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MEMORANDUM

Date: July 31, 2014

To: Mayor and Council Members

From: Town Staff

Re: Ordinance 853 – Annexation by Payson, Deannexation by Star Valley of approximately 760 acres of Forest Service land along the Southern border of Payson and Star Valley to facilitate the development of the Fox Farm land.

Background

The land commonly known as the 'Fox Farm' is an 80 acre parcel of land located at the end of Granite Dells Road approximately $\frac{3}{4}$ of a mile east of Payson's eastern boundary. In 2007 Star Valley annexed land such that Star Valley's western border is adjacent to Payson's eastern border. See Star Valley Ordinance O-07-07. During this annexation, Fox Farm and approximately 160 acres immediately south of Fox Farm were specifically excluded. Because of this, Fox Farm is currently located in the unincorporated part of the county, outside the town boundaries of both Payson and Star Valley. Fox Farm does have electrical service, but is not served by municipal water or by the Sanitary District. See Exhibit A for current map depicting the location of Fox Farm and the current municipal boundaries of Payson and Star Valley.

Recent Inquiries re Development

Payson has received numerous inquiries about the potential development of Fox Farm. These potential developments have ranged from residential, to industrial, and many options in between. Each of these potential developments has been held up by a lack of basic municipal services to Fox Farm such as domestic water service, fire protection, etc. Because of these stumbling blocks, the owner of Fox Farm and Payson have had informal discussions about the annexation of Fox Farm. Following the most recent annexation discussions, individuals from Star Valley and Payson met informally to discuss potential annexation options. Based upon

these initial discussions, it is believed that development of Fox Farm would be beneficial to the entire area and that Star Valley and Payson should work together on any potential annexation.

Benefits of Development of Fox Farm

Traditionally cities and towns in Arizona annex area primarily for three reasons that directly benefit the annexing city/town: (1) to control development, (2) to increase sales tax revenue, and/or (3) to increase population for the calculation of state shared revenues.

In this case, neither the Town of Star Valley nor the Town Payson themselves would benefit directly or significantly in these three ways. (1) Both Star Valley and Payson desire to aid the development of Fox Farm, not limit development. (2) Fox Farm's location limits its retail appeal¹ and none of the proposed development concepts have include a major retail component. (3) Even if the parcel was utilized for residential purposes, the number of new residents would be extremely small in comparison to Star Valley or Payson's current populations resulting in negligible increases, if any, in state shared revenue calculations.

Although neither the Town of Star Valley nor the Town of Payson would directly or specifically benefit from the development of Fox Farm, the citizens of Northern Gila County (including the citizens of both Towns) would benefit in several ways.

First, all of the proposed developments would create jobs for Northern Gila County residents - jobs during the construction of any development, jobs improving infrastructure to serve any development, and most importantly permanent jobs into the future as a result of the development. An accurate number of these jobs is unable to be ascertained because the exact development is unknown.² It is difficult to predict if the persons employed in these new jobs would reside in Star Valley, Payson, or unincorporated areas of Northern Gila County. Regardless, the net result is employment and economic activity in Northern Gila County that would benefit everyone.

Second, development of Fox Farm would increase the property tax rolls for Northern Gila County. The primary beneficiaries from this increased property tax valuation are those entities who have the highest property tax rates, the school districts, Gila County, and the fire district.³ Again, this increased property tax valuation benefits all the citizens of Northern Gila County.

¹ Local sales tax is generated primarily by retail sales.

² In some ways, this is a 'chicken and egg' problem; which comes first. To date, Fox Farm has not been annexed because there is no development on the site. At the same time, there is no development on site because Fox Farm is not located in a municipality with access to basic municipal services.

³ Although the Town of Payson has a primary property tax, it is minimal.

Potential annexation options

Both Payson and Star Valley could legally annex Fox Farm. Fox Farm is surrounded by Star Valley on three sides and therefore Star Valley could annex. Because the fourth side is open, an annexation map could be drawn such that a Payson annexation would meet the statutory requirements of contiguous annexations. See A.R.S. 9-471(H) and Exhibit B depicting such area.

Star Valley Annexation - If Star Valley were to annex Fox Farm, it would need to provide essential services such as law enforcement and water. It is important to note that the shortest access to Fox Farm (and presumably the future improved access to Fox Farm) is Granite Dells Road which goes through Payson. Star Valley's law enforcement, the Gila County Sheriff's Office could service Fox Farm, but to do so, they would have to go through the heart of Payson to get there. Additionally, given the layout of Star Valley's water system, connecting to Star Valley's water system would be difficult because there is no direct right of way or easement from Star Valley's current water mains to Fox Farm.

Payson Annexation - A Payson annexation would not encounter these problems. Fox Farm is within one mile of areas already served by the Payson Police Department. A water main extension could be easily connected to the Town's system in the Rim Club and an extension constructed in the easement for Granite Dells Road allowing connection of Fox Farm to Payson's current water system.

Collaborative Approach to Annexation - If Payson were to annex Fox Farm in the configuration shown on Exhibit B, it would create a situation where a portion of the Town of Payson would only have improved access through Star Valley. But more importantly than merely crossing Star Valley for access, Star Valley would become responsible for an improved roadway that connects two portions of Payson, but accessed no other private land within Star Valley. Functionally, Star Valley would be responsible for maintaining a road that only served/benefited properties within the Town of Payson.

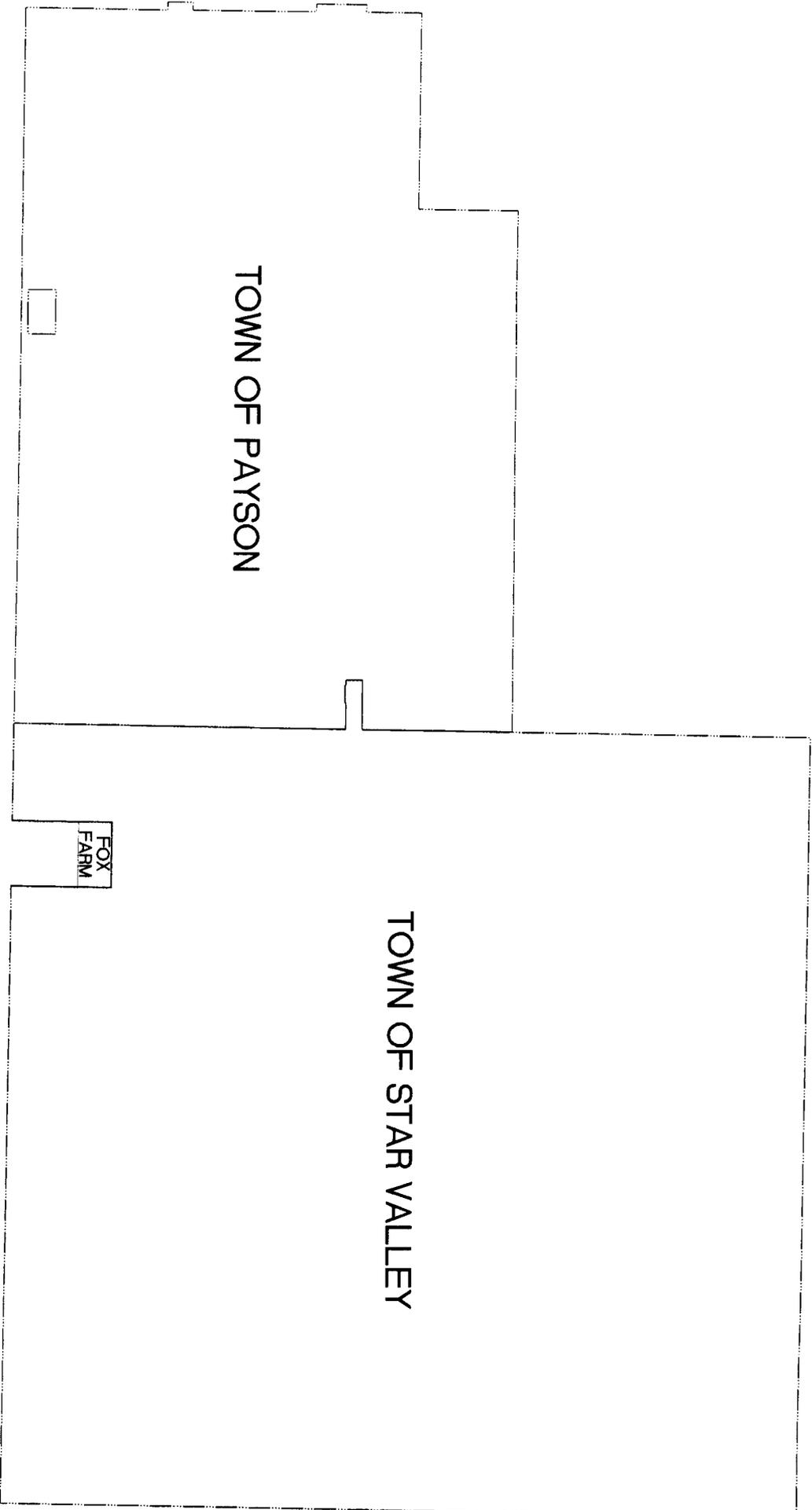
Because of this anomaly related to the road, the Staff's of Star Valley and Payson are asking the Town Councils to consider a collaborate approach to the annexation of Fox Farm. This collaborative approach would have two steps. First, Star Valley would deannex and the Town of Payson would annex the furthest southwest portion of Star Valley.⁴ See Exhibit C. The area being deannexed/annexed contains a portion of Granite Dells Road, but does not contain any other development or even any private property. It is approximately 760 acres. Second, Payson would annex Fox Farm. See Exhibit D. Although Star Valley would not legally be involved in this second step, Payson desires to have Star Valley's support.

⁴ This deannexation/annexation would follow the same process used in 2013 by Payson and Star Valley to correct recording errors along the Payson and Star Valley border in the area of East Posey Court. See Payson Ordinance 832 and Star Valley Ordinance O-13-01.

Next steps

In July and August, the Town Councils of both Payson and Star Valley will be presented with ordinances to allow Star Valley to deannex and Payson to annex the land depicted on Exhibit C. If both Ordinances are approved, the Ordinances will be provided to the Gila County Board of Supervisors for final approval.

If the deannexation/annexation is approved by the Board of Supervisors, Payson will initiate the annexation process of the Fox Farm, as depicted in Exhibit D, to facilitate future economic development in Northern Gila County.

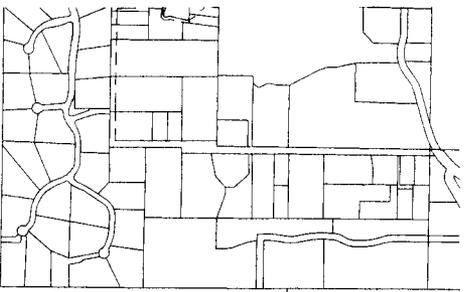


TOWN OF PAYSON

TOWN OF STAR VALLEY

FOX
FARM

EXHIBIT A

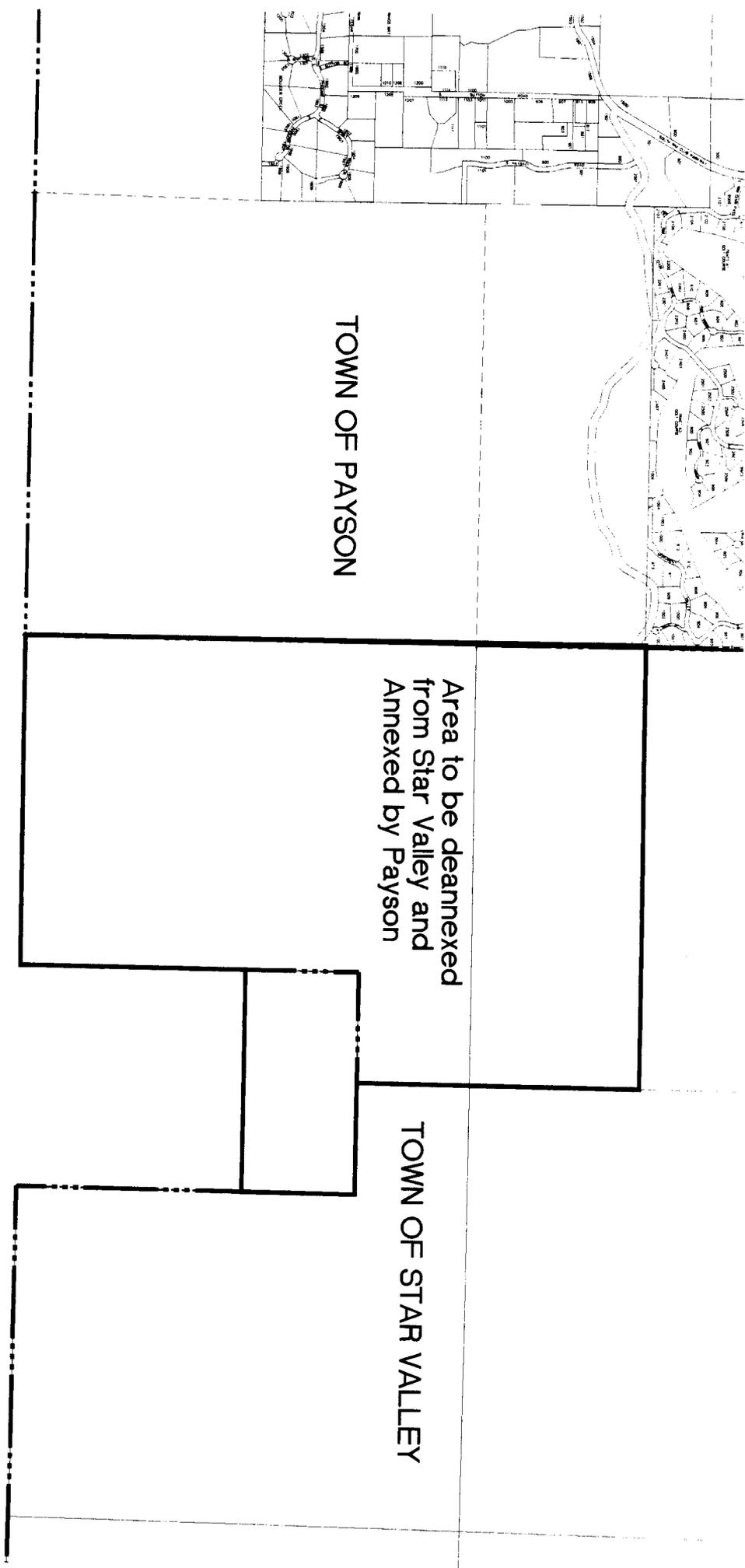


TOWN OF PAYSON

TOWN OF STAR VALLEY

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EXHIBIT B

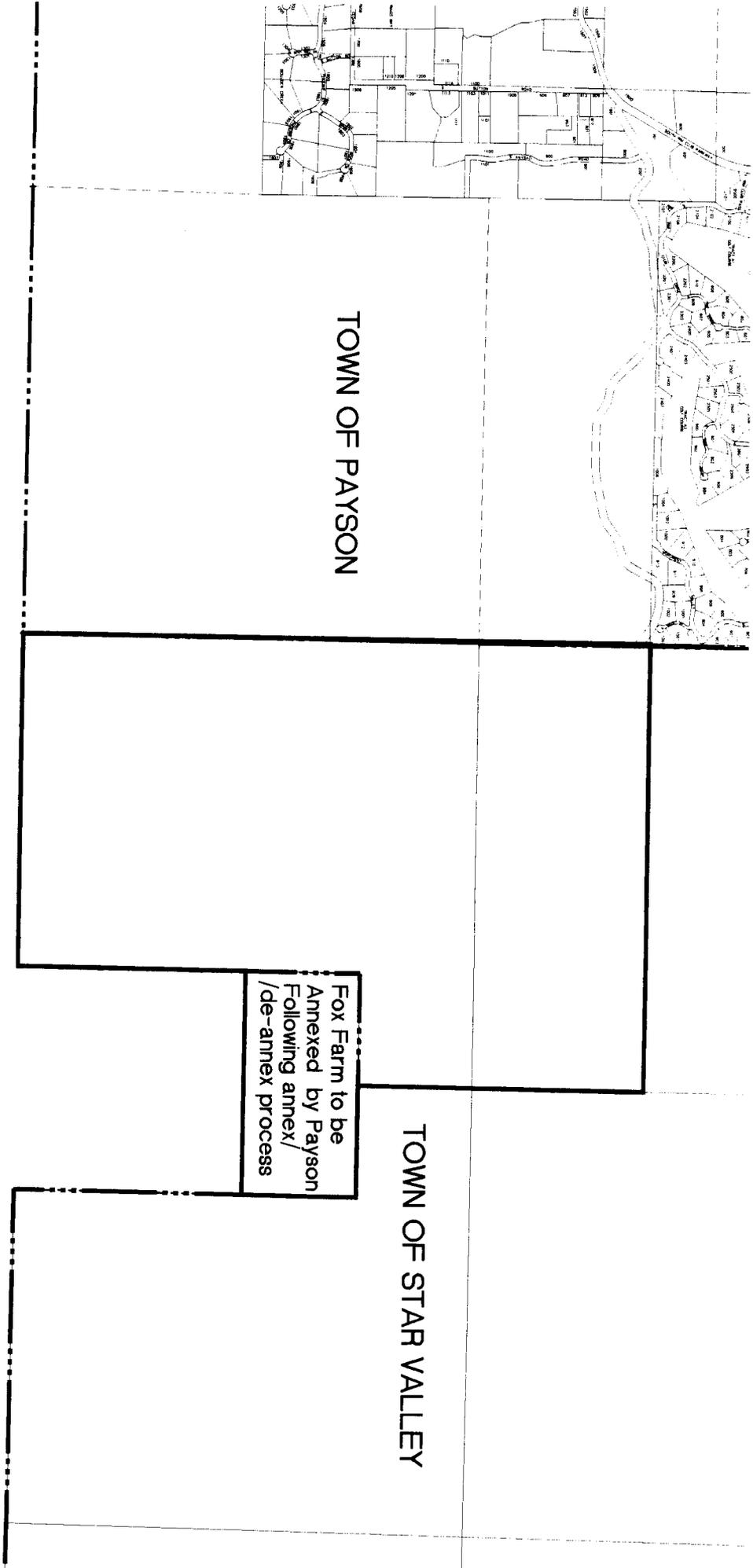


TOWN OF PAYSON

Area to be deannexed
from Star Valley and
Annexed by Payson

TOWN OF STAR VALLEY

EXHIBIT C



TOWN OF PAYSON

TOWN OF STAR VALLEY

Fox Farm to be
Annexed by Payson
Following annex/
de-annex process

EXHIBIT D