



TOWN OF
QUEEN CREEK
ARIZONA

FY 21-22 Year to Date Financial Report

Operating Budget to Actual Performance
Fiscal Year to Date through October 2021

Issued December 3, 2021

Executive Summary

The Town's budget-to-actual performance for FY 21-22 through October shows favorable variances for both revenues and expenses. Actual revenues are performing well with receipts exceeding expectations by \$3.5M, or 13%. 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 (but not a significant slowdown), in the Town's rate of growth. For example, the adopted budget projected 1,331 single-family permits for the fiscal year, compared to a record 2,223 permits issued last fiscal year. Additionally, average monthly home closings are currently running 6% lower than the prior year but still at a strong pace of 133 closings per month.

Total expenses to date are \$1.6M or 7% less than budget. The favorable variance is driven by savings in software, staff vacancies, and various 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 \$3.5M through October. However, actual results for the first quarter are better than expected resulting in revenues exceeding expenses by \$8.6M, an improvement of \$5.1M or 146%.

The Operating Budget remains financially sound with healthy reserve balances, including \$22.5M 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.

With these positive results, staff is currently revising revenue estimates for FY 21-22 in conjunction with preparing revenue forecasts for the next fiscal year's budget adoption cycle. Staff will present these revised estimates to the Town Council at a future Council meeting.

Operating Budget

The Operating Budget includes the Town's 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 \$16.0M, with additional amounts being transferred out to other funds to cover the non-growth share of debt payments and capital improvements. To date, \$804K has been transferred from the EMS Fund toward the cost of a replacement fire truck that was approved in the FY21-22 budget.

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 \$539K from contingency funds to provide budget authority for additional police software, equipment, and staffing. The revised budget anticipates the Town will add \$3.2M to fund balance by the end of the fiscal year.

The Town's Operating fund balance is expected to end the fiscal year at \$94.8M. Of the total fund balance, \$45.7M is reserved for pension funding and \$22.5M 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 \$23.6M 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	\$ 95,823,650	\$ 25,913,700	\$ 29,408,967
Expenses	76,565,289	79,800,479	22,410,081	20,774,904
Operating Results	\$ 19,258,361	\$ 16,023,171	\$ 3,503,619	\$ 8,634,063
Transfers Out:				
Debt Service	\$ 8,026,251	\$ 8,016,251	\$ -	\$ -
CIP	4,856,300	4,856,300	803,834	803,834
Net Transfers Out	\$ (12,882,551)	\$ (12,872,551)	\$ (803,834)	\$ (803,834)
Net Operating Results	\$ 6,375,810	\$ 3,150,620	\$ 2,699,785	\$ 7,830,229
Beginning Fund Balance	\$ 81,365,269	\$ 91,672,388		
Ending Fund Balance	\$ 87,741,079	\$ 94,823,008		
25% Revenue Reserve	\$ 25,512,450	\$ 25,512,450		
MSCO 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	23,566,541		
Total Fund Balance	\$ 87,741,079	\$ 94,823,008		

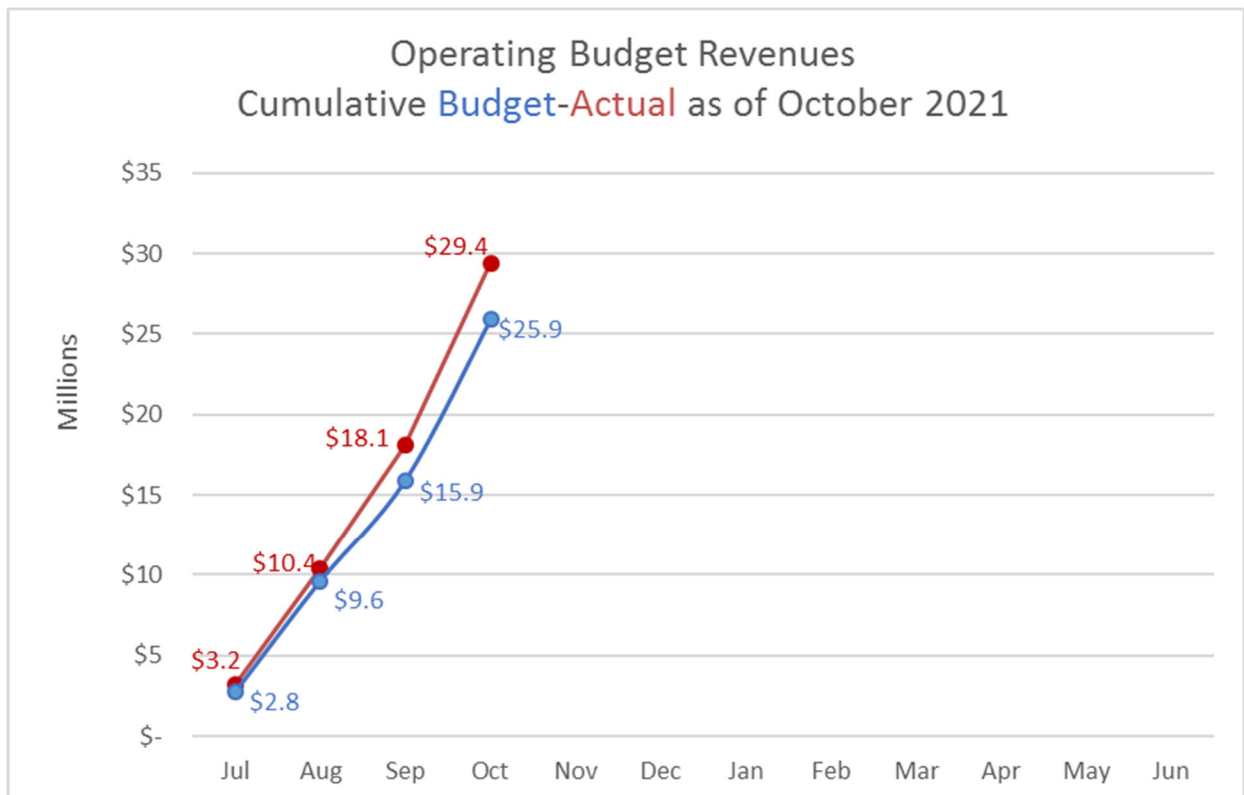
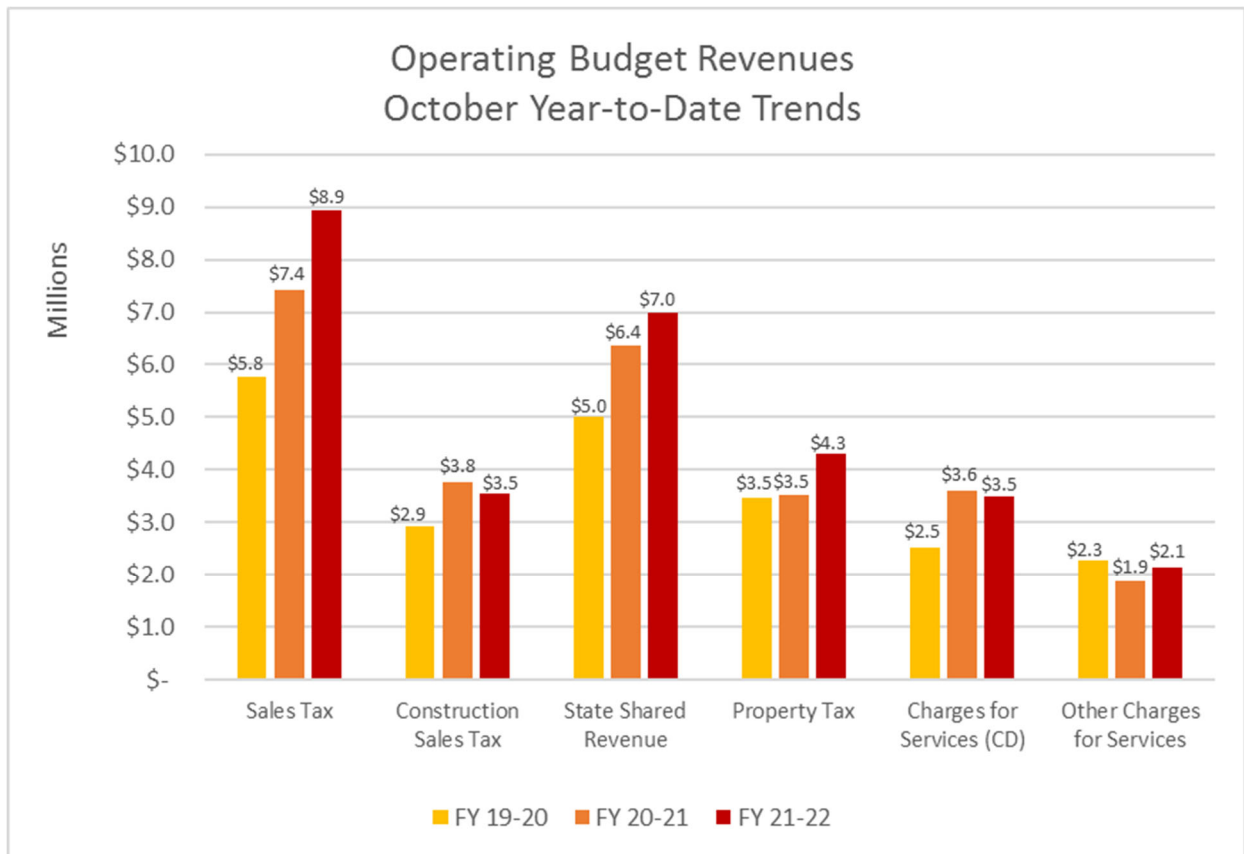
The remainder of this report focuses on revenues and expenses only. It does not include transfers, debt service, or infrastructure funding transfers.

October 2021 Year-to-Date Results

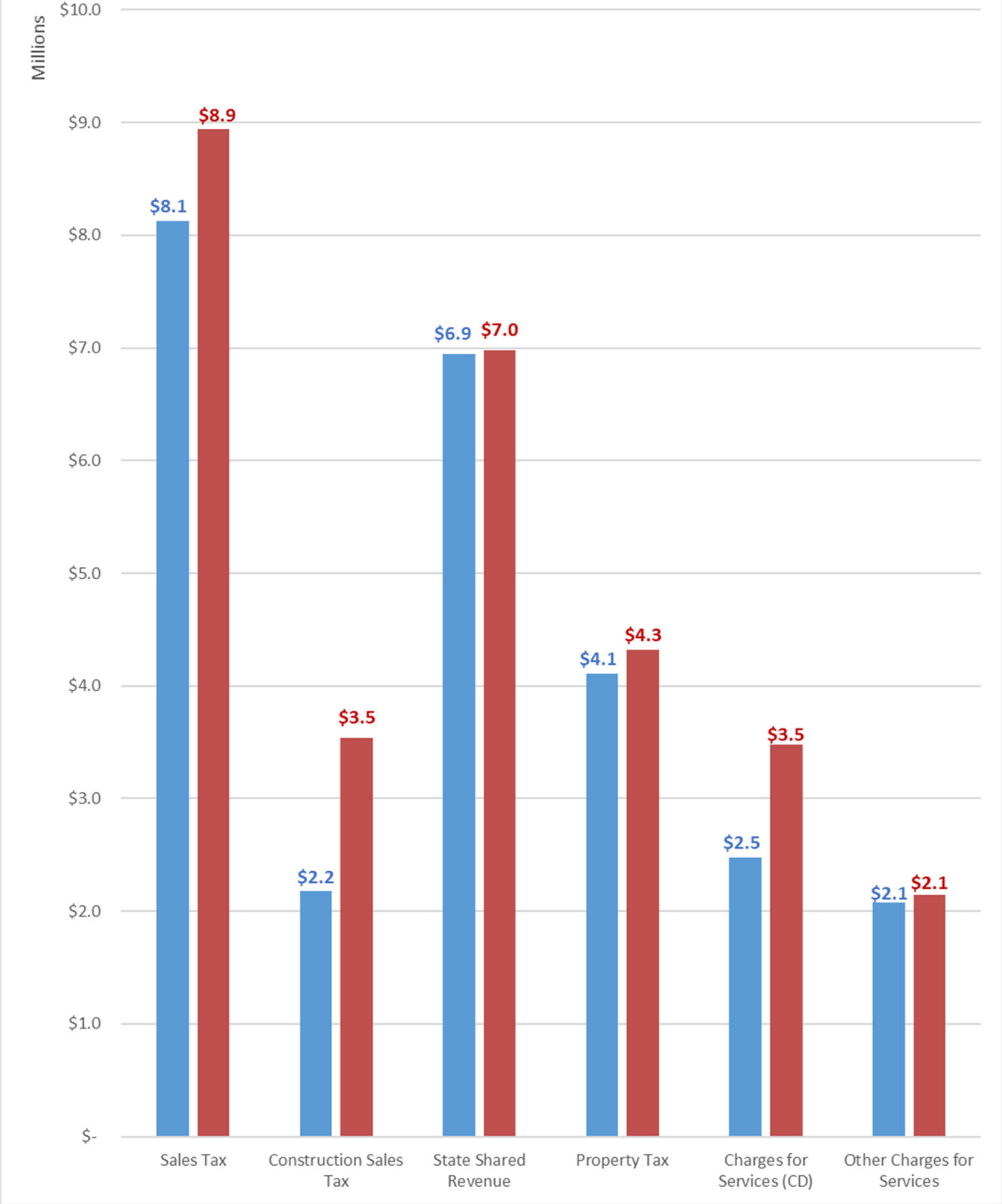
	<u>YTD</u>	<u>YTD</u>	<u>\$ Variance</u>	<u>% Variance</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>	
Revenues				
Sales Tax	\$ 8,127,830	\$ 8,940,399	\$ 812,569	10%
Construction Sales Tax	2,178,640	3,542,827	1,364,187	63%
State Shared Revenue	6,946,200	6,982,236	36,036	1%
Property Tax	4,104,260	4,317,033	212,773	5%
Charges for Services (CD)*	2,480,880	3,482,679	1,001,799	40%
Other Charges for Services	2,075,890	2,143,793	67,903	3%
Total Revenues	\$ 25,913,700	\$ 29,408,967	\$ 3,495,267	13%
Expenditures				
Salaries & Benefits	\$ 13,005,603	\$ 12,302,286	\$ 703,317	5%
Supplies & Services	6,255,696	5,576,107	679,589	11%
Maricopa County Sheriff	2,616,667	2,413,290	203,376	8%
Capital Outlay	532,115	483,220	48,895	9%
Total Expenditures	\$ 22,410,081	\$ 20,774,904	\$ 1,635,177	7%

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

Revenue Analysis



Operating Revenue FYTD October: +\$3.5M (+13%)
\$25.9M FY21-22 Budget to \$29.4M FY21-22 Actual



Overall, actual revenues are showing a 13% 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 \$813K or 10% 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 \$1.4M or 63% above budget, reflecting a continuation of the strong residential and commercial construction activity that the Town has seen over the last three years. Construction sales tax is paid at the time a home or nonresidential project is completed. Though new home construction remains strong, recent data show a slight drop in the rolling 12-month average number of single-family home closings in the Town. Through October 2021, the monthly average was 133 closings compared to 141 closings for the previous 12-month period. This is a decrease of 8 homes or 6% per month and likely reflects the current supply-chain issues affecting builders' ability to complete homes on schedule for their customers. Please refer to the Sales Tax Report (Appendix 1) for additional information on construction sales tax activity.

State-Shared Revenue

State-Shared Revenue is \$36K or 1% above the revised budget. The State of Arizona as a whole is seeing better-than-expected performance in sales tax activity and HURF revenue. When combined with Queen Creek's population growth, this has increased the Town's share of state tax distributions compared to prior years.

Property Tax

Property tax revenue to date is \$213K or 5% 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 \$1.0M or 40%, as presented in the following schedule:

October 2021 YTD Community Development Detailed Revenues

Charges for Services (CD)	<u>Budget</u>	<u>Actual</u>	<u>\$ Variance</u>	<u>% Variance</u>
Planning Revenue	\$ 51,190	\$ 101,523	\$ 50,333	98%
Engineering Revenue	163,130	714,723	551,593	338%
Building Permit Revenue	<u>2,266,560</u>	<u>2,666,433</u>	<u>399,873</u>	<u>18%</u>
Total Charges for Services (CD)	\$ 2,480,880	\$ 3,482,679	\$ 1,001,799	40%

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. Engineering revenue is particularly strong through October due to reviews of several commercial developments and multi-family plans that have recently been submitted. The FY 21-22 budget was developed with an estimate of 1,331 new single-family permits. This amount is lower than the record 2,223 permits issued last fiscal year as we expect the pace of new development to moderate, but development activity is still expected to remain strong.

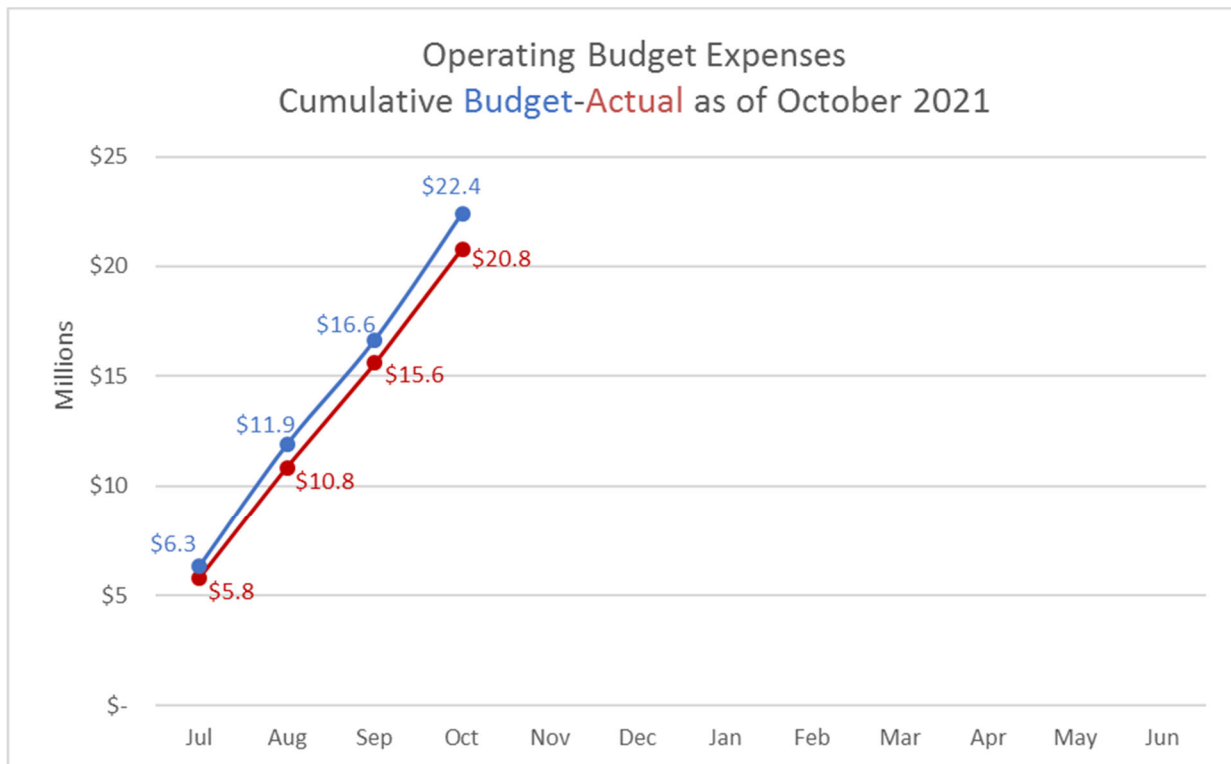
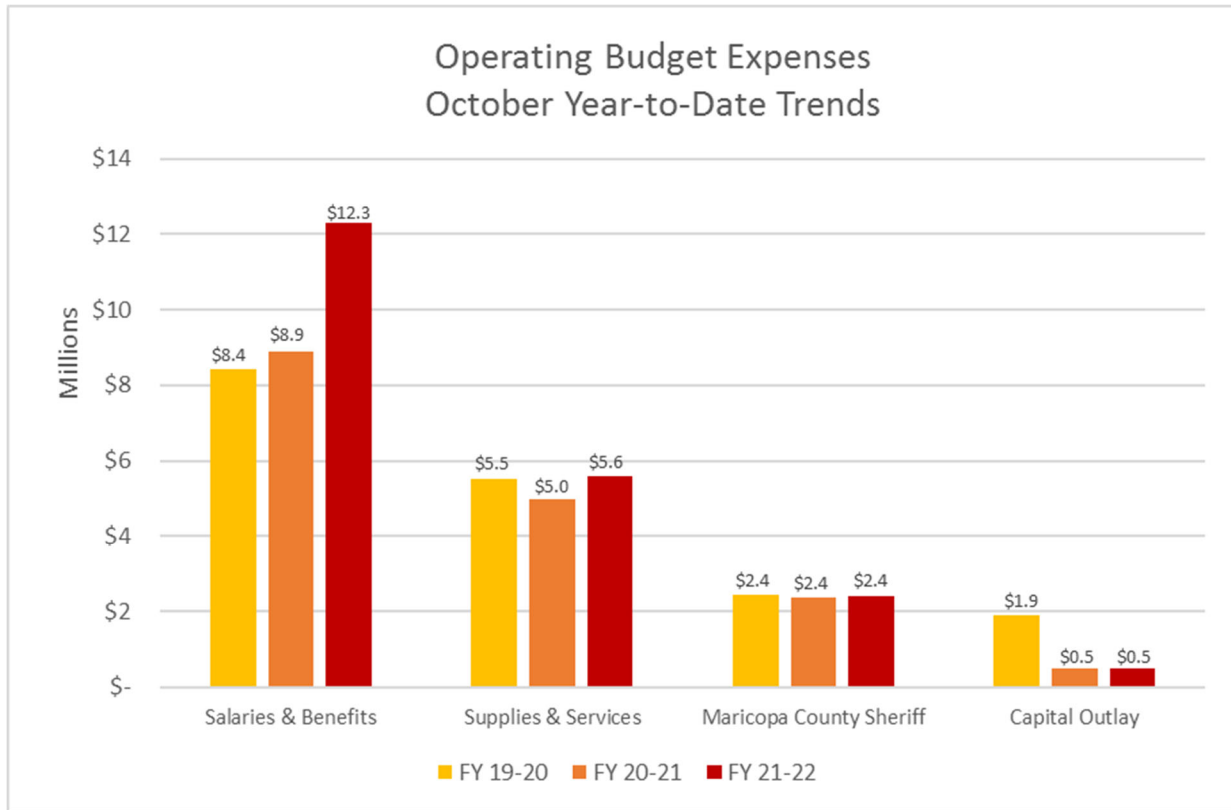
Other Charges for Services

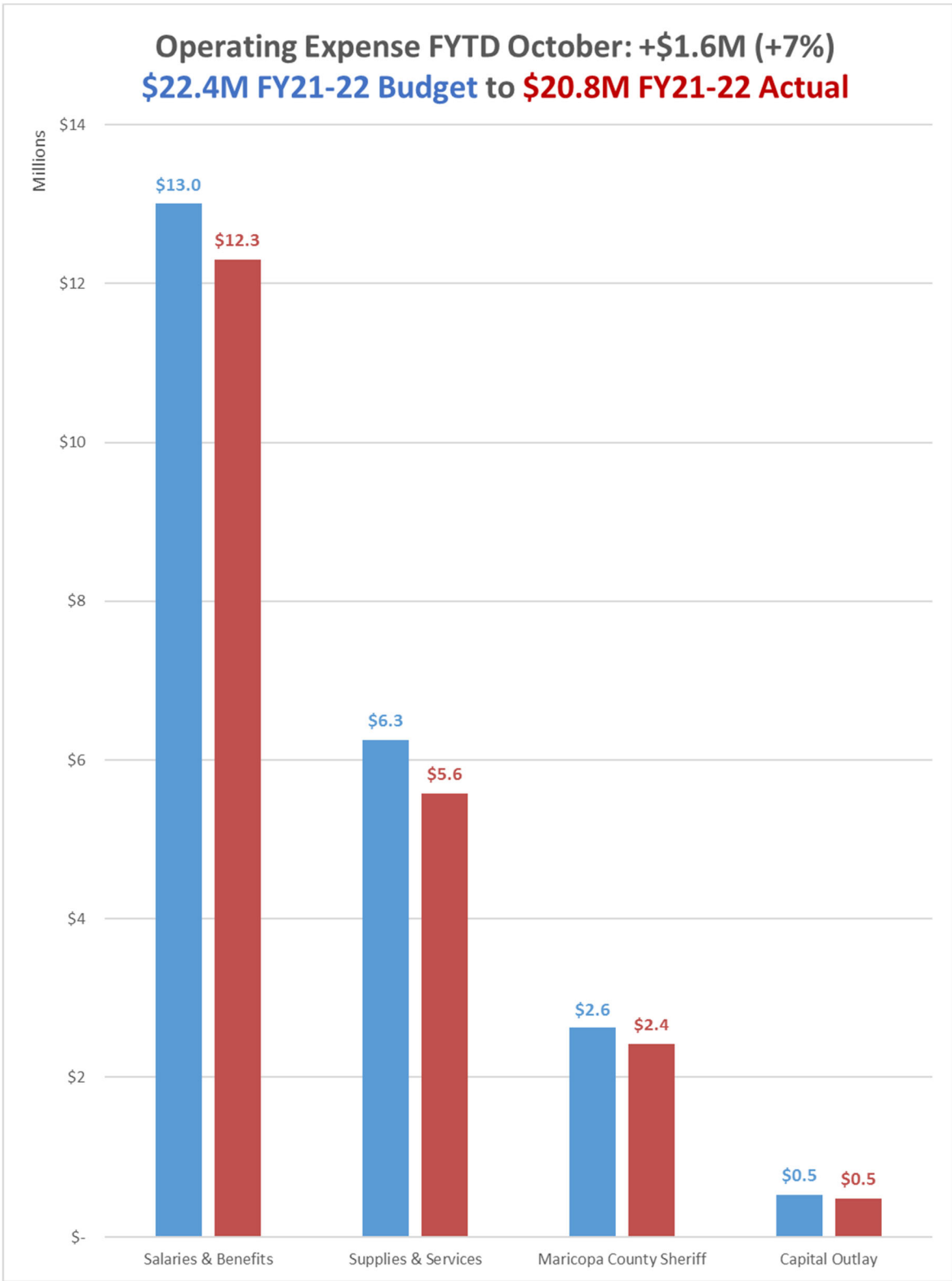
Other Charges for Services is comprised of a number of different sources and is currently showing a \$68K or 3% positive variance. The largest revenue group in this category is Utility ROI and Utility Franchise Fees from the Town's Water and Sewer utility operations, which together account for \$896K or 42% of the Other revenue category. Departmental Support Revenue accounts for an additional \$514K or 24% of the total revenue in this category. Finally, Recreation and HPEC revenue make up \$236K or 11% of Other revenue.

Revenue Budget Adjustments

Given the continued strong performance of the Town's sales tax and CD revenue categories, staff is revising the budget estimates for the current fiscal year and will submit a revenue budget adjustment recommendation to the Town Council in February 2022.

Expense Analysis





The year-to-date expenditures for FY 21-22 reflect a favorable variance of \$1.6M or 7%. The variances of the Expenditure Categories are explained below.

Salaries and Benefits

Salaries and Benefits expenses to date are \$703K or 5% 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 October, the Town had 19 vacancies related to staff turnover in the Operating Budget. Additionally, 13 of the FY 21-22 budget's new positions are still vacant at the end of October, of which 12 are in the Police Department and one is for Information Technology.

Supplies and Services

Supplies and Services expenses are \$680K or 11% below budget so far this year. Most of this savings is currently coming from software and software support budgets as the Town's FY 21-22 budget included funding for several new software applications that are still in various stages of development. Also, national and global supply-chain disruptions are beginning to hamper 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 well into the summer of 2022, which means the operating budget will continue to show large variances in supplies and services budgets in the coming months.

Maricopa County Sheriff

Maricopa County Sheriff costs are showing a favorable variance of \$203K or 8%. The MCSO budget for FY 21-22 already included an estimate of personnel vacancies for which the Town receives a credit on a regular basis. These monthly credits have been higher than expected as MCSO prepares for the Town's transition to a new police department in January 2022.

Capital Outlay

Capital Outlay expenses to date show a favorable variance of \$49K or 9%. 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 remains uncertain.