



TOWN OF  
**QUEEN CREEK**  
ARIZONA

# FY 23-24

# Financial Report

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Operating Budget to Actual Performance

Fiscal Year to Date through May 2024

(Unaudited)

Issued June 27, 2024

*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 \$6.0M (4%). This is mainly the result of Construction Sales Tax and Building Permit revenues performing better than expected due to continued residential and commercial growth in the Town and a strong local economy. Operating Budget revenues through May are \$24.0M higher than the same period last fiscal year, an increase of 21%.

The FY 23-24 revised budget includes an estimate of 1,282 new single-family permits and 738 multi-family units, for a total of 2,020 residential units. Through May 2024, the Town has issued 1,543 single-family building permits and 596 multi-family units, for a total of 2,139 residential units, or 106% of the annual total. Because we estimate that the same number of people live in both types of homes, 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 \$3.4M (3%) 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. In November 2023, staff reviewed current and prior-year expense variances and determined that some budgets can be right-sized to better align with historical trends and current needs. This analysis resulted in reductions to departments' operating budgets of \$1.7M.

The Revised Operating Budget anticipated that year-to-date revenues would exceed expenses (before transfers) by \$30.4M. However, because actual results to date are better than expected, revenues are \$39.8M above expenses, an improvement of \$9.4M (31%).

The Operating Budget is projected to end the fiscal year with a record-high fund balance of \$137.0M broken down as follows:

- \$38.9M in the 25% Operating Reserves
- \$44.0M in PSPRS and ASRS pension reserves
- \$8.1M in the PAYGO Infrastructure Reserve (New Policy)
- \$3.0M in the newly created Road Replacement reserve
- \$0.3M restricted for road maintenance projects funded by HURF revenues
- \$42.7M unreserved fund balance

While the national media focus on geopolitical events, Federal Reserve policies, the stock market, national elections, and talk of a possible recession, the Arizona economy remains diversified with strong fundamentals and low unemployment. Still, inflation and fluctuating 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; but, higher mortgage interest rates have 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 11-13 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 May. Actual revenues are above expenses by \$39.8M due to strong revenue growth and expense savings. This compares favorably to the revised budget that estimated revenues would exceed expenses by \$30.4M through May.

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. It also includes \$1.7M of reductions to departments' operating budgets and a \$3.4M reduction to debt service transfers based on a recent analysis of historical spending trends and current needs.

The Town's total Operating fund balance is expected to decrease by \$7.7M and end the fiscal year at \$129.9M. 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 Road Replacement reserve, \$0.3M for future HURF projects, and \$8.1M for the PAYGO Infrastructure Reserve. The PAYGO Reserve represents the estimated total of General Fund Construction Sales Tax in excess of \$10 million, which is a new policy reserve approved by the Town Council during the FY 24-25 budget development process. The remaining fund balance is available to fund future policy objectives at the direction of the Town Council.

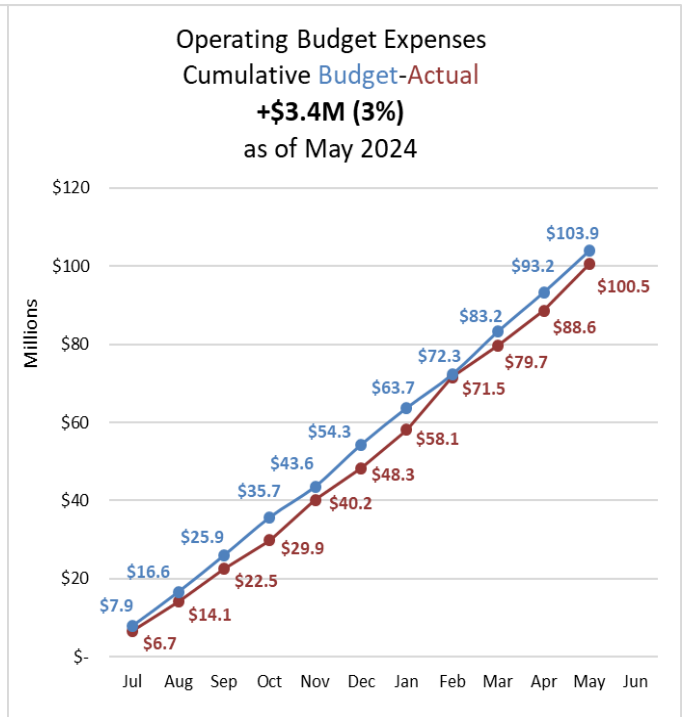
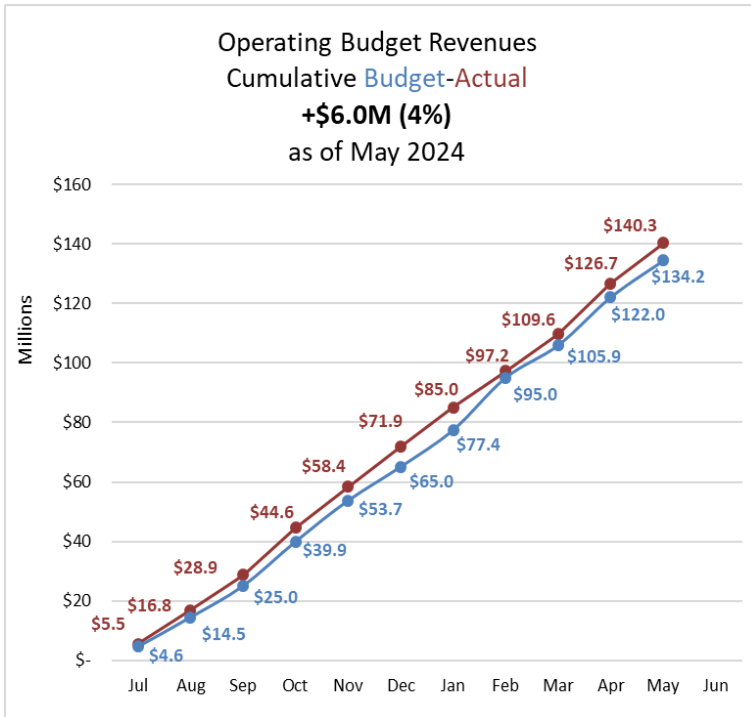
### Summary FY 23-24 Operating Budget - May 2024

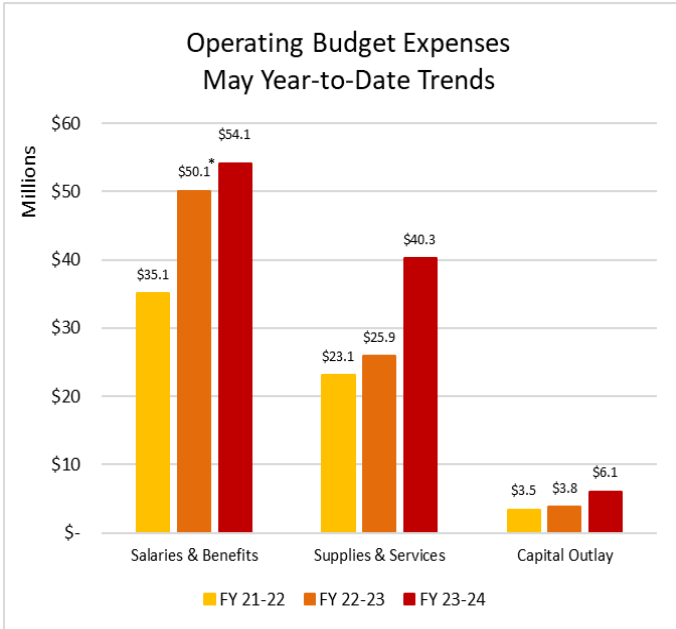
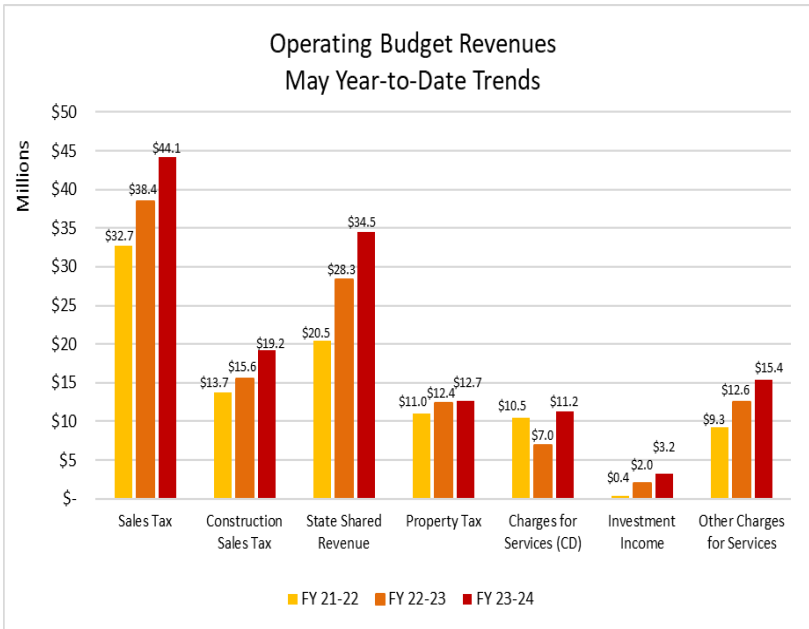
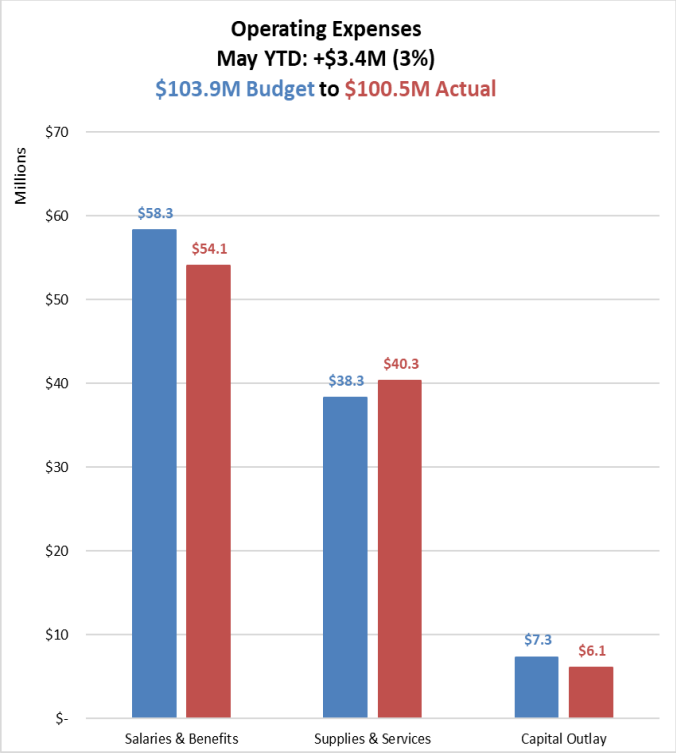
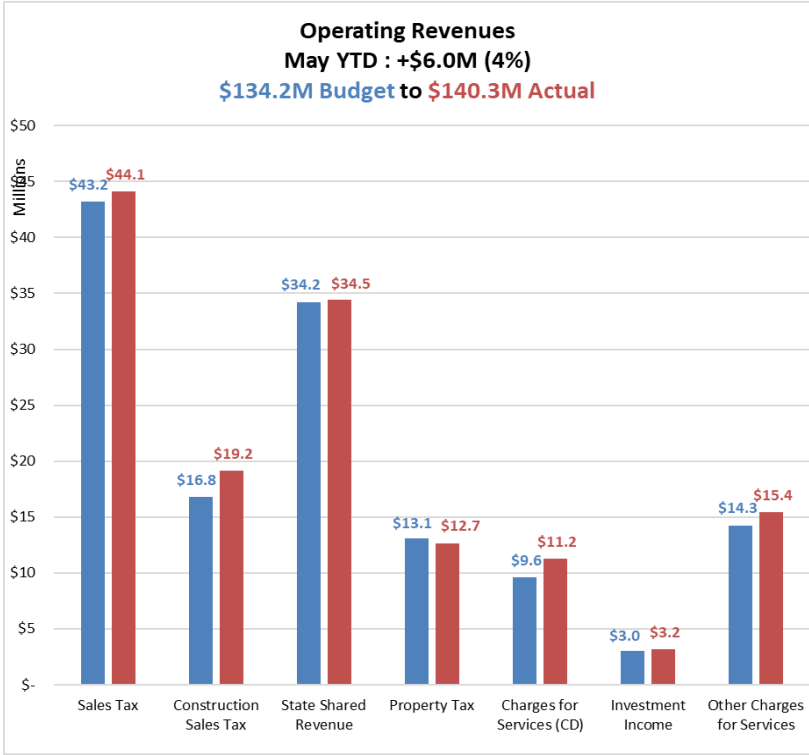
	FY 23-24 Total Adopted Budget	FY 23-24 Total Revised Budget	FY 23-24 Year-to-Date Budget	FY 23-24 Year-to-Date Actual
Revenues	\$ 148,736,137	\$ 154,425,581	\$ 134,226,755	\$ 140,264,071
Expenses	113,284,677	133,251,261	103,872,349	100,457,323
Operating Results	\$ 35,451,460	\$ 21,174,320	\$ 30,354,406	\$ 39,806,748
Transfers Out:				
Debt Service	\$ 19,424,264	\$ 18,210,525	\$ 16,004,264	\$ 16,004,264
CIP	3,560,000	10,674,750	7,628,883	7,628,883
Net Transfers Out	\$ (22,984,264)	\$ (28,885,275)	\$ (23,633,147)	\$ (23,633,147)
Net Operating Results	\$ 12,467,196	\$ (7,710,956)	\$ 6,721,258	\$ 16,173,601
Beginning Fund Balance	\$ 116,977,985	\$ 137,589,370		
Ending Fund Balance	\$ 129,445,181	\$ 129,878,414		
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		
PAYGO Infrastructure Reserve	-	8,117,724		
Available Fund Balance	43,274,709	35,590,218		
Total Fund Balance	\$ 129,445,181	\$ 129,878,414		

FY23-24 Year-to-Date Results - May 2024

	YTD Budget	YTD Actual	Variance Favorable (Unfavorable)		Total FY 23-24 Budget	YTD Actual as % of Total Budget
<b>Revenues</b>						
Sales Tax	\$ 43,220,454	\$ 44,115,999	\$ 895,545	2%	\$ 51,532,217	86%
Construction Sales Tax	16,817,094	19,152,995	2,335,901	14%	20,382,440	94%
State Shared Revenue	34,234,981	34,453,104	218,123	0.6%	37,654,434	91%
Property Tax	13,080,910	12,669,702	(411,208)	(3%)	13,285,644	95%
Charges for Services (CD)*	9,577,580	11,238,114	1,660,534	17%	10,040,000	112%
Investment Income	3,044,293	3,194,155	149,863	5%	3,707,500	86%
Other Charges for Services	14,251,444	15,440,001	1,188,557	8%	17,823,346	87%
<b>Total Revenues</b>	<b>\$ 134,226,755</b>	<b>\$ 140,264,071</b>	<b>\$ 6,037,316</b>	<b>4%</b>	<b>\$ 154,425,581</b>	<b>91%</b>
<b>Expenditures</b>						
Salaries & Benefits	\$ 58,292,168	\$ 54,081,412	\$ 4,210,757	7%	\$ 64,647,979	84%
Supplies & Services	38,258,335	40,287,063	(2,028,728)	(5%)	51,891,797	78%
Capital Outlay	7,321,846	6,088,848	1,232,998	17%	16,654,248	37%
Contingency	-	-	-	-	57,238	-
<b>Total Expenditures</b>	<b>\$ 103,872,349</b>	<b>\$ 100,457,323</b>	<b>\$ 3,415,027</b>	<b>3%</b>	<b>\$ 133,251,261</b>	<b>75%</b>

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





\* Note: FY 22-23 Salaries & Benefits costs included a one-time \$7M payment to the PSPRS Police Pension Plan in December 2022. Without this payment, the FY 22-23 year-to-date personnel costs were \$43.1M.

## **Revenue Analysis**

For FY 23-24, actual revenues are reporting a 4% favorable variance compared to the year-to-date budget estimates. The variances of the Revenue Categories are explained below. The budgets in this month's report reflect revenue adjustments that were approved in February 2024.

### **Sales Tax**

Sales Tax revenues are currently \$895K (2%) above the revised 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 36% in the last 12 months, including traffic over the past calendar year from Costco, Ashley Furniture, and Hobby Lobby. Also, for the same period, 26% of visits to the Town Center area were 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 \$2.3M (14%) above the revised 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 \$218K (0.6%) above the revised budget estimate. Recent forecasts from the state's Joint Legislative Budget Committee (JLBC) are predicting softened revenue growth for the state for the remainder of the fiscal year. With that information, the state-shared revenue estimates were revised downward in February, mostly in HURF and Vehicle Licensing Tax revenues. Still, 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 22% higher than the same period last year.

### **Property Tax**

Property taxes are approximately 3% below the 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. Property tax collections are lower than anticipated year-to-date due to the timing of when property owners remit their second-half taxes.

**Charges for Services – Community Development (CD)**

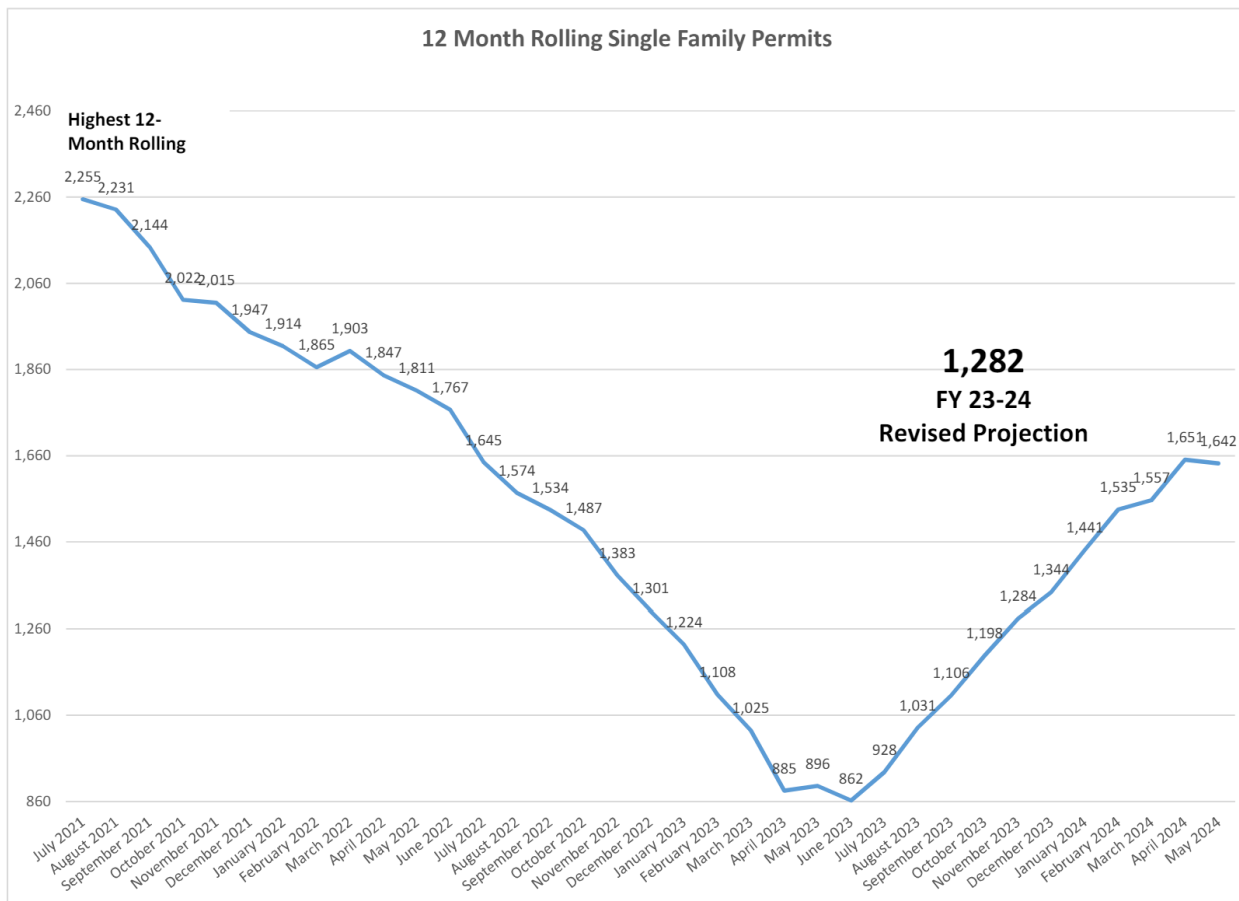
Charges for Services-CD accounts for planning, engineering and building permit revenues. The variance for these revenues is currently \$1.7M (17%), as presented in the following schedule:

**May 2024 YTD Community Development Detailed Revenues**

Charges for Services (CD)	<u>Revised Budget</u>		<u>Actual</u>	<u>\$ Variance</u>	<u>% Variance</u>
Planning Revenue	\$ 208,370	\$	185,768	\$ (22,602)	(11%)
Engineering Revenue	1,220,040		996,419	(223,621)	(18%)
Building Permit Revenue	<u>8,149,170</u>		<u>10,055,928</u>	<u>1,906,758</u>	<u>23%</u>
Total Charges for Services (CD)	\$ 9,577,580	\$	11,238,114	\$ 1,660,534	17%

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 submit applications and plans for review. Year-to-date collections are reporting a positive variance in building permit revenues, mostly due to construction related to the new LGES manufacturing facility. Engineering and planning revenues year-to-date are lower than expected due to some multi-family projects being paused by developers.

Building permit revenue is about 17% above the revised budget estimate. The revised FY 23-24 budget include an estimate of 1,282 single-family permits for the entire year; however, through May the Town has already issued 1,543 single-family permits. The rolling 12-month single-family permit trend has turned up since July due to continued demand for new housing in Queen Creek, as shown in the chart below.



A shortage of existing home inventory in the market is the largest factor driving demand for construction of new single-family homes. The overall housing market continues to struggle with mortgage interest rates over 6.5% 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. However, active MLS listings in the region for May were 40% higher than the same month last year, which is a sign of a slightly improving housing resale market. Over time, a more robust resale market could soften demand for new homes.

Multi-family housing continues to add more units to the Town's housing supply. Through May, the Town has issued permits for 596 multi-family units. Combined with single-family permits, the Town has issued permits for a total of 2,139 residential units this fiscal year, which is 106% of the total combined projection for new single-family and multi-family housing units this fiscal year.

### **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 two years, 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 begun 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.

In recent months, staff has analyzed the Town's investment maturity schedules and revised monthly estimates of investment income based on the timing of receipts of investment earnings (without changing the annual total estimate). This month's report continues to reflect those revisions. As this is the first year that we are tracking this category closely, our monthly estimates will improve over time as we gain more experience managing this revenue stream.

### **Other Charges for Services**

Other Charges for Services is comprised of a number of different sources and is currently reporting a \$1.2M (8%) positive variance. The largest component of this variance comes from \$408K in grant proceeds for the Police Department that are not currently included in the budget. Additionally, the School Resource Officer agreement revenue, fire revenue, and gas franchise revenue have come in higher than the budget.

The Other Revenue category also includes Utility ROI and Franchise Fees from the Town's Water and Sewer utility operations, which account for \$3.6M (23%) of the Other Revenue category. Departmental Support Revenue accounts for an additional \$4.7M (30%) of the total revenue in this category.

### **Economic Indicators**

Pages 11-13 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 3% 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 \$4.2M (7%) below budget. Of the 61 new positions approved in the FY 23-24 budget, seven remained vacant at the end of May, including one each in Information Technology, Engineering, Parks & Grounds Maintenance, Economic Development, and Public Works and two in Police. Additionally, in March the Town Council approved adding seven new FTE to the current year's budget to accelerate hiring of positions that are planned for next fiscal year, mostly for Police, Parks & Recreation, and Public Works. The Town's practice is to add a full-year budget of salary and benefits for each position, regardless of when the position is approved and added during the fiscal year. Because of this, the budgets for these seven positions are contributing about \$900K to the variance in this month's report. The remaining budget variance is due to turnover in staff positions. At the end of May, the Town had 23 vacancies related to staff turnover in the Operating Budget. The Town continues to experience 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 net \$2.0 (5%) unfavorable variance. This is due to \$7.7M in expenses related to development agreements, including about \$7.0M of development fees paid on behalf of LG since February 2024. A budget adjustment was approved by the Town Council in June to accommodate these expenses and will be reflected in the June Financial Report.

Excluding the development agreement payments, the Supplies and Services category has a positive YTD variance of \$5.6M or 19%. This includes about \$1.2M in savings on road maintenance projects in the HURF Fund that are still being prepared for contract approval. Other savings are coming from multiple categories including contracted IT services, dispatch services, personal protective clothing and equipment, vehicle maintenance and fuel, small tools & equipment, training/travel, and maintenance costs for buildings and streets. Earlier this fiscal year, the Town was able to reduce about \$1.7M from departments' operating budgets to better align with historical trends and current needs. Staff will continue to monitor budgets for additional opportunities to reduce budgets.

### **Capital Outlay**

Capital Outlay expenses are showing a \$1.2M (17%) 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. Furthermore, in March, the Town Council approved \$5.0M in vehicle orders for the coming fiscal year to ensure new Town vehicles are received as soon as possible. We do not expect to receive any of these vehicles before the end of the fiscal year and therefore will require a substantial allocation of year-end reserves to carry these orders forward to FY 24-25.

### **Outstanding Encumbrances**

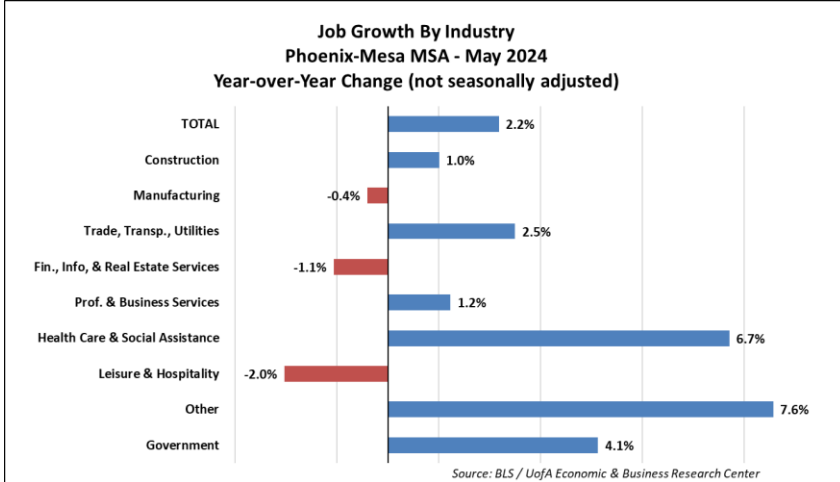
The following schedule displays year-to-date expenses and outstanding encumbrances for the Supplies & Services and Capital Outlay categories. This schedule provides a view of both actual spending and contractual commitments relative to the total budgets in these categories. This data helps gauge the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

fiscal year, the Outstanding Encumbrance amounts help measure the need for and size of potential carry-forward authorizations that will be required in the next fiscal year.

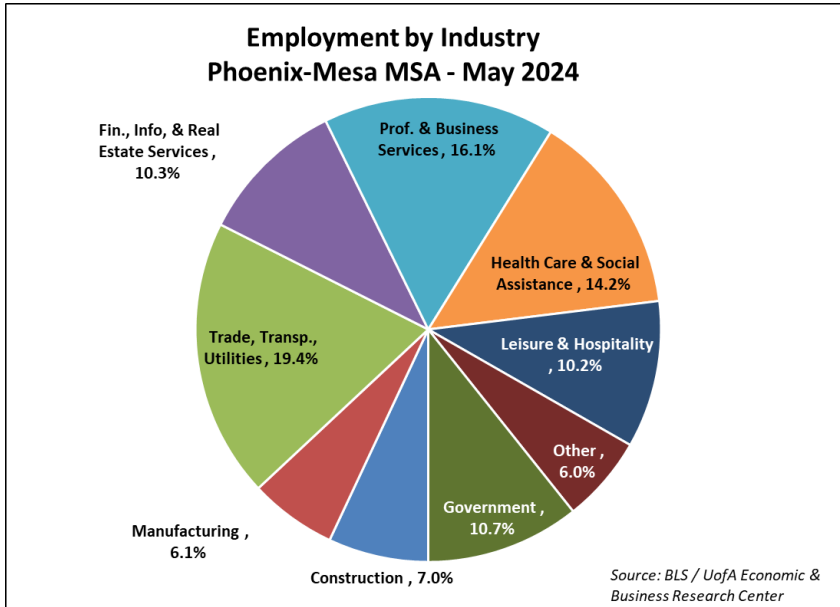
**May 2024 (FY 23-24) Expenses and Encumbrances**

	YTD Actual	Outstanding Encumbrances	Total Actual + Encumbrances	Total FY 23-24 Budget	YTD Spent & Encumbered
Expenditure Category:					
Supplies & Services	\$ 40,287,063	\$ 7,866,222	\$ 48,153,285	\$ 51,891,797	93%
Capital Outlay	6,088,848	7,926,473	14,015,321	16,654,248	84%
Total	\$ 46,375,911	\$ 15,792,695	\$ 62,168,606	\$ 68,546,044	91%

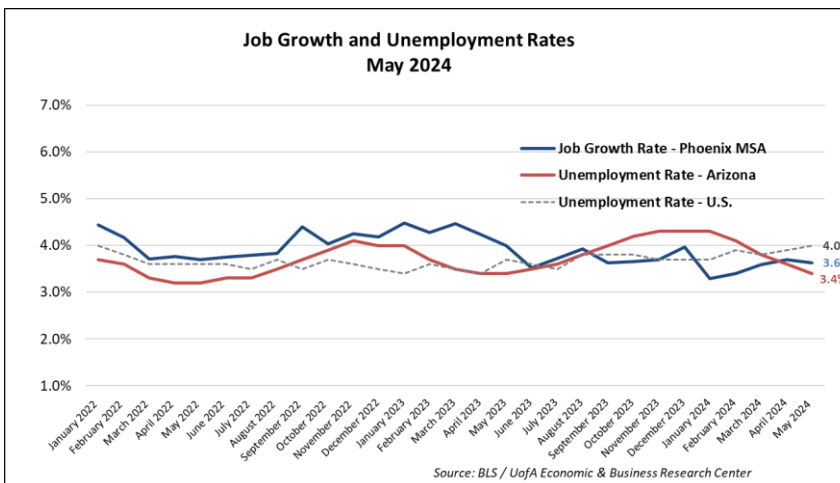
# Economic Indicators



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, the Health Care & Social Assistance, Government, and Other Services sectors are making up a majority of the Phoenix MSA’s year-over-year increase. Specifically, growth has happened in local government, ambulatory health, and private educational services. In the last 12 months, all industries except Manufacturing, Finance/Real Estate, and

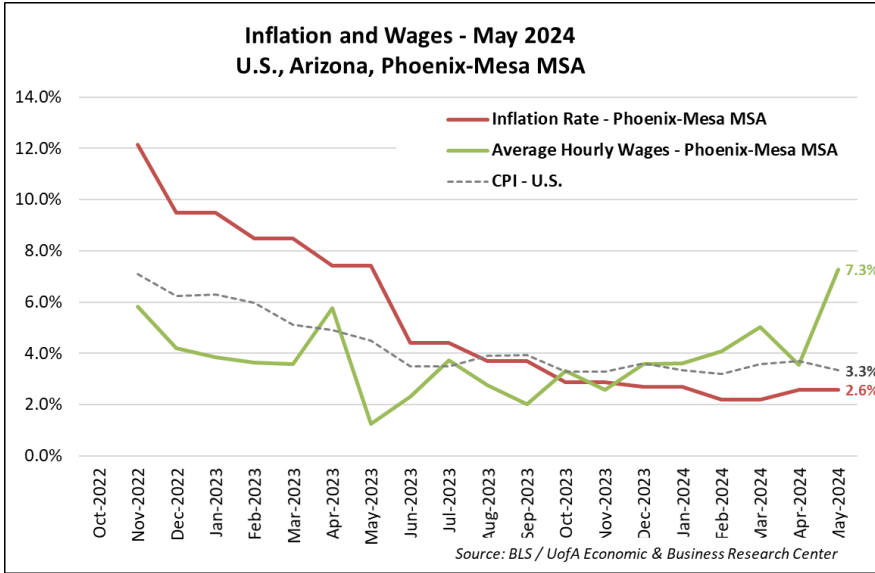


This chart shows the relative size of each major employment industry in the region. The Phoenix employment base is reasonably diversified with a healthy mix of industries, meaning the regional economy is not overly reliant on one industry to maintain a stable job base.



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. Persistently high inflation that outpaces income growth can impact households' spending patterns over time. 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. The recent uptick in year-over-year regional wage growth could affect inflation trends for the Phoenix Metro area.

Housing Market Indicators				
	Current	1 Year Prior	1 Year Change	
<b>Home Prices and Affordability</b>				
<b>Federal Housing Finance Agency House Price Index:</b>				
Phoenix-Mesa MSA	629.0	584.0	7.7%	
U.S.	424.3	402.4	5.4%	
<b>Median Home Prices:</b>				
Queen Creek	\$ 626,950	\$ 623,000	0.6%	
Phoenix-Mesa MSA	\$ 450,000	\$ 465,000	(3.2)%	
Arizona	\$ 520,000	\$ 500,000	4.0%	
U.S.	\$ 419,300	\$ 396,500	5.8%	
<b>Housing Cost vs. Wage Growth:</b>				
30-Year Fixed Mortgage Interest Rate	7.03%	6.57%	--	
Monthly Payment on QC Median Home <sup>(1)</sup>	\$ 3,328	\$ 3,156	5.4%	
Average Hourly Wage - Phoenix-Mesa MSA	\$ 34.39	\$ 32.06	7.3%	
<b>Real Estate Activity</b>				
SF Homes Sold - Queen Creek	150	156	(3.8)%	
SF Days on Market - Queen Creek	66	61	8.2%	
SF Homes Sold - Phoenix-Mesa MSA	6,065	6,486	(6.5)%	
SF Active Listings - Phoenix-Mesa MSA	16,894	12,037	40.4%	
<b>New Single-Family Building Permits</b>				
Queen Creek	115	124	(7.3)%	
Phoenix / Pinal County Region	2,558	2,128	20.2%	
Queen Creek 12-Month Rolling Total	1,642	896	83.3%	
Regional 12-Month Rolling Total	26,800	18,006	48.8%	

Source: Freddie Mac / Federal Reserve Bank of St. Louis / UofA Economic & Business Research Center / Redfin / QC Development Services

These housing 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. Prices in Queen Creek have stabilized over the last few months, in contrast to sharp increases experienced the year before. Mortgage rates continue to be elevated which, combined with high home prices, are keeping some buyers out of the housing market.

**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 in line with regional trends.

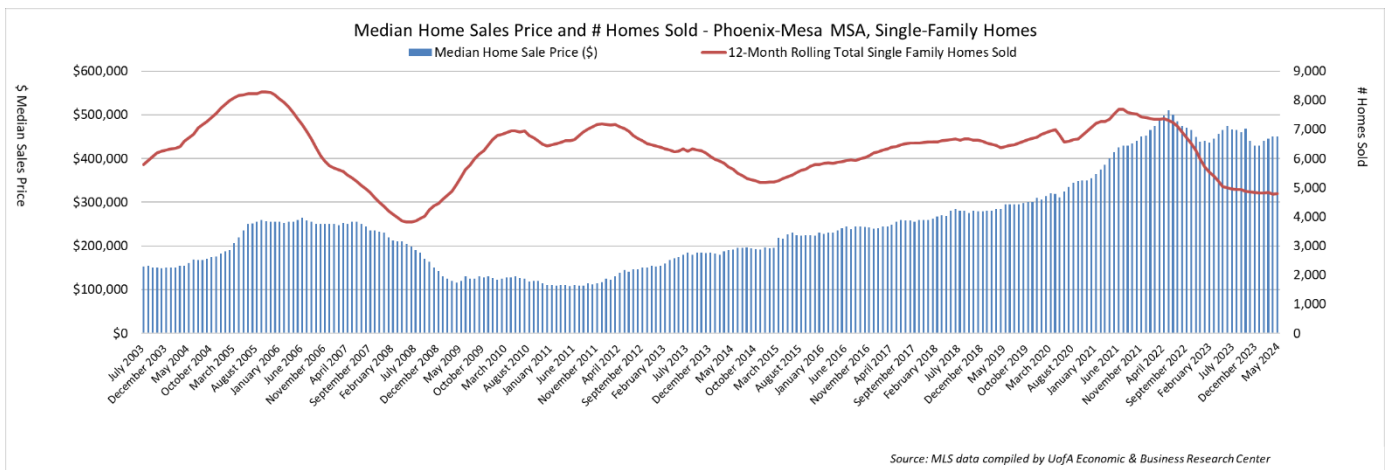
**New SF Building Permits** – The latest data show May new home construction in Queen Creek at lower levels than the same month last year, while the region sees increased new construction activity.

<sup>(1)</sup> Assumes 20% down, 30-year conventional mortgage

# 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. The last year has seen stabilization in the median sales price due to persistent demand for housing competing with the lack of available homes for sale. The recent rise in sales of existing homes reflects continued demand for housing in the region in spite of higher costs of buying a home and persistently high mortgage interest rates. However, overall inventory of existing homes continues to be historically low and is a major factor that is driving new home construction in the region.





TOWN OF  
**QUEEN CREEK**  
ARIZONA

# FY 23-24 Sales Tax Report

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FY 23-24 Business Activity through April 2024\*  
(Unaudited)

Issued June 2024

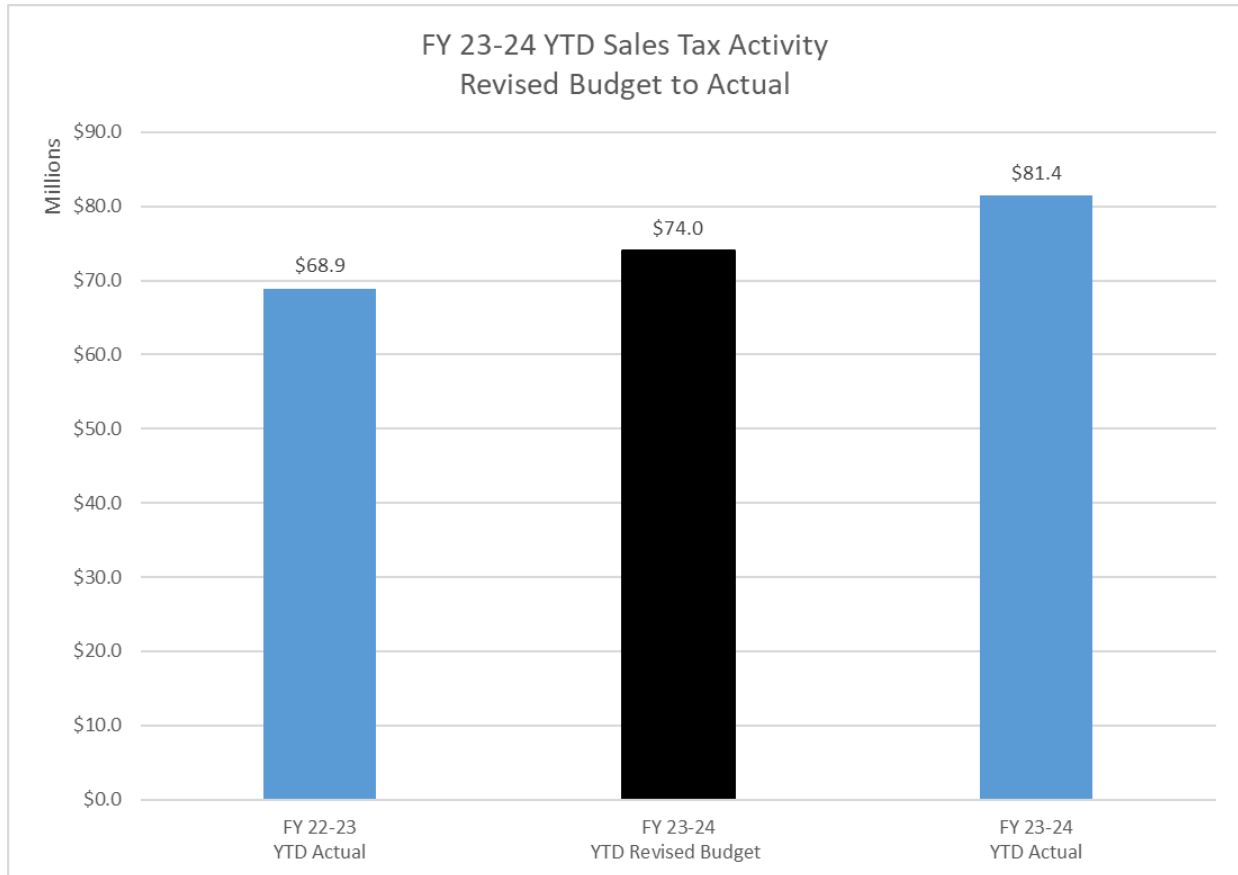
This report contains information regarding the actual revenue collections from the Town's 2.0% sales tax reflected in the General Fund, 0.25% dedicated EMS sales tax, 0.25% Town Center dedicated sales tax and the 2.0% Construction Contracting sales tax dedicated to infrastructure improvements.

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

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

### OVERALL PERFORMANCE SUMMARY:

The FY24 sales tax revenue total of \$81.4M exceeds the revised budget by 10%, or \$7.4M. Relative to FY 22-23, FY 23-24 actuals are 18%, or \$12.5M higher than the previous year.



Sales Category	FY 22-23 YTD Actual	FY 23-24 YTD Revised Budget	FY 23-24 YTD Actual	FY 23-24 YTD Revised Budget-To-Actual		FY22-23 YTD Actual to FY 23-24 YTD Actual	
				\$ Variance	% Variance	\$ Increase	% Increase
Construction	\$ 29,403,700	30,496,445	36,177,879	5,681,434	19%	\$ 6,774,179	23%
Retail Trade	\$ 28,309,404	31,735,399	32,990,237	1,254,838	4%	4,680,833	17%
Communications & Utilities	\$ 1,980,400	2,296,735	2,435,458	138,723	6%	455,058	23%
Restaurant & Bar	\$ 5,046,327	5,217,904	5,319,197	101,293	2%	272,870	5%
Real Estate, Rental & Leasing	\$ 2,724,325	3,006,237	3,170,099	163,862	5%	445,774	16%
All Others**	\$ 1,459,364	1,289,342	1,338,121	48,779	4%	(121,243)	(8%)
<b>Totals</b>	<b>\$ 68,923,519</b>	<b>\$ 74,042,062</b>	<b>\$ 81,430,990</b>	<b>\$ 7,388,928</b>	<b>10%</b>	<b>\$ 12,507,470</b>	<b>18%</b>

\*\*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

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Town of Queen Creek sales tax collections are positively impacted by the high incomes of Town households. Per the 2022 American Communities Supplemental Survey data provided by the U.S. Census, Queen Creek's median household income is \$129,605, which is among the highest in the region for full-service cities and towns.

The Town utilizes data sources to analyze consumer foot traffic to create customized reports for different geographical areas and time periods. This data is being used to analyze the number of visits to commercial developments within the town and compare current foot traffic with prior periods. When comparing data from April 2023 and April 2024, the number of visits to the Town Center area increased by about 33%. 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 34% of visits to the Town Center area from May 2023 through April 2024 were from individuals living in zip code 85142. An additional 26% 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.

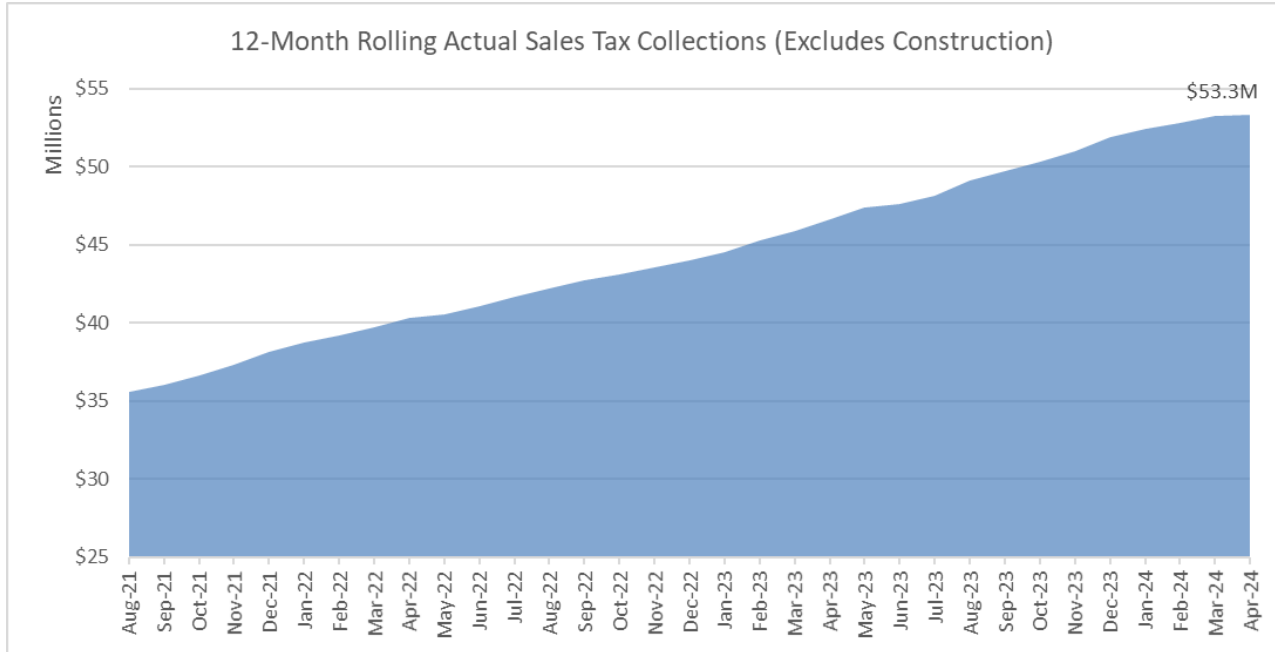
April sales tax collections in FY 23-24 were higher than in FY 22-23. The strong levels of sales tax collections can be attributed to the continuing growth in population due to development both within the Town and in surrounding areas, new businesses continuing to open, and the Town's ability to collect 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 FY22 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.

**April 2024 Actuals: \$4.4M**

**FY 23-24 YTD Actuals: \$36.2M**

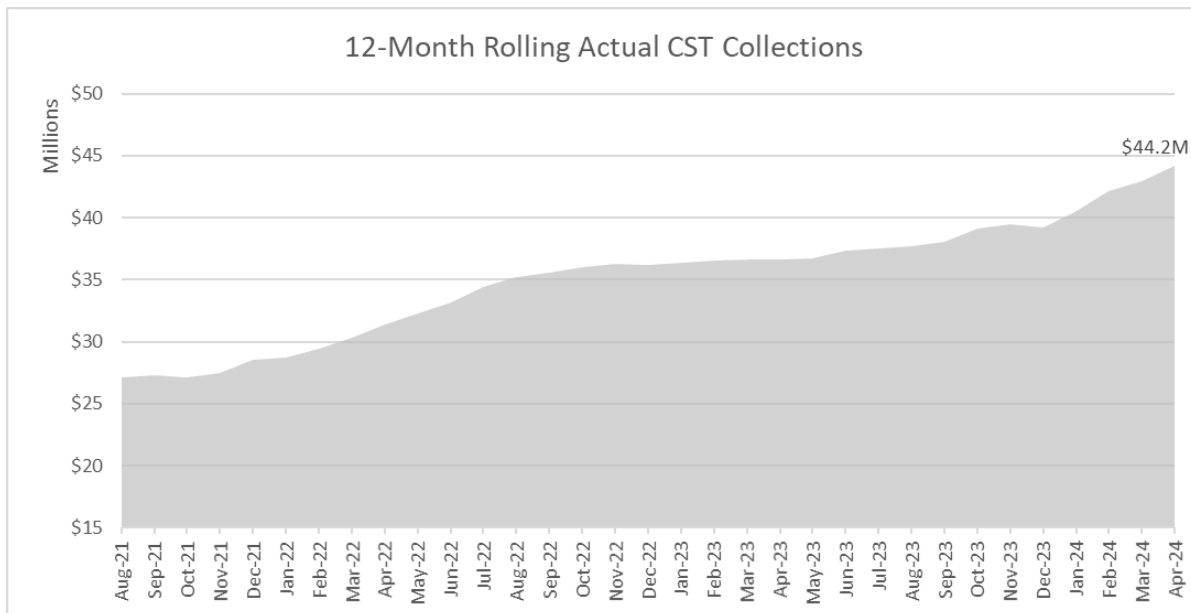
**FY 23-24 YTD Revised Budget to Actual Variance of \$5.7M or 19%**

**FY 23-24 YTD Actual to FY 22-23 YTD Actual Increase of \$6.8M or 23%**

FY 23-24 collections are higher than the FY 23-24 revised budget and the prior fiscal year actuals through April 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 FY22, 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 April, 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

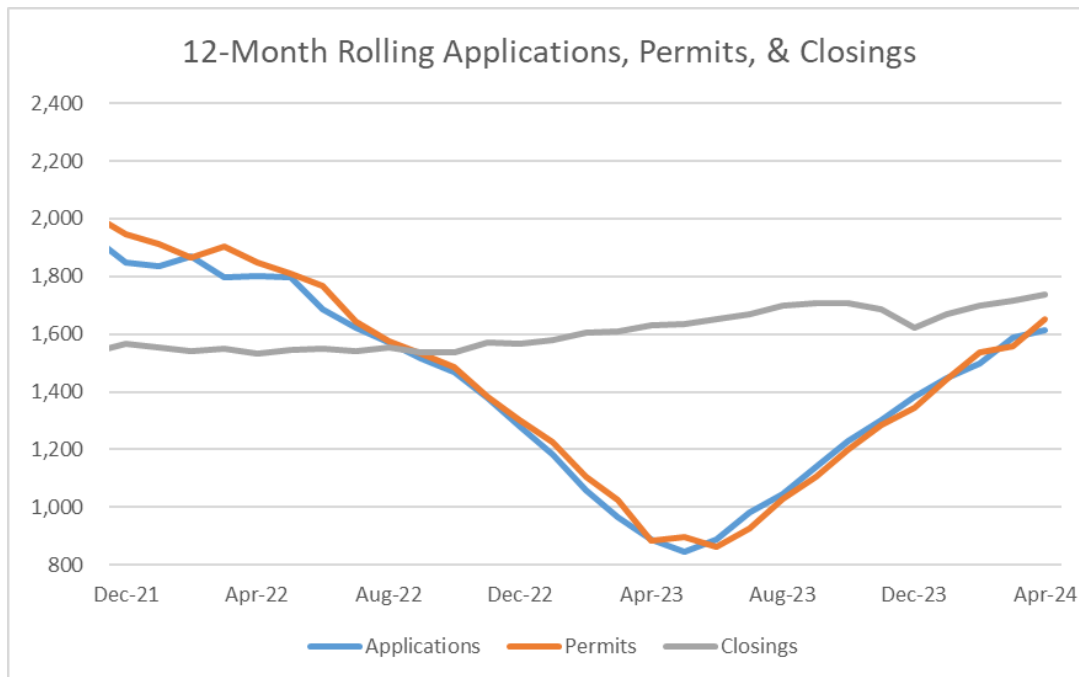
## Appendix 1: Queen Creek Monthly Sales Tax Report

family homes over the past few years, multi-family and non-residential activity is remaining strong and making up the difference in construction sales tax revenues.

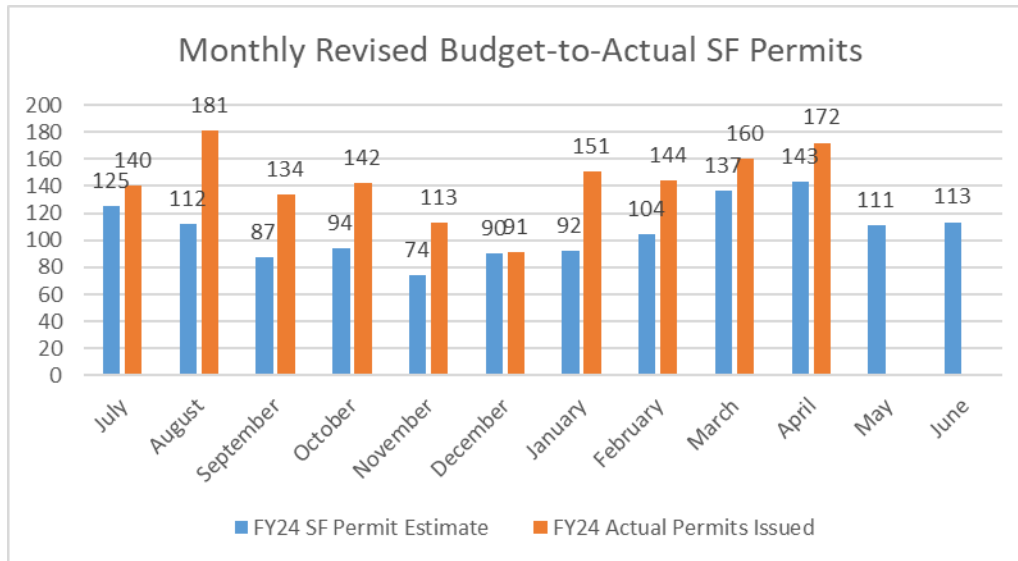
Business Type	FY22 YTD Actuals		FY23 YTD Actuals		FY24 YTD Actuals	
	Sales Tax (\$)	% of Total	Sales Tax (\$)	% of Total	Sales Tax (\$)	% of Total
Homebuilders	\$18.3M	70%	\$18.7M	64%	\$20.8M	57%
Gen. Contractors, Pool/ Landscape, & Other Specialized Trades	\$7.7M	30%	\$10.7M	36%	\$15.4M	43%
<b>Total</b>	<b>\$26.0M</b>	<b>100%</b>	<b>\$29.4M</b>	<b>100%</b>	<b>\$36.2M</b>	<b>100%</b>

### 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 December 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 adopted budget included a single family home permit estimate of about 800 permits, but the projection was revised upward to 1,282 in February 2024. Actual permits issued through April were about 135% of the revised year-to-date budget.

Each year, construction sales tax collections trend downward in the month of January due to decreased activity around the holidays, which is then followed by a rebound in collections in February and the following months. Construction sales tax activity did not follow that same trend, with strong construction-related sales tax collections through the winter and into the spring months. This contributes to the high budget-to-actual variance and higher collections versus the prior year. An illustration of this trend can be seen in the construction sales tax graph on page 14 of this appendix.

With the uptick in permits issued over the past six months, the 12-month rolling permit total has stabilized and began increasing after almost 24 months of decline. Overall, the Town made up 7% of total NSF permits issued in the greater Phoenix area in April. The rolling 12-month closings have stayed relatively consistent over the past year with a slight uptick due to the increase in permitting experienced mid-2023.

### 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 150 new home sales close in the month of April with an average sales price of \$674K for these homes. The following table shows the monthly closings by builder, average sale price and estimated gross revenue for the month of April for new homes that closed within the Town.

## Appendix 1: Queen Creek Monthly Sales Tax Report

BUILDER	# CLOSINGS	AVG. SALE PRICE	EST. GROSS REVENUE
MATTAMY HOMES	23	\$ 595,512	\$ 13,696,774
LENNAR HOMES	17	\$ 508,188	\$ 8,639,200
WILLIAM LYON HOMES	15	\$ 546,462	\$ 8,196,924
MARACAY HOMES	14	\$ 719,118	\$ 10,067,648
TAYLOR MORRISON	13	\$ 792,181	\$ 10,298,353
SHEA HOMES	13	\$ 669,588	\$ 8,704,638
RICHMOND AMERICAN	13	\$ 723,520	\$ 9,405,759
WOODSIDE HOMES	9	\$ 509,185	\$ 4,582,662
TOLL BROTHERS	8	\$ 1,307,083	\$ 10,456,664
FULTON HOMES	8	\$ 791,020	\$ 6,328,159
KB HOME	5	\$ 485,923	\$ 2,429,616
ASHTON WOODS HOMES	5	\$ 685,924	\$ 3,429,619
PULTE HOMES	2	\$ 804,990	\$ 1,609,980
DAVID WEEKLEY HOMES	2	\$ 490,715	\$ 981,430
BRIGHTLAND HOMES	1	\$ 593,500	\$ 593,500
MISC CUSTOM	1	\$ 825,000	\$ 825,000
ELLIOTT HOMES	1	\$ 897,000	\$ 897,000
<b>GRAND TOTAL</b>	<b>150</b>	<b>\$ 674,286</b>	<b>\$ 101,142,926</b>

### 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.

**April 2024 Actuals: \$3.2M**

**FY 23-24 YTD Actuals: \$33.0M**

**FY 23-24 YTD Revised Budget to Actual Variance of \$1.3M or 4%**

**FY 23-24 YTD Actual to FY 22-23 YTD Actual Increase of \$4.7M or 17%**

FY 23-24 YTD collections in the retail category were higher than the FY 23-24 revised budget and prior year actual collections.

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 April, the top 20 payers of 6,343 total payers in the retail category delivered 64% of the revenue. The top 10 payers in the category account for 56% of the total.

The Town Center area includes large shopping centers in town such as Queen Creek Marketplace, QC District, Cornerstone at Queen Creek, Terravella, and Queen Creek Crossing (Costco development). According to data from Buxton Mobilytics, the rolling annual total visits to the Town Center area have increased by about 36% between April 2023 and April 2024. When comparing visits in April 2023 versus April 2024, the total number of visits to the Town Center area is up approximately 33%. The increase in visits year-over-year can be attributed to the opening of Costco in January 2023, the opening of Ashley Furniture and Hobby Lobby in Spring 2024, the increase in population in Queen Creek and the surrounding area, new establishments opening in the Town Center area, and continued traffic from Eastmark, San Tan Valley, southeast Gilbert, and Florence.

## Appendix 1: Queen Creek Monthly Sales Tax Report

Of the total retail sales tax collections in April, at least \$574K, or 18%, is estimated to come from e-commerce transactions. April 2024 e-commerce sales tax collections are 21% lower than collections in April 2023 due to a large one-time payment by a taxpayer in April 2023.

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.). Staff continues to closely monitor the retail sales tax category to identify impacts of high inflation on Queen Creek consumers and businesses.

### **COMMUNICATIONS/UTILITIES:**

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

**April 2024 Actuals: \$198K**

**FY 23-24 YTD Actuals: \$2.4M**

**FY 23-24 YTD Revised Budget to Actual Variance of \$139K or 6%**

**FY 23-24 YTD Actual to FY 22-23 YTD Actual Increase of \$455K or 23%**

Year-to-date collections in the communications/utilities category are higher than the revised FY 23-24 budget and prior year collections. This variance can be attributed to new single family homes, multi-family projects, and non-residential developments within the Town.

### **RESTAURANTS & BARS:**

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

**April 2024 Actuals: \$555K**

**FY 23-24 YTD Actuals: \$5.3M**

**FY 23-24 YTD Revised Budget to Actual Variance of \$101K or 2%**

**FY 23-24 YTD Actual to FY 22-23 YTD Actual Increase of \$273K or 5%**

This category is equal to the current year revised budget and slightly 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.

**April 2024 Actuals: \$332K**

**FY 23-24 YTD Actuals: \$3.2M**

**FY 23-24 YTD Revised Budget to Actual Variance of \$164K or 5%**

**FY 23-24 YTD Actual to FY 22-23 YTD Actual Increase of \$446K or 16%**

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. Due to recent legislation, long-term residential leases will no longer be taxable beginning in January 2025.

## **ALL OTHER CATEGORIES:**

The categories included here are transportation, accommodations, manufacturing, wholesale trade, finance and insurance, services, and arts and entertainment.

**April 2024 Actuals: \$146K**

**FY 23-24 YTD Actuals: \$1.3M**

**FY 23-24 YTD Revised Budget to Actual Variance of \$49K or 4%**

**FY 23-24 YTD Actual to FY 22-23 YTD Actual Decrease of (\$121K) or (8%)**

This category is below prior year actual collections and approximately level with the FY24 revised budget.

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. Year-over-year performance is decreased due to a one-time payment correction in FY23 from a taxpayer in the 'Other' category that artificially inflated collections from more typical levels.

## 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%
<b>Total Rate</b>	<b>2.25%</b>	<b>Total Rate</b>	<b>2.50%</b>	<b>Total Rate</b>	<b>4.25%</b>

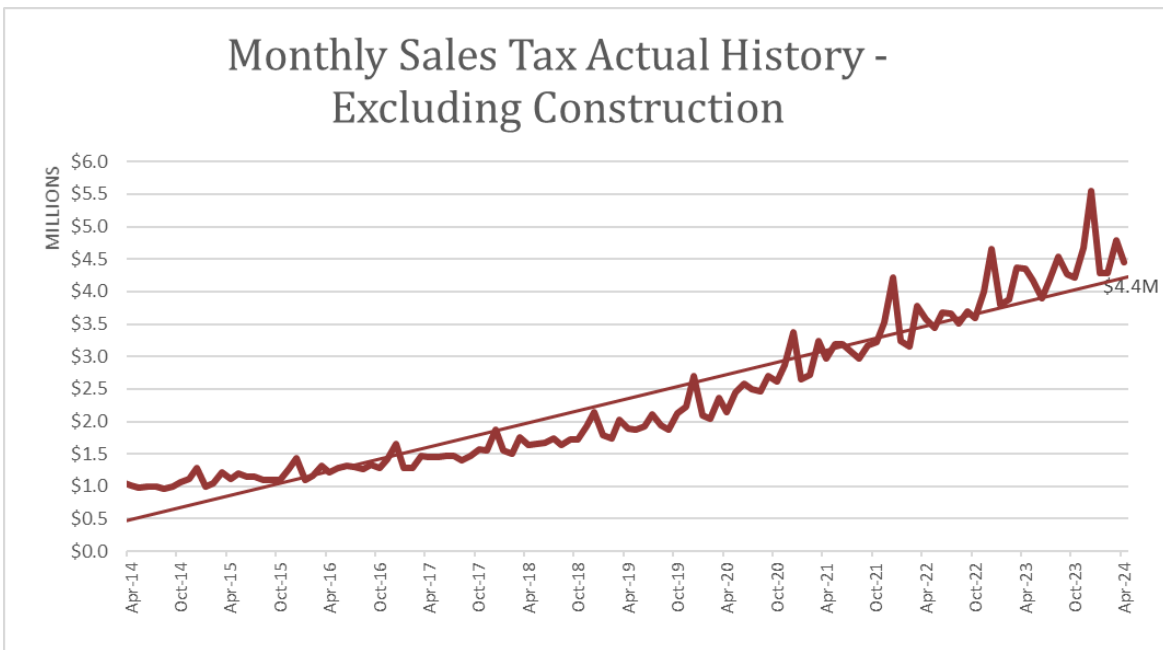
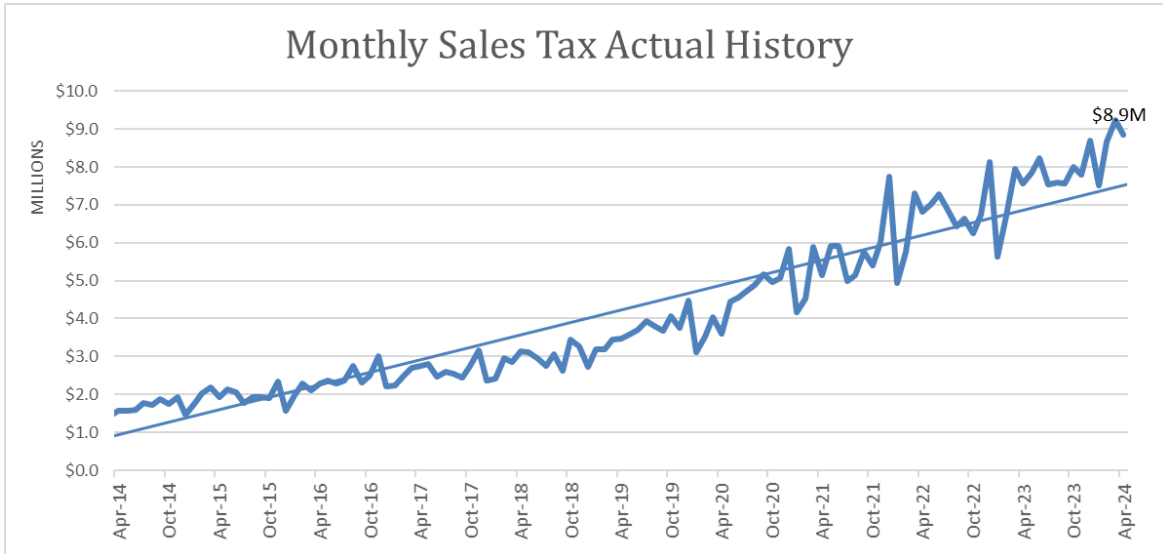
Revenue by Fund	FY24 Actuals YTD	% of Total
General Fund	\$ 56,239,106	69.1%
EMS Fund	7,029,888	8.6%
Town Center Fund	1,137,111	1.4%
Construction Fund	17,024,885	20.9%
<b>Totals</b>	<b>\$ 81,430,990</b>	<b>100.0%</b>

Operating Budget	Jul	Aug	Sep	Oct	Nov	Dec
General Fund	\$ 5,201,198	\$ 5,375,744	\$ 5,246,192	\$ 5,438,261	5,526,033	6,277,617
EMS Fund	\$ 650,150	\$ 671,968	\$ 655,774	\$ 679,783	690,754	784,702
<b>Total Operating Budget</b>	<b>\$ 5,851,347</b>	<b>\$ 6,047,712</b>	<b>\$ 5,901,966</b>	<b>\$ 6,118,043</b>	<b>\$ 6,216,788</b>	<b>\$ 7,062,319</b>

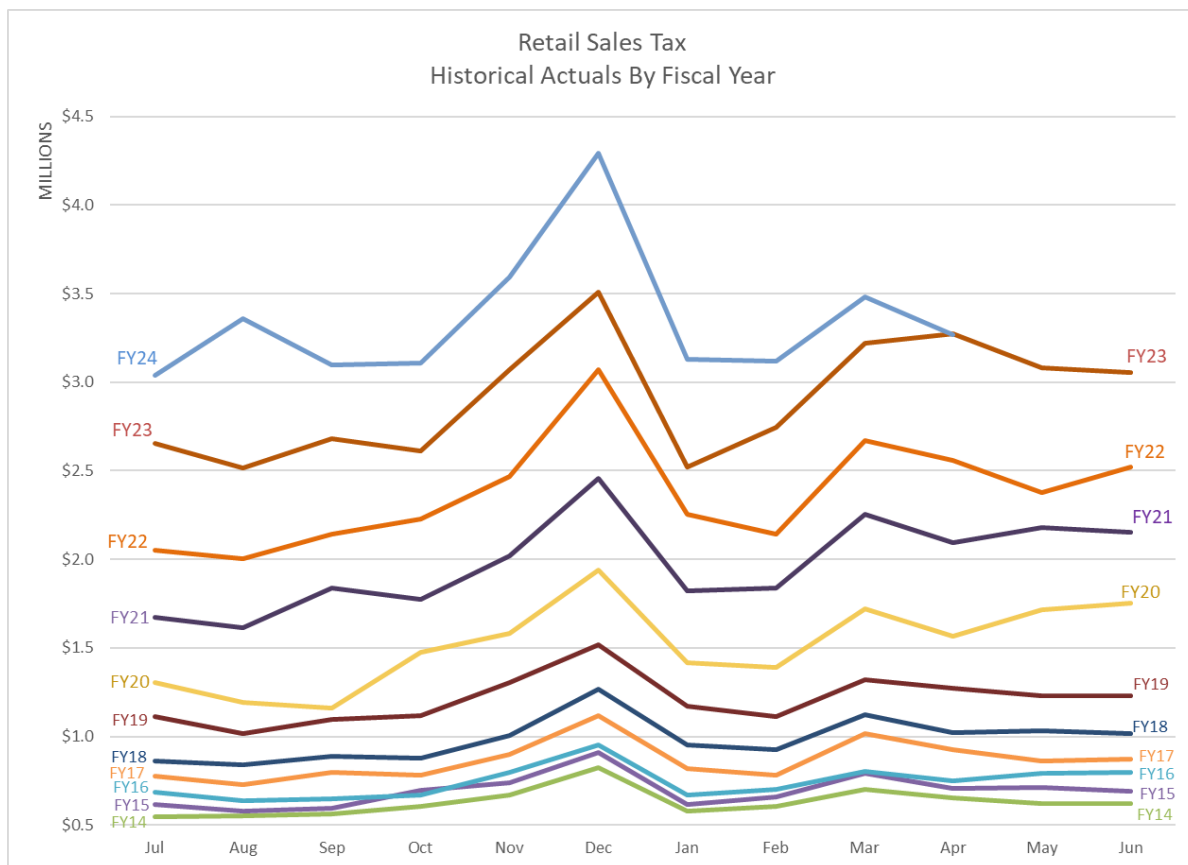
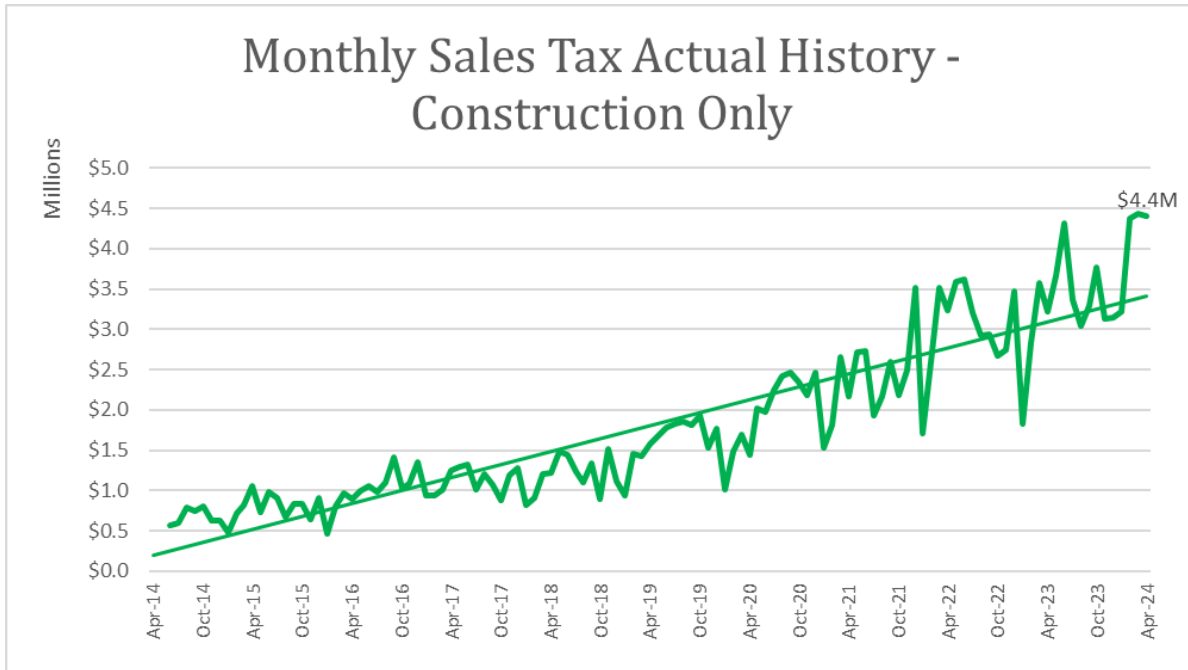
Operating Budget	Jan	Feb	Mar	Apr	FY23-24 YTD
General Fund	\$ 5,227,610	\$ 5,777,961	\$ 6,236,370	\$ 5,932,121	\$ 56,239,106
EMS Fund	\$ 653,451	\$ 722,245	\$ 779,546	\$ 741,515	\$ 7,029,888
<b>Total Operating Budget</b>	<b>\$ 5,881,061</b>	<b>\$ 6,500,207</b>	<b>\$ 7,015,916</b>	<b>\$ 6,673,636</b>	<b>\$ 63,268,995</b>



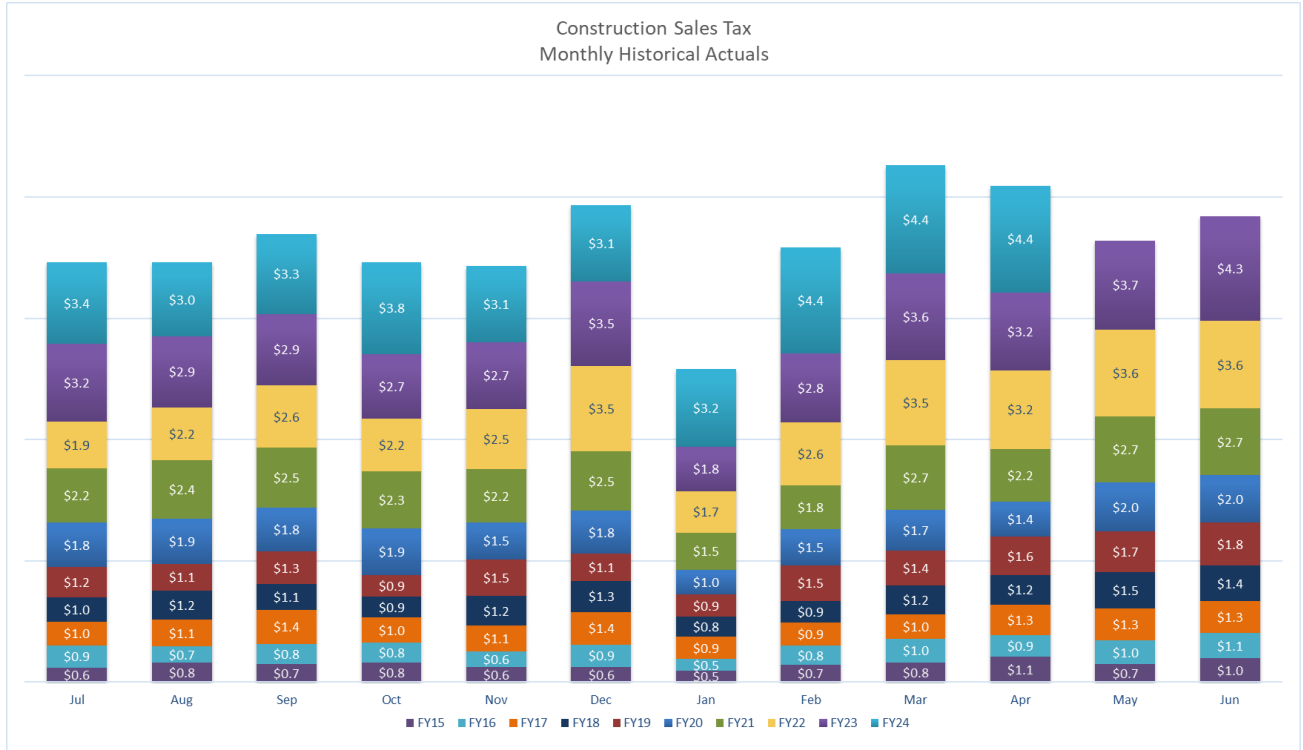
## Historical Performance



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