



TOWN OF
QUEEN CREEK
ARIZONA

FY 23-24 Financial Report

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

Issued October 26, 2023

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

Executive Summary

The Town's budget-to-actual performance for FY 23-24 to date shows favorable variances for both revenues and expenses. Actual revenues are performing well, with receipts exceeding expectations by \$3.3M (13%). This is mainly the result of Sales Tax, Construction Sales Tax, and Building Permit revenues all performing better than expected due to continued residential and commercial growth in the Town and a strong Arizona economy. Operating Budget revenues through September are \$5.1M higher than the same period last fiscal year, an increase of 22%.

The FY 23-24 budget originally included an estimate of 800 new single-family permits and 686 multi-family units, for a total of 1,486 residential units. Through September 2023, the Town has already issued 455 single-family building permits and 168 multi-family units, for a total of 623 residential units, or 42% of the annual total. Because we estimate that the same number of people live in a multi-family unit as a single-family home, the multi-family portion of the Town's population has become a noticeable reason for our continued revenue growth. This growth continues to drive higher revenues, especially sales tax and state-shared revenues.

Total expenses to date are \$4.1M (16%) below budget. This favorable variance comes from a combination of vacancy savings in personnel costs and savings in several expenditure categories including street and building maintenance, contracted IT services, personal protective clothing and equipment, and vehicle fuel and maintenance. Staff is reviewing current and prior-year expense variances to determine if some budgets can be right-sized to better align with historical trends and current needs.

The Revised Operating Budget anticipated that year-to-date expenses (before transfers) would exceed revenues by \$1.2M. However, because actual results to date are better than expected, revenues are \$6.3M above expenses, an improvement of \$7.5M (635%).

The Operating Budget is projected to end the fiscal year with a record-high fund balance of \$146.4M broken down as follows:

- \$38.9M in the 25% Operating Reserves
- \$44.0M in PSPRS and ASRS pension reserves
- \$3.0M in the newly created Road Replacement reserve
- \$0.3M restricted for road maintenance projects funded by HURF revenues
- \$60.2M unreserved fund balance

Staff will present policy options to the Town Council in November that will recommend using some of this available fund balance to address long-term strategies related to the Town's operating reserves, debt management policies, and bond rating objectives.

While the national media focus on geopolitical events, 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. New single-family housing starts remain robust in Queen Creek; however, higher mortgage interest rates and the lack of inventory of existing homes for sale has kept many would-be homebuyers on the sidelines. Multi-family developments continue to add a significant number of new units to the Town's housing stock.

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

Operating Budget

The Operating Budget includes activity in the General, Streets (HURF), Emergency Services, and Horseshoe Park Equestrian Center (HPEC) funds. The schedule below is a summary of the FY 23-24 Operating Budget results for the fiscal year through September. Actual revenues are above expenses by \$6.3M due to strong revenue growth and expense savings. This compares favorably to the original budget that estimated expenses would exceed revenues by \$1.2M through September.

The expense budget reflects \$7.4M that was carried forward from the previous fiscal year to provide spending authority for various projects and equipment needs, including \$6.7M for vehicles and equipment that vendors were unable to deliver before the end of last fiscal year.

The Town's total Operating fund balance is expected to increase by \$8.5M and end the fiscal year at \$146.4M, a record high. Of this total, \$44.0M is reserved for pension funding and \$38.9M 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, 2023.

Other restrictions on fund balance include \$3.0M for the newly created Road Replacement reserve and \$0.3M for future HURF projects. The remaining fund balance of \$60.3M is available to fund future policy objectives at the direction of the Town Council. Staff will present policy options to the Town Council in November that will recommend using some of this available fund balance to address long-term strategies related to the Town's operating reserves, debt management policies, and bond rating objectives.

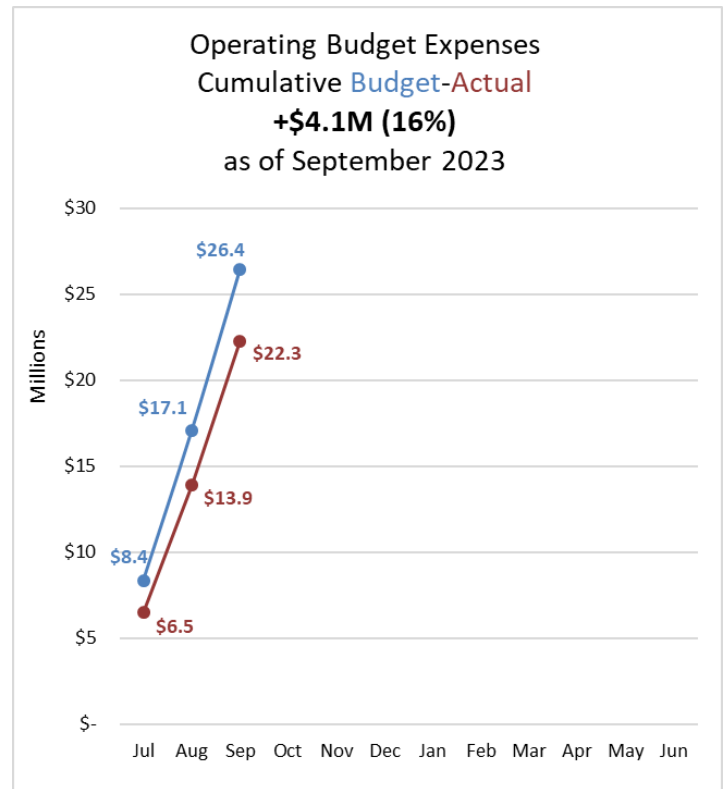
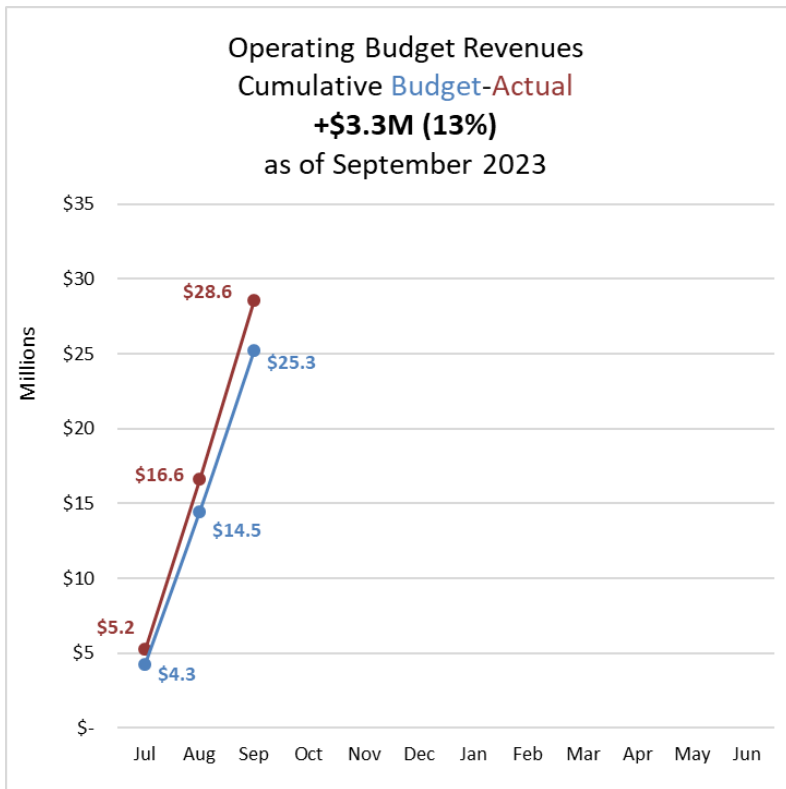
Summary FY 23-24 Operating Budget - September 2023

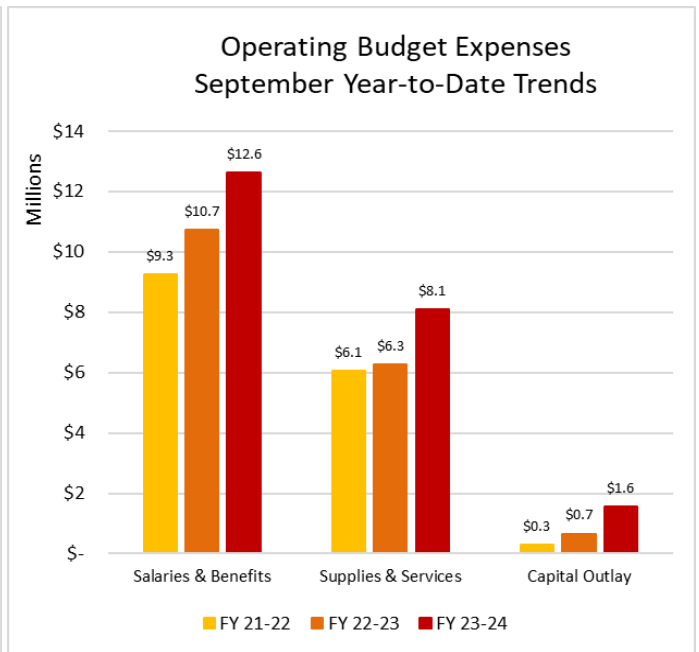
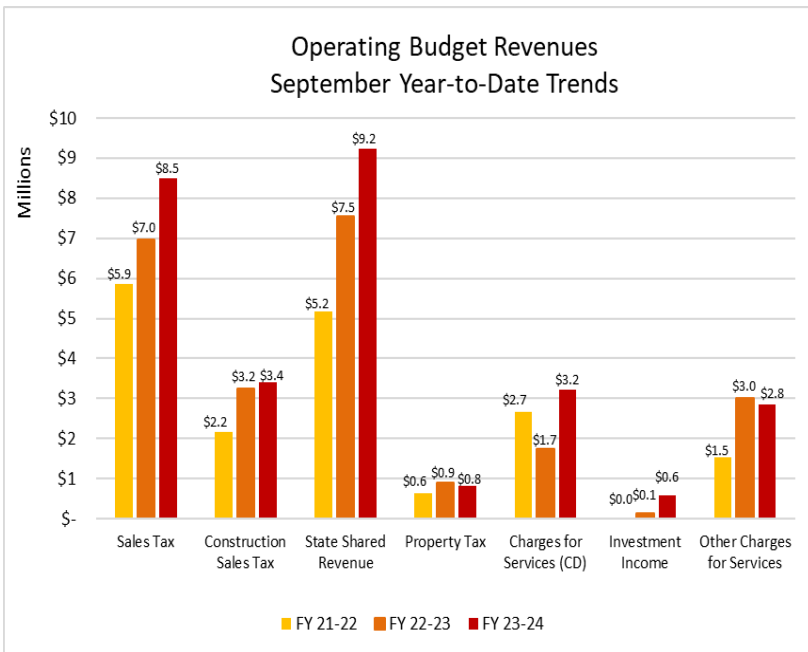
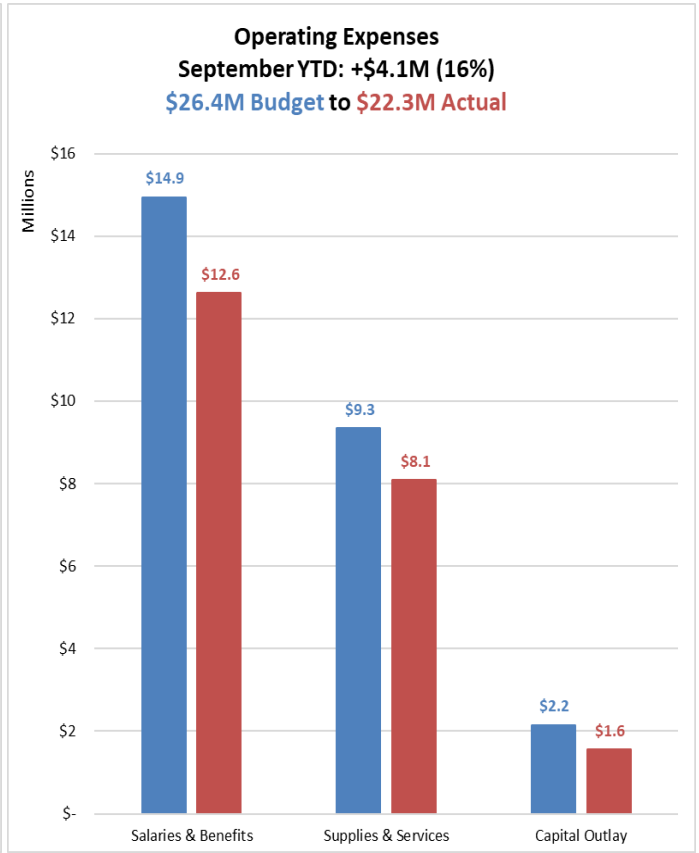
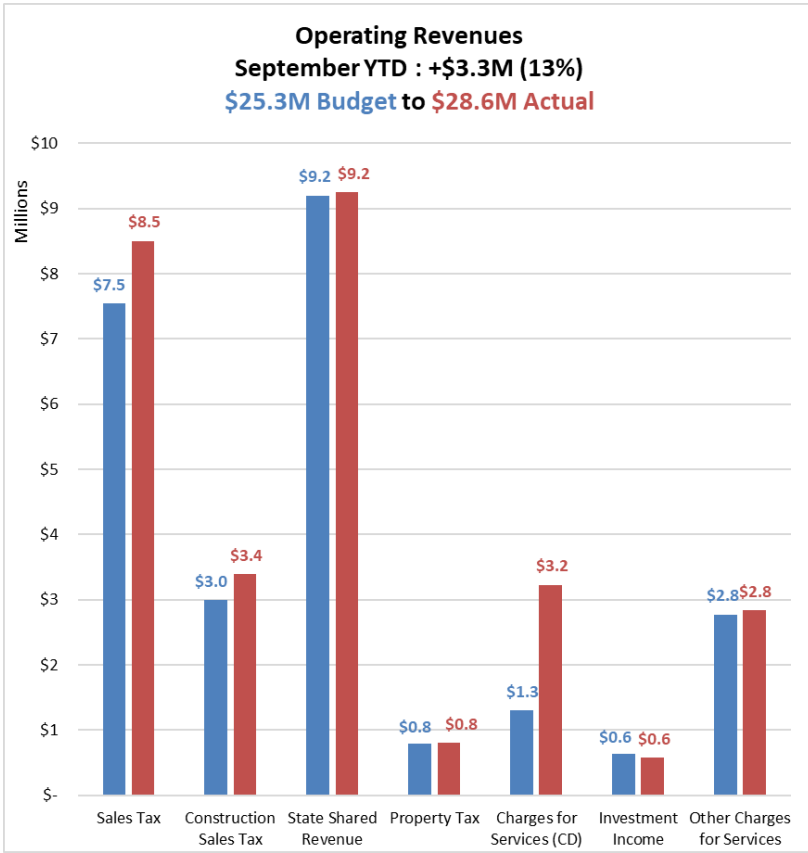
	FY 23-24 Total Adopted Budget	FY 23-24 Total Revised Budget	FY 23-24 Year-to-Date Budget	FY 23-24 Year-to-Date Actual
Revenues	\$ 148,736,137	\$ 148,736,137	\$ 25,256,379	\$ 28,604,452
Expenses	113,284,677	117,270,327	26,440,425	22,273,132
Operating Results	\$ 35,451,460	\$ 31,465,810	\$ (1,184,046)	\$ 6,331,320
Transfers Out:				
Debt Service	\$ 19,424,264	\$ 19,424,264	\$ -	\$ -
CIP	3,560,000	3,560,000	-	-
Net Transfers Out	\$ (22,984,264)	\$ (22,984,264)	\$ -	\$ -
Net Operating Results	\$ 12,467,196	\$ 8,481,546	\$ (1,184,046)	\$ 6,331,320
Beginning Fund Balance	\$ 116,977,985	\$ 137,939,830		
Ending Fund Balance	\$ 129,445,181	\$ 146,421,376		
25% Revenue Reserve	\$ 38,851,425	\$ 38,851,425		
Police Unfunded Pension Liability Reserve	19,334,929	19,334,929		
ASRS Unfunded Pension Liability Reserve	24,639,443	24,639,443		
HURF Funds Reserved by Statute	344,675	344,675		
Road Replacement Funding Reserve	3,000,000	3,000,000		
Available Fund Balance	43,274,709	60,250,904		
Total Fund Balance	\$ 129,445,181	\$ 146,421,376		

FY23-24 Year-to-Date Results - September 2023

	YTD		Variance		Total	YTD Actual
	Budget	Actual	Favorable (Unfavorable)		FY 23-24	as % of Total
Revenues					Budget	Budget
Sales Tax	\$ 7,546,890	\$ 8,503,982	\$ 957,092	13%	\$ 50,085,933	17%
Construction Sales Tax	3,000,500	3,395,078	394,578	13%	19,115,156	18%
State Shared Revenue	9,200,370	9,247,203	46,833	1%	37,930,553	24%
Property Tax	794,100	810,534	16,434	2%	13,285,644	6%
Charges for Services (CD)*	1,306,960	3,229,345	1,922,385	147%	5,740,000	56%
Investment Income	632,500	579,387	(53,113)	(8%)	3,707,500	16%
Other Charges for Services	2,775,059	2,838,923	63,864	2%	18,871,351	15%
Total Revenues	\$ 25,256,379	\$ 28,604,452	\$ 3,348,073	13%	\$ 148,736,137	19%
Expenditures						
Salaries & Benefits	\$ 14,944,746	\$ 12,629,650	\$ 2,315,096	15%	\$ 60,445,747	21%
Supplies & Services	9,341,024	8,093,141	1,247,883	13%	44,764,516	18%
Capital Outlay	2,154,655	1,550,341	604,314	28%	10,088,149	15%
Contingency	-	-	-	-	1,971,915	-
Total Expenditures	\$ 26,440,425	\$ 22,273,132	\$ 4,167,293	16%	\$ 117,270,327	19%

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





Revenue Analysis

For FY 23-24, actual revenues are reporting a 13% favorable variance compared to the year-to-date budget estimates. The variances of the Revenue Categories are explained below.

Sales Tax

Sales Tax revenues are currently \$957K (13%) above the budget estimate. This positive performance reflects the Town’s continued growth in population and new commercial developments in Queen Creek, as well as the impact of inflation on the prices of taxable items. Based on foot traffic data from Buxton Mobilytics, the rolling annual total visits to the Town Center area (a major shopping area in Town) has increased by about 73% in the last 12 months, including a significant impact from the recent opening of Costco. Also, for the same period, 38% of visits to the Town Center area was made by individuals who live in zip codes outside of the Town (areas such as San Tan Valley, Florence, and Eastmark). Please refer to the Sales Tax Report (Appendix 1) for additional analysis of sales tax activity.

Construction Sales Tax

Construction Sales Tax revenues are \$395K (13%) above the budget estimate. This positive variance comes from completion of new homes that were permitted several months ago as well as from continued strong commercial construction activity. Also, similar to sales tax, persistent inflation has increased the cost of construction projects, which in turn increases the amount of construction sales tax paid on those projects. Please refer to the Sales Tax Report (Appendix 1) for additional analysis of construction sales tax activity.

State-Shared Revenue

State-shared revenues are nearly even with the budget estimate, currently reporting a \$47K (1%) positive variance. The state’s economy remains strong, and 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 23% higher than the same period last year.

Property Tax

Property taxes are currently \$16K (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)

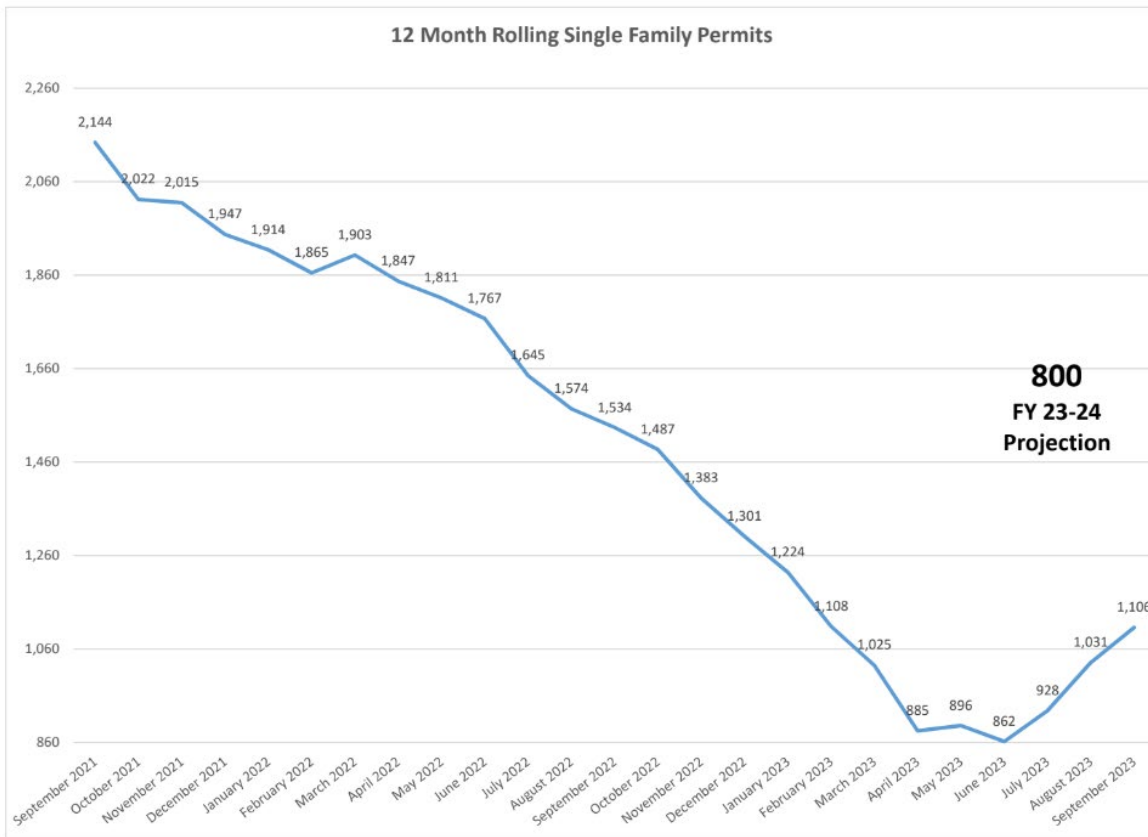
Charges for Services-CD accounts for planning, engineering and building permit revenues. The variance for these revenues is currently \$1.9M (147%), as presented in the following schedule:

September 2023 YTD Community Development Detailed Revenues

Charges for Services (CD)	<u>Revised Budget</u>	<u>Actual</u>	<u>\$ Variance</u>	<u>% Variance</u>
Planning Revenue	\$ 35,310	\$ 37,710	\$ 2,400	7%
Engineering Revenue	246,760	229,191	(17,569)	(7%)
Building Permit Revenue	<u>1,024,890</u>	<u>2,962,444</u>	<u>1,937,554</u>	<u>189%</u>
Total Charges for Services (CD)	\$ 1,306,960	\$ 3,229,345	\$ 1,922,385	147%

Community Development revenue is tied to new and proposed development activity in the Town for new subdivisions, commercial developments, zoning changes, and annexations. Planning and engineering revenues are highly variable as they depend on when developers decide to submit applications and plans for review. Some multi-family developments have been paused recently, contributing to the variance in engineering revenues.

Building permit revenue is significantly above the original budget estimate. The adopted FY 23-24 budget included an estimate of 800 single-family permits for the entire year; however, in the first three months the Town has already issued 455 single-family permits, which is 57% of the annual estimate. The rolling 12-month single-family permit trend has ticked up in the last three months due to continued demand for new housing in Queen Creek, as shown in the chart below.



While new construction shows healthy levels of activity, the overall housing market continues to struggle with mortgage interest rates over 7% and significant price increases in the last two years. Notably, current homeowners are reluctant to move as it would mean giving up their low mortgage rates of 3% or less and paying significantly more for another home compared to what they originally paid. As a result, active MLS listings in September were 34% below the same month last year. This shortage of existing home inventory in the market is the largest factor driving demand for construction of new single-family homes.

Multi-family housing continues to add more units to the Town’s housing supply. For the first quarter of FY 23-24, the Town issued permits for 168 multi-family units. Combined with single-family permits, the Town has issued permits for a total of 623 residential units this fiscal year. Combined, these housing developments will contribute to our population growth in the future.

Investment Income

In prior years, this category was combined with “Other Revenues” because low interest rates generated relatively little investment income for the Town. The Federal Reserve’s rapid rate increases in the last 18 months, combined with the Town’s growing reserve balances, have significantly bolstered the Town’s ability to earn higher rates of return on our available cash. Staff has determined to track and report this

category separately this year as it now makes up a larger segment of the Town's Operating Budget revenues.

Investment Income comes from two main sources: earnings on the Town's Local Government Investment Pool (LGIP) account with the State Treasurer, and earnings on longer-term investments in the Town's core investment portfolio.

The first quarter unfavorable variance of \$53K (8%) is mostly due to timing of receipts of investment earnings in the core investment portfolio. For budget purposes, investment income is recognized on a cash basis as individual investments mature. Because maturities of the Town's investment portfolio are not evenly distributed, monthly investment income will vary depending on the size of those maturities. As this is the first year that we are tracking this category separately, staff will fine-tune the monthly budget projections as the fiscal year progresses to more closely match expected receipts.

Other Charges for Services

Other Charges for Services is comprised of a number of different sources and is currently reporting a \$64K (2%) positive variance. The Other Revenue category includes Utility ROI and Franchise Fees from the Town's Water and Sewer utility operations, which account for \$830K (29%) of the Other Revenue category. Departmental Support Revenue accounts for an additional \$1.3M (45%) 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 compare current revenue estimates against the latest economic news. Other indicators may be added in future reports as we identify those metrics that are most relevant to the Town's revenue forecasts.

Expense Analysis

For FY 23-24, actual expenses are reporting a 16% favorable variance compared to the year-to-date budget estimates. The variances of the Expense Categories are explained below.

Salaries and Benefits

Salaries and Benefits expenses are \$2.3M (15%) below budget. Of the 61 new positions approved in the FY 23-24 budget, 25 remained vacant at the end of September, including ten in the Parks & Grounds Maintenance division and seven in the Police Department. The remaining budget variance is due to turnover in staff positions. At the end of September, the Town had 25 vacancies related to staff turnover in the Operating Budget. The Town continues to experience some difficulty filling positions due to low unemployment and a scarcity of qualified candidates in the current job market.

Supplies and Services

Supplies and Services expenses are reporting a \$1.2M (13%) positive variance. Savings are coming from multiple categories including contracted IT services, personal protective clothing and equipment, vehicle maintenance and fuel, small tools & equipment, and maintenance costs for buildings and streets. Finance staff is currently meeting with departments to review current and prior-year expense variances in the Supplies and Services category to determine if some budgets can be right-sized to better align with historical trends and current needs.

Capital Outlay

Capital Outlay expenses are showing a \$604K (28%) favorable variance. The budgets in this category are for one-time purchases related to major equipment and special projects. For over two years, vendors for capital items have struggled with supply-chain issues due to lingering effects of the shutdowns during the COVID-19 pandemic. This means the timing of delivery for items such as vehicles and related equipment is often uncertain when items are ordered. In September, the Town Council approved a total of \$6.7M in capital equipment to be carried forward from the prior fiscal year due to these long-lead issues.

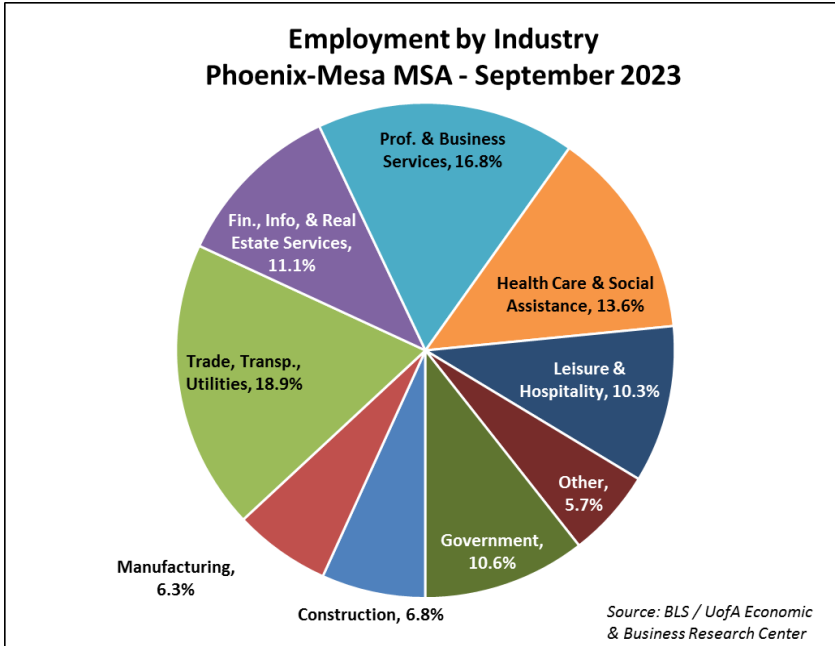
This long-lead issue has been compounded with the recent United Auto Workers strikes against the major auto manufacturers. The strikes have delayed vehicle ordering windows and created more uncertainty for the Town's ability to secure needed vehicles. Staff is monitoring this situation very closely and discussing alternatives for acquiring new vehicles for the next two years.

Outstanding Encumbrances

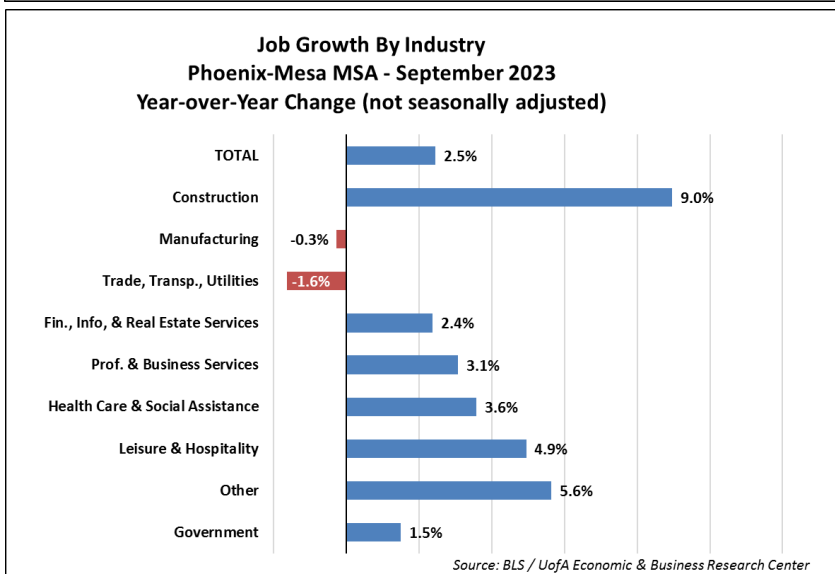
The following schedule displays year-to-date expenses and outstanding encumbrances for the Supplies & Services and Capital Outlay categories. This schedule provides a view of both actual spending and contractual commitments relative to the total budgets in these categories. This data helps gauge the pace at which departments are committing Town funds relative to their total annual budgets. At the end of the fiscal year, the Outstanding Encumbrances amounts help measure the need for and size of potential carry-forward authorizations that will be required in the next fiscal year.

Expenditure Category:	September 2023 (FY 23-24) Expenses and Encumbrances				
	YTD Actual	Outstanding Encumbrances	Total Actual + Encumbrances	Total FY 23-24 Budget	YTD Spent & Encumbered
Supplies & Services	8,093,141	13,991,344	22,084,485	44,764,516	49%
Capital Outlay	1,550,341	5,614,980	7,165,321	10,088,149	71%
Total	\$ 9,643,483	\$ 19,606,323	\$ 29,249,806	\$ 54,852,665	53%

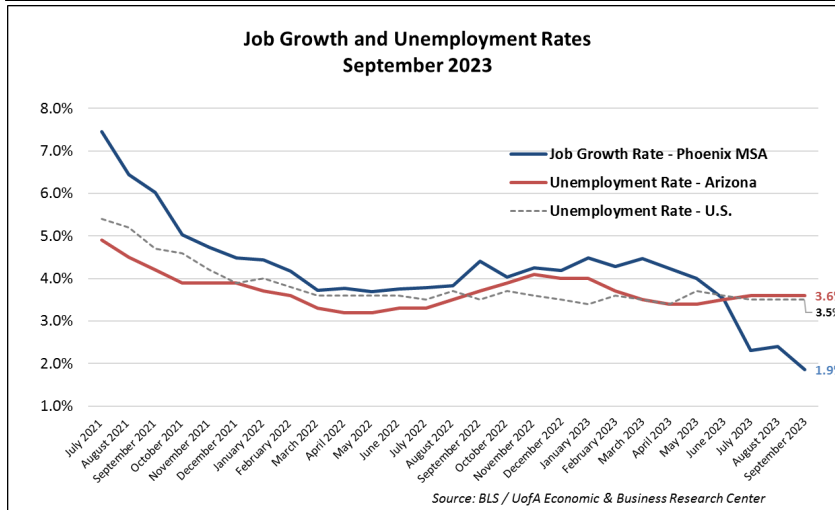
Economic Indicators



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

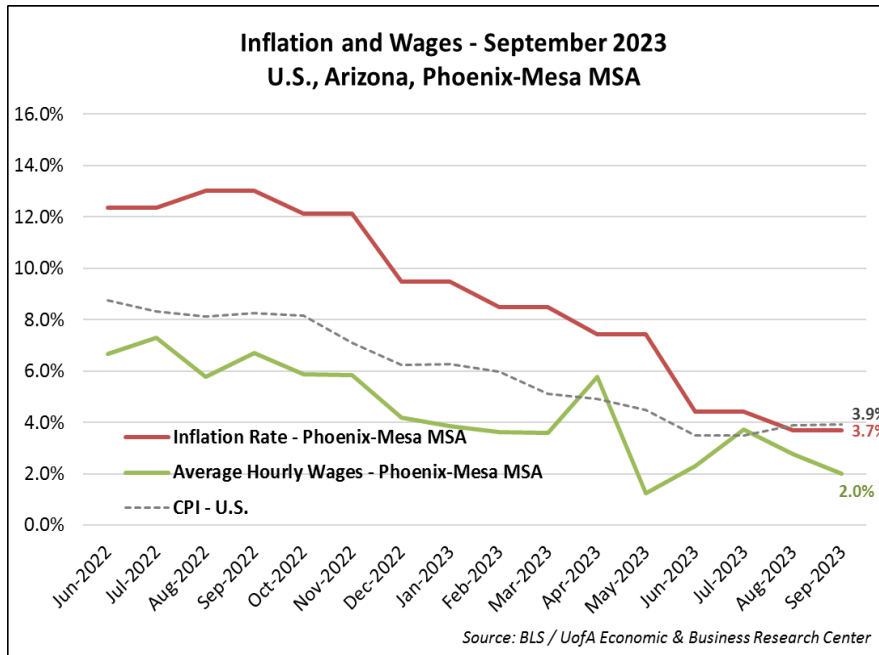


This chart demonstrates which industries have added or lost jobs, compared to the same month one year ago. This information is useful to identify which sectors may be growing or shrinking in the region. In the current environment, we are watching the Construction industry to gauge the impact of a volatile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



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. September wage growth in the Phoenix region was 2.0%. Slower wage growth could help reduce inflation as wages are a key component of prices, but it may affect households’ ability to keep up with the cost of living.

Housing Market Indicators				
	Current	1 Year Prior	1 Year Change	
Home Prices and Affordability				
Federal Housing Finance Agency House Price Index:				
Phoenix-Mesa MSA	588.8	625.1	(5.8)%	
U.S.	409.5	391.5	4.6%	
Median Home Prices:				
Queen Creek	\$ 599,450	\$ 612,500	(2.1)%	
Phoenix-Mesa MSA	\$ 460,000	\$ 470,000	(2.1)%	
Arizona	\$ 499,990	\$ 500,000	(0.0)%	
U.S.	\$ 394,300	\$ 478,500	(17.6)%	
Housing Cost vs. Wage Growth:				
30-Year Fixed Mortgage Interest Rate	7.31%	6.70%	--	
Monthly Payment on QC Median Home ⁽¹⁾	\$ 3,271	\$ 3,144	4.0%	
Average Hourly Wage - Phoenix-Mesa MSA	\$ 32.72	\$ 32.08	2.0%	
Real Estate Activity				
SF Homes Sold - Queen Creek	120	116	3.4%	
SF Days on Market - Queen Creek	47	50	(6.0)%	
SF Homes Sold - Phoenix-Mesa MSA	4,476	5,183	(13.6)%	
SF Active Listings - Phoenix-Mesa MSA	12,800	19,432	(34.1)%	
New Single-Family Building Permits				
Queen Creek	134	59	127.1%	
Phoenix / Pinal County Region	1,992	1,183	68.4%	
Queen Creek 12-Month Rolling Total	1,106	1,534	(27.9)%	
Regional 12-Month Rolling Total	19,452	28,016	(30.6)%	
Source: Freddie Mac / Federal Reserve Bank of St. Louis / UofA Economic & Business Research Center / Redfin / QC Development Services				

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

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.

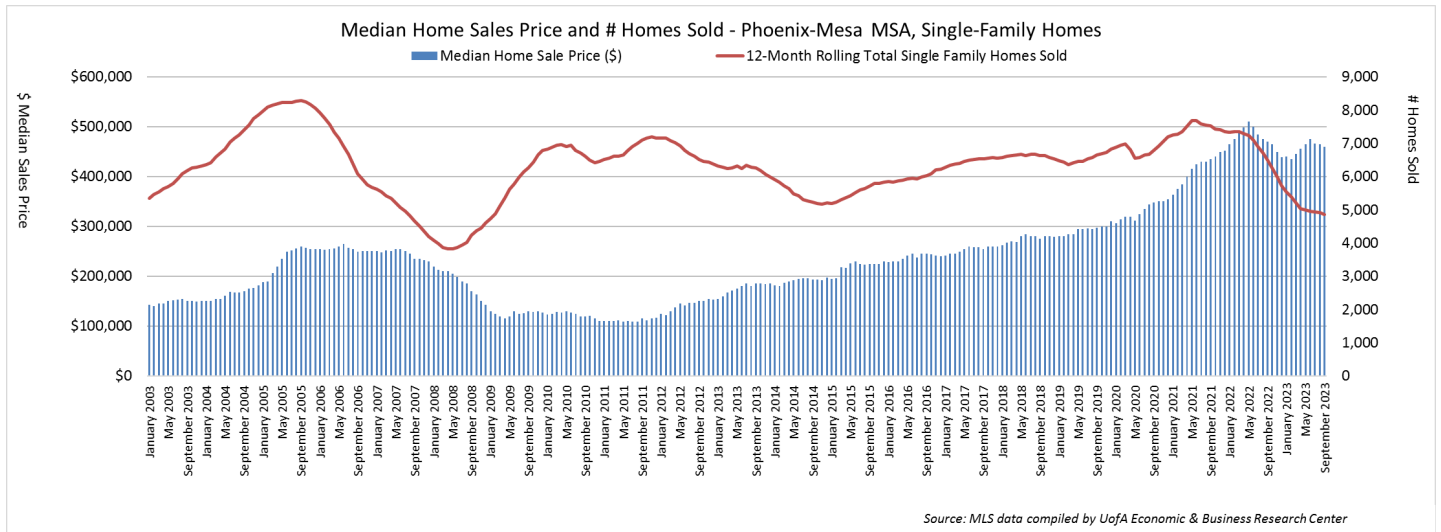
Real Estate Activity – These data points track the volume of existing home sales in Queen Creek and the Phoenix region. Trends in Queen Creek are following regional trends.

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.

Economic Indicators

Historical Single-Family Housing Prices and Sales

This chart provides a 20-year history of existing single-family home prices and sales volumes in the Phoenix Metro area. Two decades of data are provided to give context and order-of-magnitude perspective to the current market compared to prior periods of growth and contraction, including the historical downturn of 2008-2010. This chart shows a rapid acceleration in existing home prices at the onset of the COVID-19 pandemic in March 2020 and then a drop in prices and volume since long-term interest rates began rising in April 2022. Recent months have seen a small increase in the median sales price due to persistent demand for housing competing with the lack of available homes for sale. 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 continues to be a major factor that buoys new home construction in the region.





TOWN OF
QUEEN CREEK
ARIZONA

FY 23-24 Sales Tax Report

FY 23-24 Business Activity through August 2023*
(Unaudited)

Issued October 2023

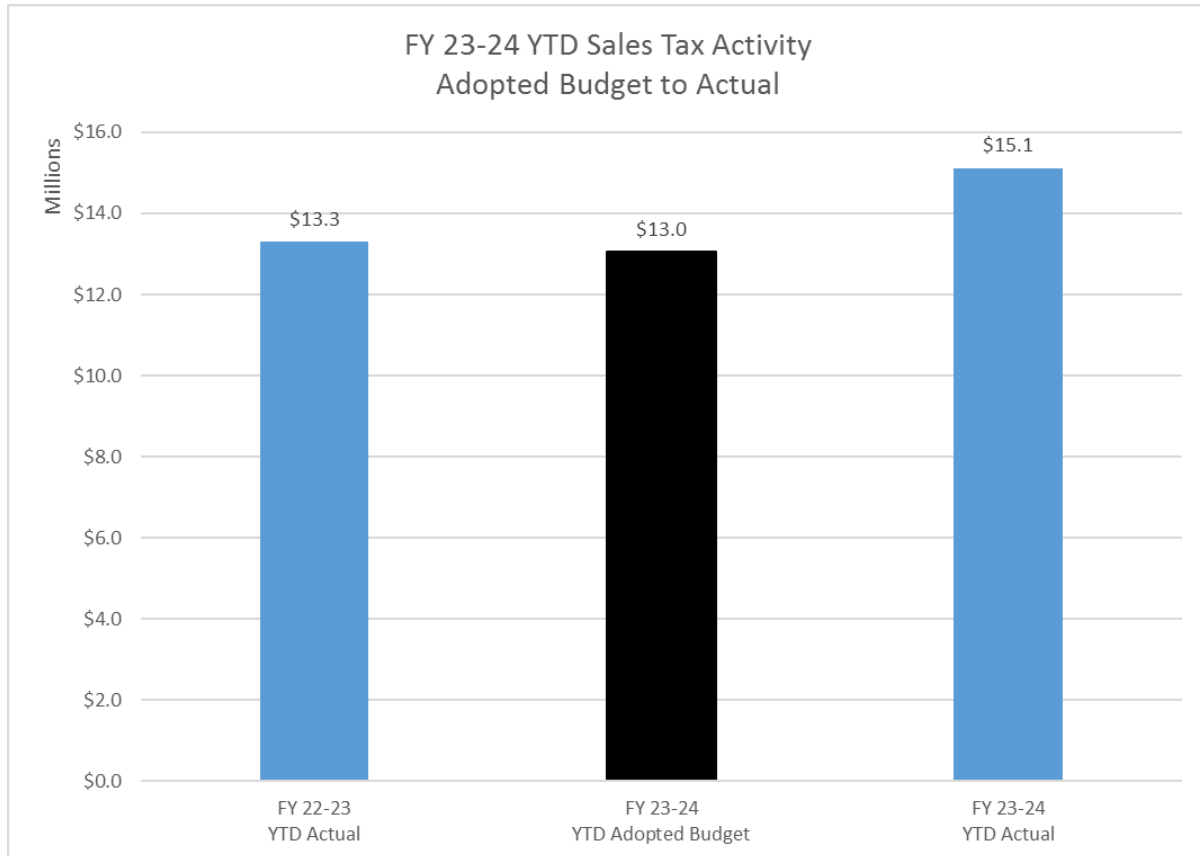
This report contains information regarding the actual revenue collections from the Town's 2.0% sales tax reflected in the General Fund, 0.25% dedicated EMS sales tax, 0.25% Town Center dedicated sales tax and the 2.0% Construction Contracting sales tax dedicated to infrastructure improvements.

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YEAR-TO-DATE FY 23-24 SALES TAX ACTIVITY

OVERALL PERFORMANCE SUMMARY:

The FY24 sales tax revenue total of \$15.0M exceeds the adopted budget by 16%, or \$2.1M. Relative to FY 22-23, FY 23-24 actuals are 14%, or \$1.8M higher than the previous year.



Sales Category	FY 22-23 YTD Actual	FY 23-24 YTD Adopted Budget	FY 23-24 YTD Actual	FY 23-24 YTD Adopted Budget-To-Actual		FY22-23 YTD Actual to FY 23-24 YTD Actual	
				\$ Variance	% Variance	\$ Increase	% Increase
Construction	\$ 6,126,830	5,649,785	6,412,924	763,139	14%	\$ 286,094	5%
Retail Trade	\$ 5,071,921	5,161,243	6,300,907	1,139,664	22%	1,228,987	24%
Communications & Utilities	\$ 548,842	611,932	676,149	64,217	10%	127,307	23%
Restaurant & Bar	\$ 901,789	987,039	956,151	(30,888)	(3%)	54,362	6%
Real Estate, Rental & Leasing	\$ 478,745	491,563	567,887	76,324	16%	89,142	19%
All Others**	\$ 168,412	145,712	203,542	57,830	40%	35,130	21%
Totals	\$ 13,296,538	\$ 13,047,274	\$ 15,117,560	\$ 2,070,286	16%	\$ 1,821,022	14%

**All Others includes transportation, wholesale trade, finance and insurance, services, arts and entertainment, and other categories.

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 September 2022 through August 2023, the number of visits to the Town Center area increased by about 86%. A further discussion of this data can be found in the Retail Trade section.

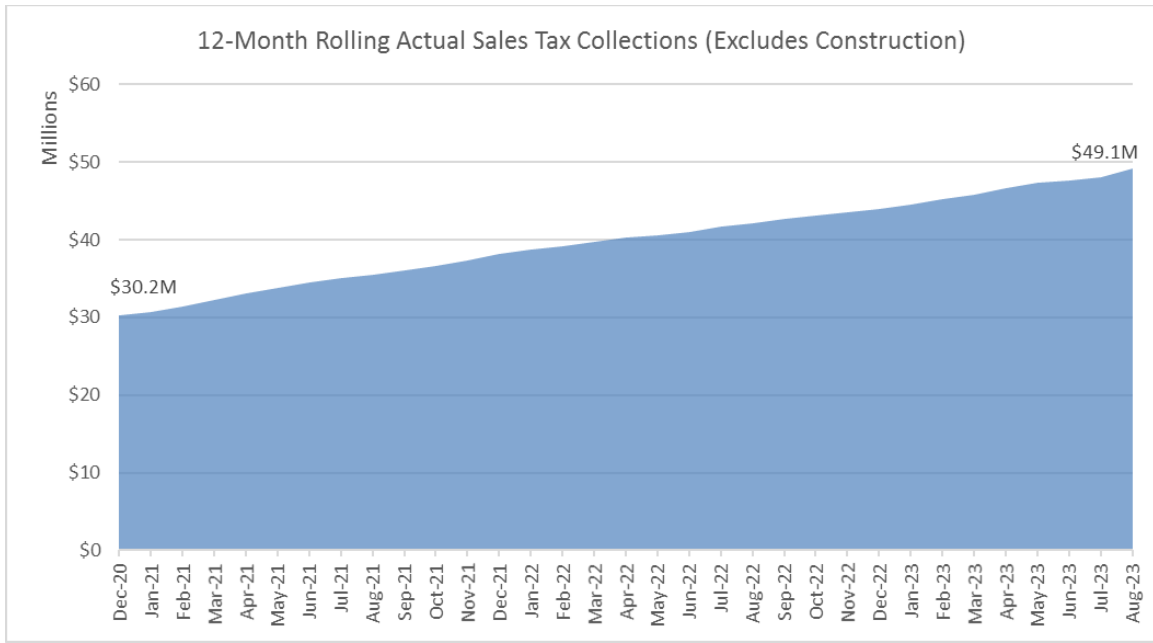
Additionally, taxable spending from an estimated 100K+ population from Eastmark master-planned community (Mesa) and unincorporated San Tan Valley has a significant impact on the Town's sales tax revenues. According to Mobilytics, approximately 39% of visits to the Town Center area from September 2022 through August 2023 were from individuals living in zip code 85142. An additional 36% of visits to the Town Center during the same time period were made by individuals living in zip codes covering San Tan Valley, Florence, and Eastmark.

August sales tax collections in FY 23-24 were higher than in FY 22-23. The strong levels of sales tax collections can be attributed to the continuing growth in population due to development both within the Town and in surrounding areas, new businesses continuing to open, and the Town's ability to collect sales taxes on e-commerce transactions.

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

HISTORICAL 12 MONTH ROLLING PERIODS

The following section contains a 12-month rolling historical actuals chart for the sales tax base (everything except construction). This chart is useful to identify the overall data trends since FY21 in all sales tax categories, excluding construction. Of particular note is the continued growth of the sales tax base over time, which signifies that the Town’s commercial sectors have continued to grow, diversify, and mature.



YEAR-TO-DATE ANALYSIS BY CATEGORY

CONSTRUCTION CONTRACTING:

Construction sales tax is collected on all construction activity; commercial, new residential and major residential remodels. It also includes landscaping, painting, flooring installation, siding, roofing, concrete, plumbing, heating, framing, drywall, infrastructure, masonry, finish carpentry, etc. Speculative construction activity (developing land for sale as a building site) is also included in this category.

August 2023 Actuals: \$3.0M

FY 23-24 YTD Actuals: \$6.4M

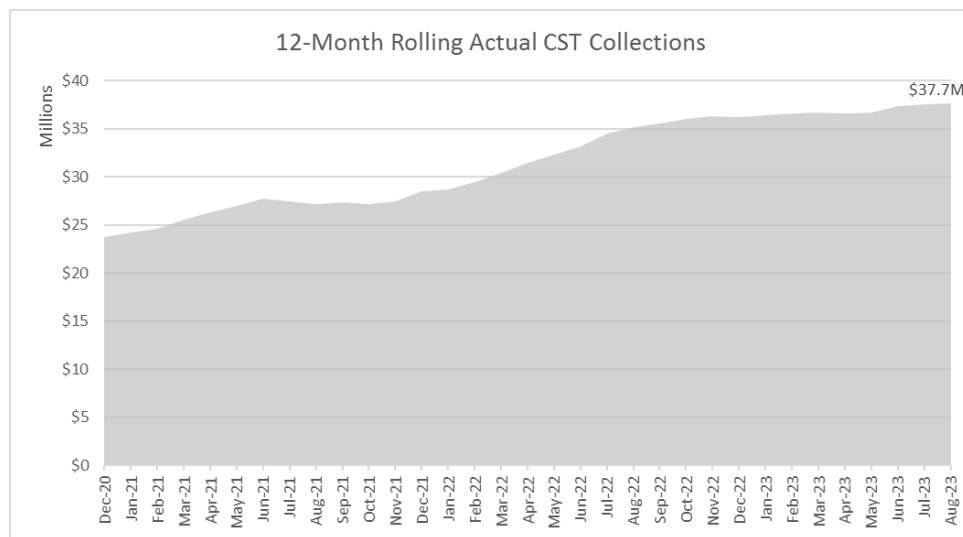
FY 23-24 YTD Adopted Budget to Actual Variance of \$763K or 14%

FY 23-24 YTD Actual to FY 22-23 YTD Actual Increase of \$286K or 5%

FY 23-24 collections are higher than the FY 23-24 adopted budget and the prior fiscal year actuals through August 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.



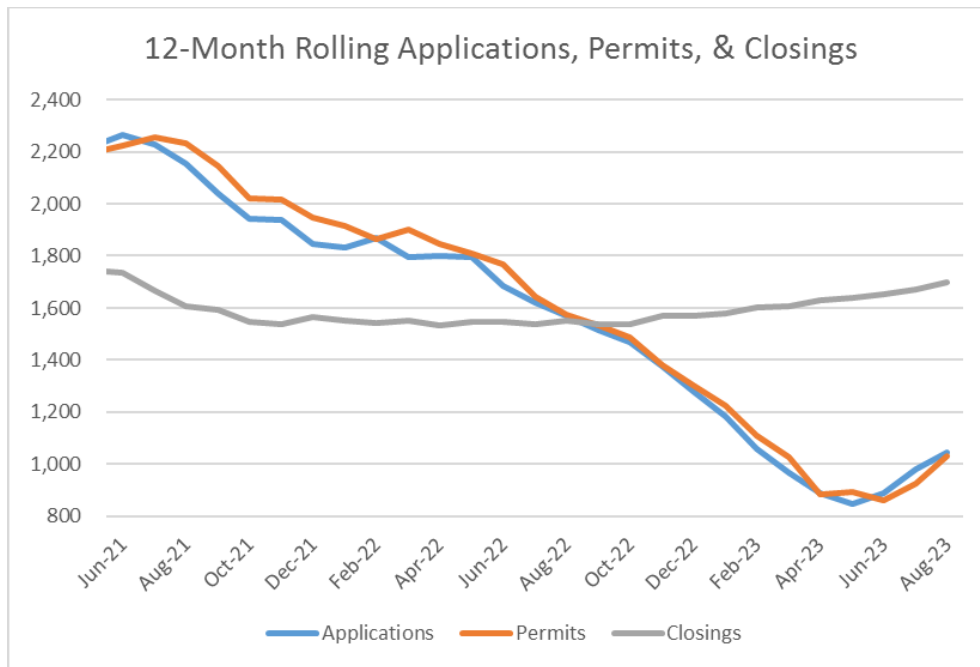
Though known major homebuilders accounted for the majority of construction contracting sales tax revenues for the month of August, construction of multi-family and commercial developments is responsible for a large share. As seen below, the share of construction sales tax revenues coming from non-homebuilders has grown in the past few years. This shows that despite a decrease in demand for single family homes in FY 22-23, 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

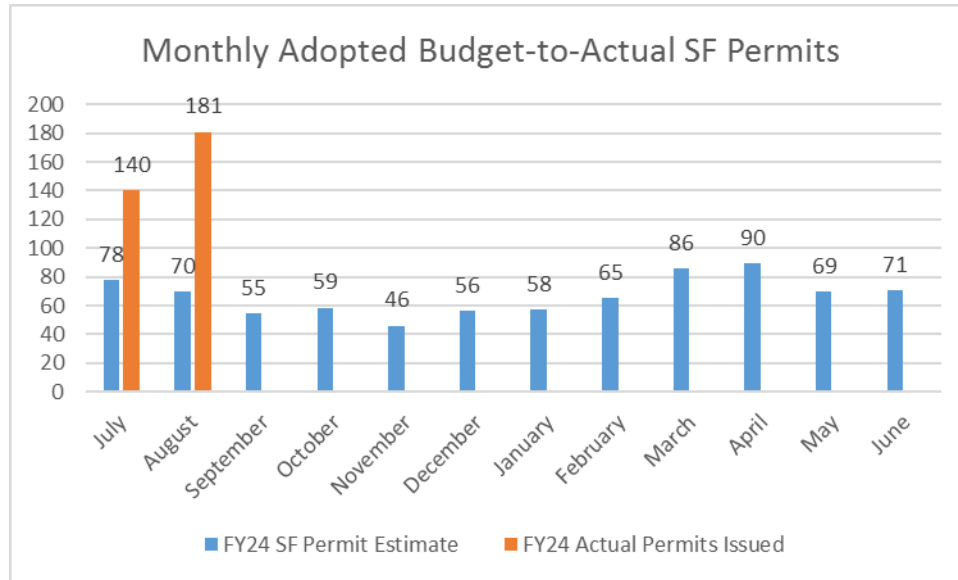
Business Type	FY22 YTD Actuals		FY23 YTD Actuals		FY24 YTD Actuals	
	Sales Tax (\$)	% of Total	Sales Tax (\$)	% of Total	Sales Tax (\$)	% of Total
Homebuilders	\$3.0M	73%	\$3.4M	56%	\$3.8M	60%
Gen. Contractors, Pool/ Landscape, & Other Specialized Trades	\$1.1M	27%	\$2.7M	44%	\$2.6M	40%
Total	\$4.1M	100%	\$6.1M	100%	\$6.4M	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 decreased steadily throughout FY 22-23. The FY 23-24 budget included a single family home permit estimate of about 800 permits. Actual permits issued through August were about 117% of the adopted year-to-date budget. With the uptick in permits issued over the past five months, the 12-month rolling permit total has stabilized and began increasing after almost 24 months of decline. Overall, the Town made up 7.3% of total NSF permits issued in the greater Phoenix area in August. 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 113 new home sales close in the month of August with an average sales price of \$685K for these homes. The following table shows the monthly closings by builder, average sale price and estimated gross revenue for the month of August for permits issued within the Town.

Appendix 1: Queen Creek Monthly Sales Tax Report

BUILDER	# CLOSINGS	AVG. SALE PRICE	EST. GROSS REVENUE
SHEA HOMES	25	\$ 719,192	\$ 17,979,799
LENNAR HOMES	14	\$ 606,565	\$ 8,491,905
ASHTON WOODS HOMES	11	\$ 570,402	\$ 6,274,420
WOODSIDE HOMES	10	\$ 422,424	\$ 4,224,235
PULTE HOMES	9	\$ 707,305	\$ 6,365,745
WILLIAM LYON HOMES	8	\$ 556,319	\$ 4,450,555
TOLL BROTHERS	7	\$ 1,416,165	\$ 9,913,152
MARACAY HOMES	6	\$ 779,090	\$ 4,674,541
FULTON HOMES	5	\$ 636,049	\$ 3,180,244
GEHAN HOMES	4	\$ 613,720	\$ 2,454,880
RICHMOND AMERICAN	3	\$ 546,507	\$ 1,639,520
BEAZER HOMES	3	\$ 524,330	\$ 1,572,990
DAVID WEEKLEY HOMES	3	\$ 618,333	\$ 1,855,000
TAYLOR MORRISON	2	\$ 797,331	\$ 1,594,661
ELLIOTT HOMES	2	\$ 808,647	\$ 1,617,294
MISC CUSTOM	1	\$ 1,175,000	\$ 1,175,000
GRAND TOTAL	113	\$ 685,522	\$ 77,463,941

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.

August 2023 Actuals: \$3.3M

FY 23-24 YTD Actuals: \$6.3M

FY 23-24 YTD Adopted Budget to Actual Variance of \$1.1M or 22%

FY 23-24 YTD Actual to FY 21-23 YTD Actual Increase of \$1.2M or 24%

FY 23-24 YTD collections in the retail category were higher than the FY 23-24 adopted budget and prior year actual collections. A few businesses remitted higher-than-average tax in September to correct for under-reporting in prior months. This caused the month's total retail collections to be higher than the budget.

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 August, the top 20 payers of 5,806 total payers in the retail category delivered 70% of the revenue. The top 10 payers in the category account for 62% of the total.

According to data from Buxton Mobilytics, the rolling annual total visits to the Town Center area have increased by about 86% between August 2022 and August 2023. The Town Center area includes large shopping centers in town such as Queen Creek Marketplace, QC District, Cornerstone at Queen Creek,

Appendix 1: Queen Creek Monthly Sales Tax Report

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 August 2023 were up approximately 9% from the prior month.

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 August, at least \$520K, or 16%, is estimated to come from e-commerce transactions. August 2023 e-commerce sales tax collections are 20% higher than collections in August 2022.

COMMUNICATIONS/UTILITIES:

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

August 2023 Actuals: \$356K

FY 23-24 YTD Actuals: \$676K

FY 23-24 YTD Adopted Budget to Actual Variance of \$64K or 10%

FY 23-24 YTD Actual to FY 21-23 YTD Actual Increase of \$127K or 23%

Year-to-date collections in the communications/utilities category are slightly higher than the adopted FY 23-24 budget and prior year collections.

RESTAURANTS & BARS:

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

August 2023 Actuals: \$463K

FY 23-24 YTD Actuals: \$956K

FY 23-24 YTD Adopted Budget to Actual Variance of (\$30K) or (3%)

FY 23-24 YTD Actual to FY 21-23 YTD Actual Increase of \$54K or 6%

This category is slightly above the current year adopted budget and substantially higher than 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.

August 2023 Actuals: \$298K

FY 23-24 YTD Actuals: \$568K

FY 23-24 YTD Adopted Budget to Actual Variance of \$76K or 16%

FY 23-24 YTD Actual to FY 21-23 YTD Actual Increase of \$89K or 19%

This category's collections are above the adopted 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.

August 2023 Actuals: \$100K

FY 23-24 YTD Actuals: \$203K

FY 23-24 YTD Adopted Budget to Actual Variance of \$58K or 40%

FY 23-24 YTD Actual to FY 21-23 YTD Actual Increase of \$35K or 21%

This category is above the current year adopted budget and lower than prior year actual collections. Collections in August were negative in this category due to a large correcting payment made to a taxpayer that had previously made a large lump-sum payment earlier this fiscal year.

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:

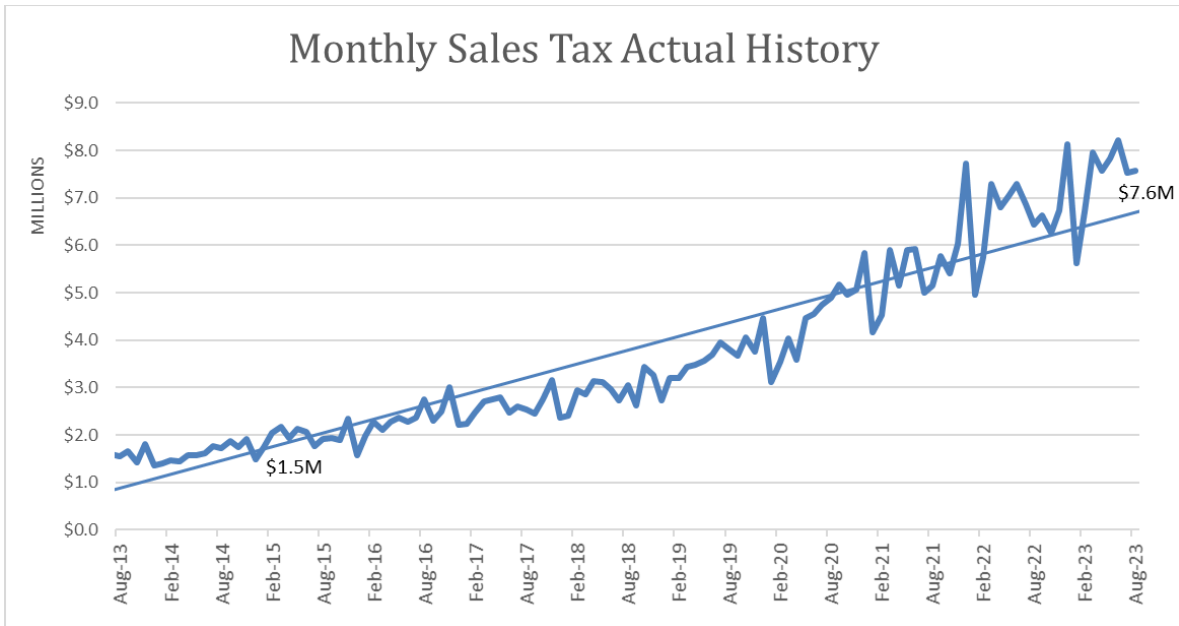
- 2.0% tax rate charged on all taxable activities within Town limits
 - Dedicated to the General Fund for general purpose government operations
- 0.25% tax rate charged on all taxable activities within Town limits
 - Dedicated to the Emergency Services (EMS) Fund to fund law enforcement and fire and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

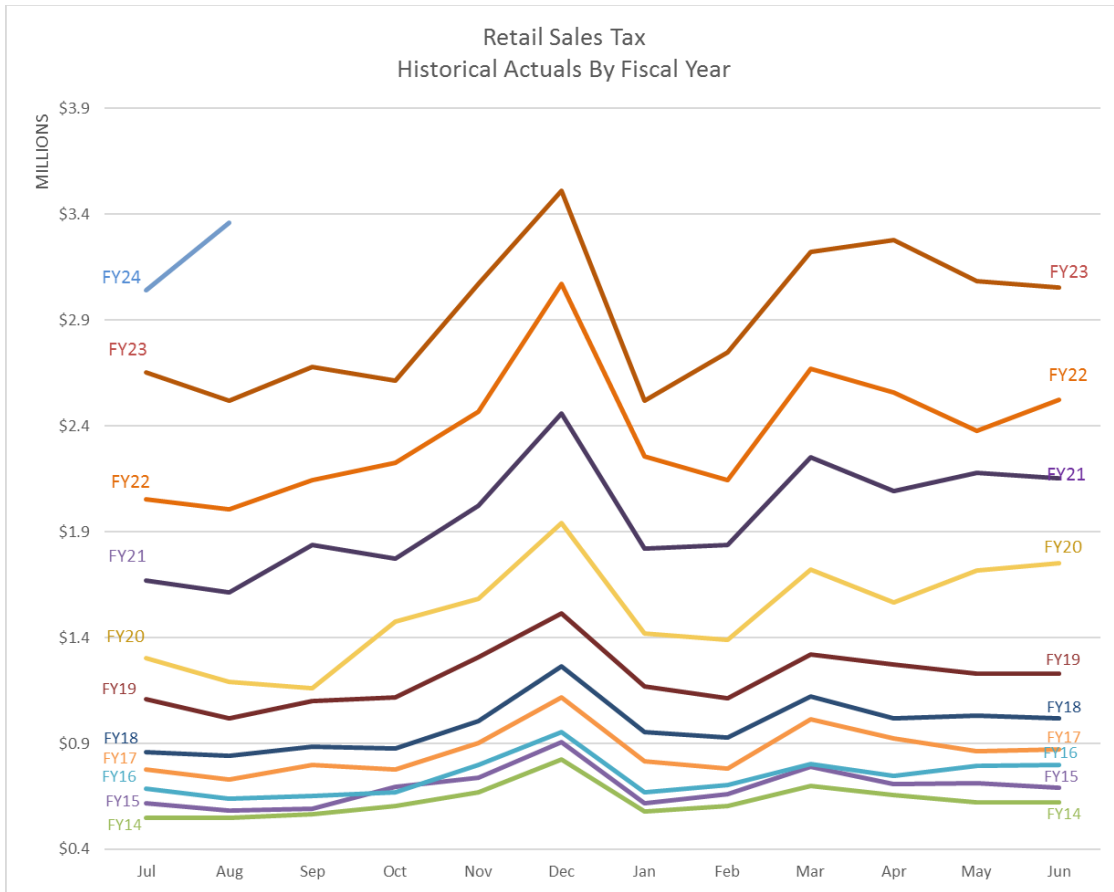
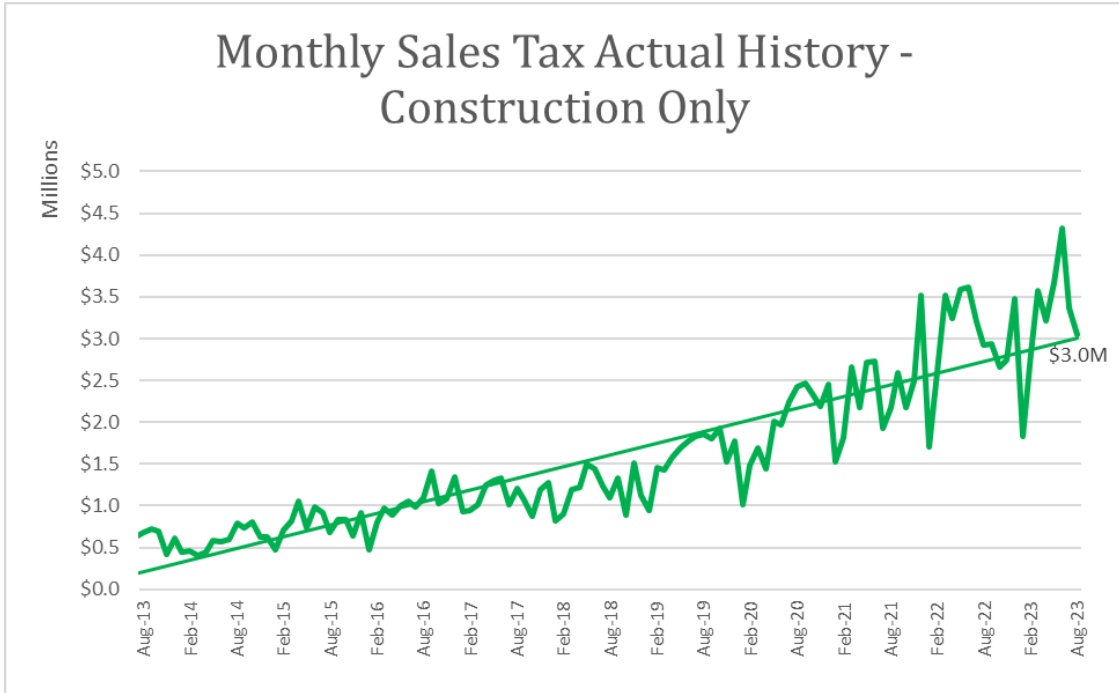
Revenue by Fund	YTD	% of Total
General Fund	\$ 10,576,942	70.0%
EMS Fund	1,322,118	8.7%
Town Center Fund	200,654	1.3%
Construction Fund	3,017,847	20.0%
Totals	\$ 15,117,561	100.0%

Operating Budget	Jul	Aug	FY23-24 YTD
General Fund	\$ 5,201,198	\$ 5,375,744	\$ 10,576,942
EMS Fund	\$ 650,150	\$ 671,968	\$ 1,322,118
Total Operating Budget	\$ 5,851,347	\$ 6,047,712	\$ 11,899,059

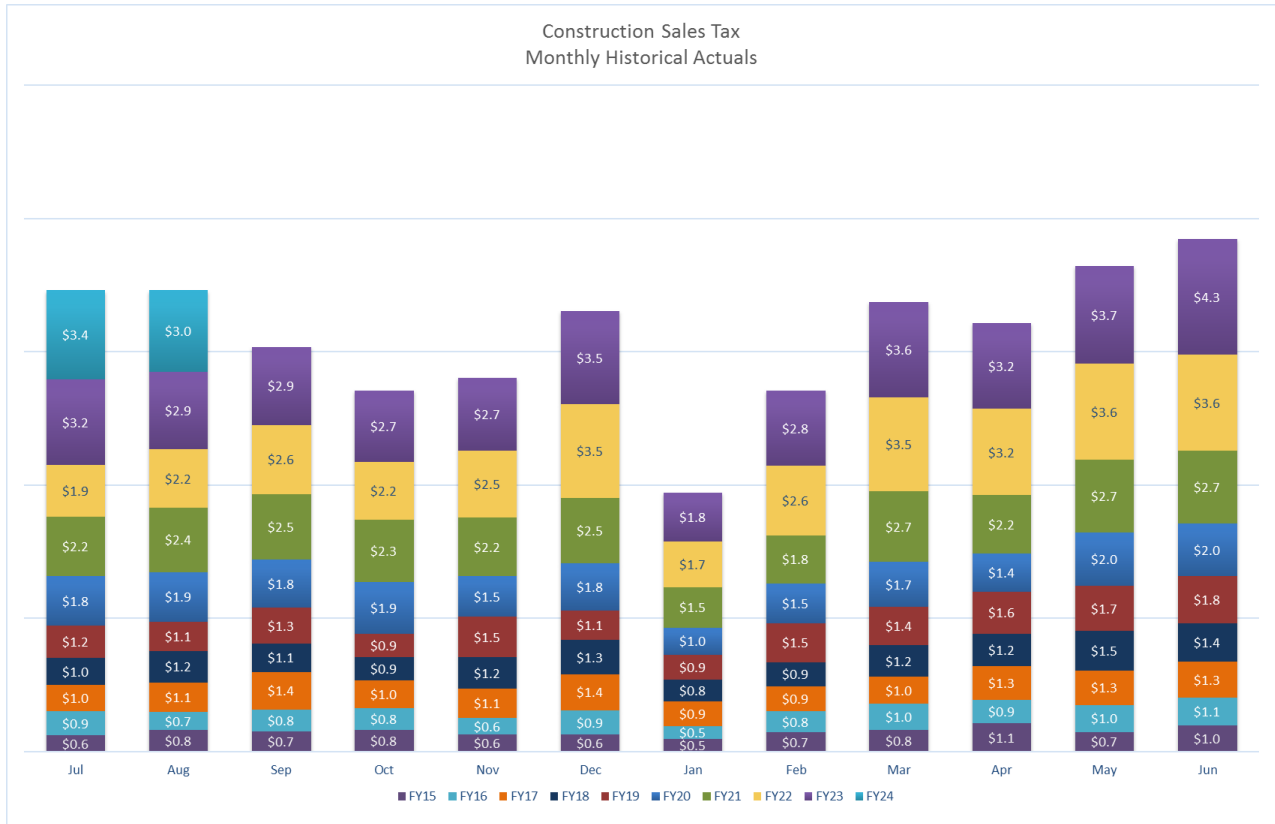
Historical Performance



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