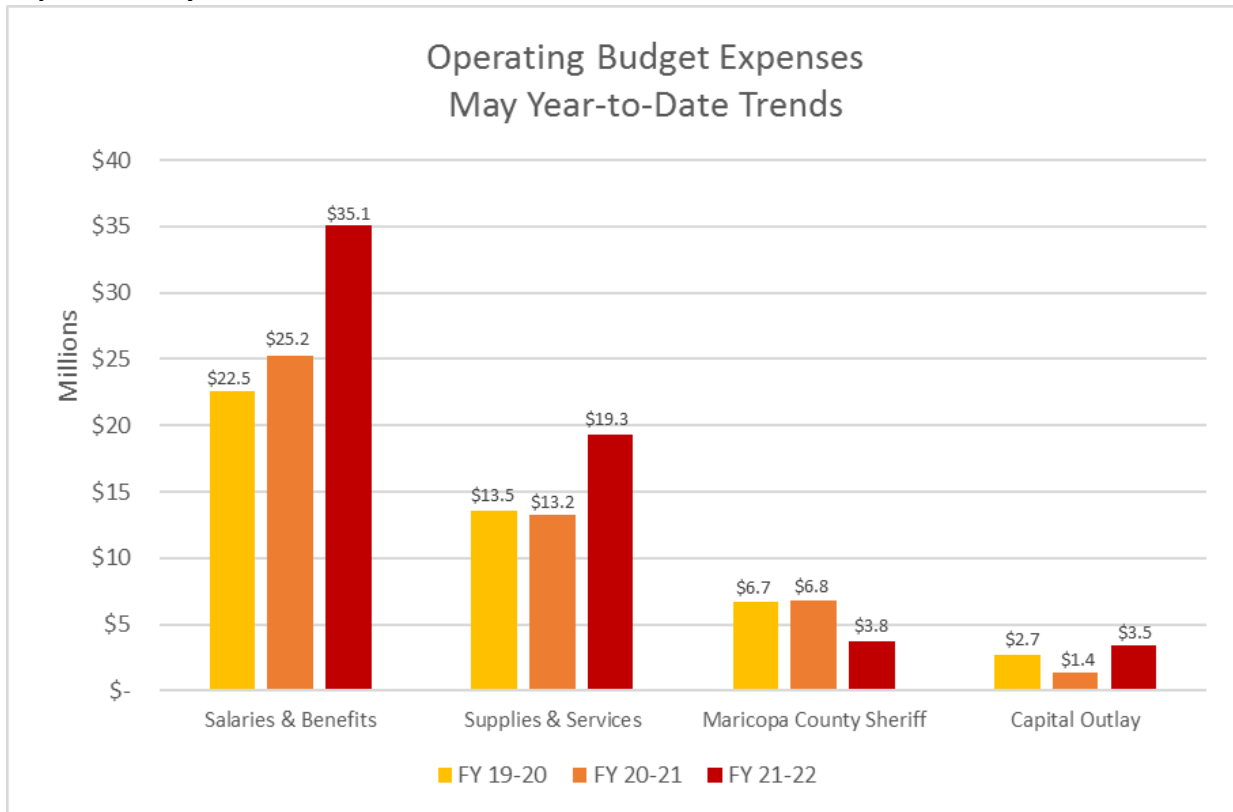
Similar to construction sales tax, CD revenue is tied to new and proposed development activity in the town for new subdivisions, commercial developments, and annexations. The FY 21-22 revised budget includes an estimate of 1,801 new single-family permits, which is lower than the record 2,223 permits issued last fiscal year but still reflective of continued and strong development activity. In May, the Town issued 113 single-family building permits, bringing the year-to-date total to 1,634 permits.

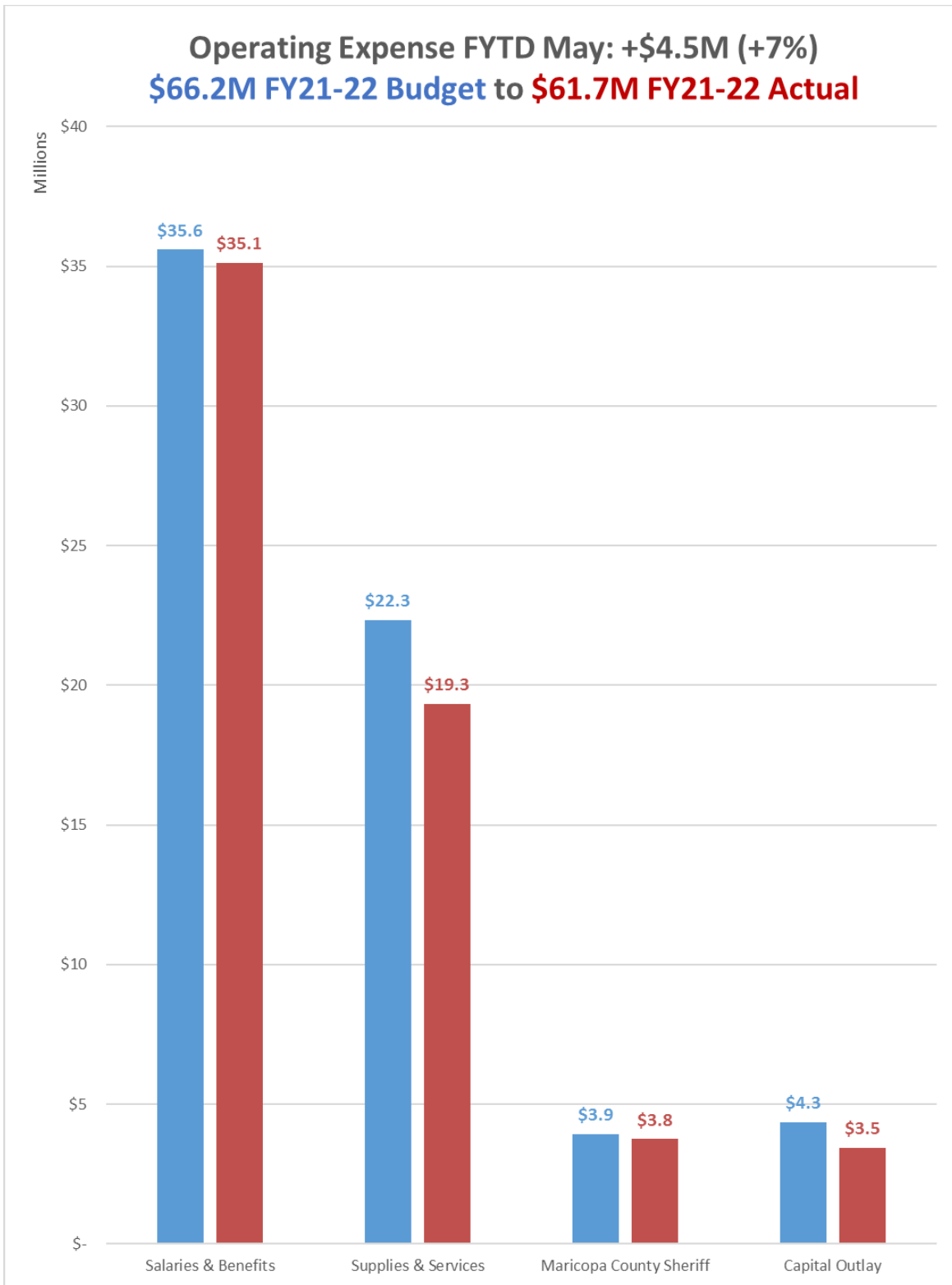
Other Charges for Services

Other Charges for Services is comprised of a number of different sources and is currently showing a \$980K or 11% positive variance. Most of this variance is due to higher than expected revenues from the Town's Recreation and HPEC activities. Through May, Recreation fees were \$378K or 116% above budget due to stronger than expected demand for recreation classes and rentals of Town facilities. HPEC revenues were \$349K or 56% above budget due to strong attendance at popular events such as Roots 'n Boots and Art of the Cowgirl. Additionally, the Town has received \$181K or 103% more in investment income to date than expected due to maturity of older investments that were purchased prior to the drop in interest rates caused by the COVID-19 pandemic. Finally, the Town has received \$119K in insurance recovery funds related to storm damage claims through the Town's insurance provider.

Other revenue in this category include Utility ROI and Utility Franchise Fees from the Town's Water and Sewer utility operations, which together account for \$3.2M or 34% of the Other revenue category. Departmental Support Revenue accounts for an additional \$1.5M or 16% of the total revenue in this category.

Expense Analysis





The year-to-date expenditures for FY 21-22 reflect a favorable variance of 7%. The variances of the Expenditure Categories are explained below.

Salaries and Benefits

Salaries and Benefits expenses to date are \$459K or 1% below budget. This variance is partly due to turnover in staff positions. As they happen, vacancies are evaluated on a case-by-case basis to determine if the position needs to be filled right away or if the Town can delay hiring a replacement. At the end of May, the Town had 12 vacancies related to staff turnover in the Operating Budget. Additionally, one new Police Officer position approved in the FY 21-22 budget was still vacant at the end of May.

Supplies and Services

Supplies and Services expenses are \$3.0M or 13% below budget so far this year. This savings is currently coming from several categories including software; software support; credit card fees; employee uniforms, safety supplies, and personal protective equipment; and maintenance and repairs of facilities and vehicles. Also, global supply-chain disruptions continue to affect the Town's ability to acquire needed supplies and materials on time in areas such as traffic, public safety, and street & facilities maintenance. Staff is working with vendors to find solutions to these issues, but economists and business analysts expect these disruptions to continue throughout calendar year 2022, which means the operating budget is expected to show positive variances in supplies and services budgets through the end of the fiscal year.

Maricopa County Sheriff

Maricopa County Sheriff costs are showing a favorable variance of \$167K or 4%. With the MCSO contract officially ending on January 10, 2022, the Town closed out the contract with MCSO and made the final payments to the county in February.

Capital Outlay

Capital Outlay expenses to date show a favorable variance of \$895K 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, which means the timing of delivery for items such as vehicles and related equipment is often uncertain. Staff expects to have large positive variances in capital outlay budgets at the end of the fiscal year due to these supply-chain issues.