

PAYSON GENERAL PLAN UPDATE 2014-2024 DRAFT

*Prepared for:
Town of Payson, Arizona*



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9 COST OF DEVELOPMENT ELEMENT

Maximize the use of planning and financial tools to mitigate the cost of development to the community while providing incentives for well-planned development that achieves stated town principles and goals.

9.1 OVERVIEW

Cost of Development Vision

The General Plan Update 2014-2024 presents strategies to manage Payson’s land use and growth decisions in a fiscally sustainable manner. The Plan includes strategies to maximize land uses, preserve the quality of place, and ensure development pays its fair share of improvements to provide necessary public services like transportation infrastructure, parks, recreational facilities, and public safety.

9.2 FACTORS INFLUENCING THE FISCAL SUSTAINABILITY OF LAND USES⁶

There are numerous factors that influence the fiscal results for different land uses. These factors include, but are not limited to:

- Local revenue structure,
- Services provided,
- Local levels of service,
- Capacity of existing infrastructure, and
- Demographic and market characteristics of new growth.

Local Revenue Structure

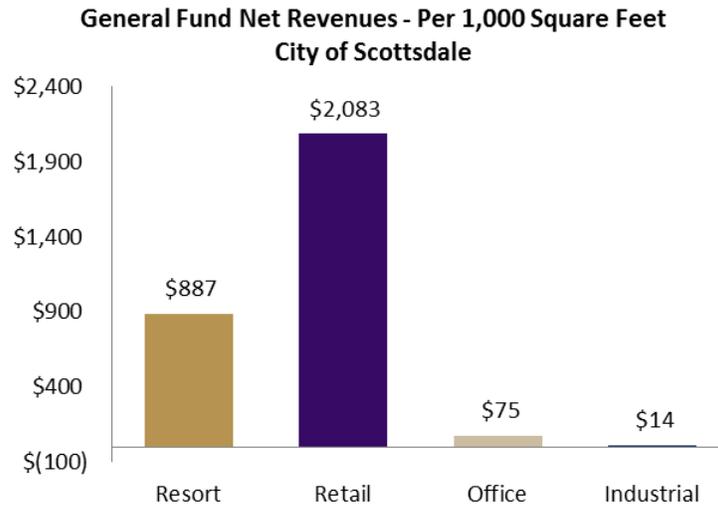
A key determinant in calculating net fiscal results from new development is the local revenue structure, which affects fiscal findings through both its composition and revenue distribution/collection formulas. Every community has at least one major revenue source, and in some cases, several on which it is reliant. Examples include property tax, local sales tax, and state shared revenues. An important component of revenue structure is the distribution/collection formulas for various sources. With the exception of property tax, the distribution/collection formulas for common revenue sources can vary greatly from state to state. For example, in states where sales tax is collected, some allow communities to assess a local option sales tax, which is usually collected on a situs-basis (point of sale). Other states collect sales tax at the state level and distribute the revenue to communities using a population-based formula. A similar situation exists with income tax, where some states allow a local income, or “piggyback” tax on top of the state income tax. In certain states, such as Maryland, this tax is collected by place of residence. In others, such as Ohio, it is collected by place of employment.

Examples are shown below from two cost of land uses studies for prototype nonresidential land uses in each community. The figures show results for nonresidential development per 1,000 square feet of floor area. Data points above the \$0 line represent net surpluses; data points below the \$0 line

⁶ Bise. (2010). Fiscal Impact Analysis

represent net deficits. The first example shows results for the City of Scottsdale, Arizona, where the main source of revenue is a “point of sale” sales tax. Note the positive results for retail development.

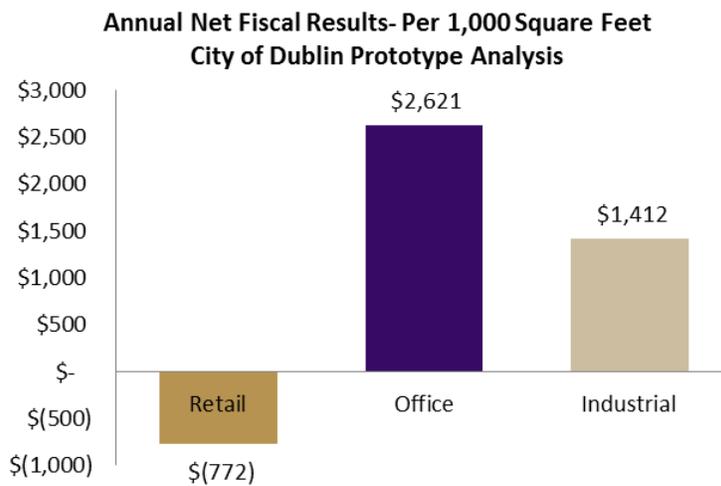
Figure 35: Example of Fiscal Impact Results: Locality with “Point of Sale” Sales Tax



Source: TischlerBise

Compare the results from Figure 35 to the City of Dublin, Ohio, shown in Figure 36. Cities in Ohio have a local income tax, which is based on place of work rather than place of residence. Note here the results for retail development showing that retail land uses cost more to the City than they generate in direct revenue.

Figure 36: Example of Fiscal Impact Results: Locality with Local Income Tax by Place of Employment



Source: TischlerBise

Services Provided

Another important factor in the fiscal equation is the services provided by the jurisdiction. Jurisdictions provide different services and the fiscal impact analysis will reflect this—and stakeholders and the audience for the study will need to understand this. For example, in many states, school districts are separate entities with their own tax rates (e.g., Florida). In other states, schools get their local funds from County General Fund taxes (e.g., Virginia). Fiscal analyses will obviously reflect the services provided and funding streams, and audiences need to be aware of this to prevent both unintentional and deliberate confusion.

Levels of Service

Another factor in fiscal impact analysis is an understanding of the levels of service currently being provided in a community. Existing levels of service are defined as the facility or service standard currently being funded through the budget. Examples of level of service standards are pupil teacher ratios (i.e., 1 teacher per 24 students), parkland per capita, etc. This is an important factor since levels of service generally vary from community to community.

Capacity of Existing Infrastructure

The capacity of existing infrastructure in a community also has a bearing on the fiscal sustainability of new development. For example, a community may have the capacity to absorb a large number of additional vehicle trips on its existing road network or may be significantly under capacity with regards to high school enrollment. In either of these situations, using a case study-marginal cost approach that account for existing facilities and levels of usage to assess fiscal impacts, a community with excess capacity could absorb substantially higher growth over time without making additional infrastructure investments than a community without these capacities. This excess capacity results in lower capital costs over time. This is an important factor in the fiscal equation, since the largest cost associated with capital facilities are the annual operating costs, which typically account for approximately 80 percent of a community's budget.

Demographic and Market Characteristics of New Growth

Next to a community's revenue structure, no other factor has as great an impact on the net fiscal results as the demographic and market characteristics of different land uses. Examples of demographic and market variables for residential development include average household sizes, pupil generation rates, market value of housing units, trip generation rates, density per acre, and average household income. Important demographic and market characteristics for nonresidential development include square feet per employee, trip generation rates, market values per square foot, sales per square foot (retail), and floor area ratio.

9.3 EXISTING FINANCIAL CONDITION

Revenues

Tourism drives the Payson economy. The primary revenue source for the Town of Payson is sales tax revenue generated from retail activity. The Town is working to diversify the mix of residential and nonresidential development in an effort to diversify the tax base and revenues generated.

Figure 37 shows the revenue sources for the Town during fiscal year 2012. Locally generated sales tax is the most significant revenue source (\$6,047,629) for the Town. It represents 39 percent of all revenue collected in 2012. State Shared Revenues disbursed to the Town of Payson during fiscal year 2012 totaled \$2,487,041, and represented 16 percent of revenues generated. These monies are generated from four types of taxes: state sales, income, gas, and vehicle license. As is the case in many states, state shared revenues are unpredictable; and are disbursed based on municipal shares of state population. State shared revenue disbursements to the Town have been in decline, a trend that is expected to continue for the foreseeable future. Property Taxes generated \$960,360 in revenue, representing only 6 percent of the total \$15.5 million.

Figure 37: Town of Payson Revenues, 2012

Revenue Type	Amount	Percent
Sales Tax	\$ 6,047,629	39%
Property Taxes	\$ 960,360	6%
Franchise Taxes	\$ 351,227	2%
State Shared Revenues	\$ 2,487,041	16%
Auto Lieu Taxes	\$ 833,014	5%
Investment Earnings	\$ 2,610	0%
Fees, Fines and Charges for Services	\$ 1,521,174	10%
Operating Grants and Contributions	\$ 2,661,413	17%
Capital Grants and Contributions	\$ 675,204	4%
Total	\$ 15,539,672	100%

Source: Town of Payson. (2012). Annual Comprehensive Fiscal Report, for Fiscal Year Ended June 30, 2012.

Expenditures

The Town of Payson is implementing a series of fiscal policies intended to build and protect a financial reserve not in place prior to the economic down turn of 2008. Capital infrastructure expenditures are a necessary investment in the quality of Payson, but are also a significant use of financial resources. The Town's five-year Capital Improvements Plan (CIP) identifies and prioritizes capital investments necessary to accommodate growth, and to provide a consistent level of service to residential and nonresidential development. The 2012-2017 CIP reflects programming for \$69,054,800 of potential investments to be made for general government, public safety, streets, water, parks and recreation, library, community development, and economic development (Tourism and Payson Airport).

Funding for improvements will include pay-as-you-go funding out of current revenues for lower cost improvements. Grants will be used to bridge funding gaps and leverage additional funds. Bonds provide an inexpensive way to finance large-scale projects. Lastly, development fees are one

mechanism used by the Town of Payson to ensure growth pays for its share of necessary public services. The fees, paid by developers, serve to ensure continued levels of service, by funding new infrastructure and facilities necessitate by growth.

Strategies to Reduce Costs

The General Plan process identified a tolerance for more intensity of development, and identified parts of Town with the capacity to absorb such growth. The maximum allowable densities identified in the Land Use Element describe how the community could develop over the course of a build-out, which is not expected for many decades.

The Future Land Use Map designates 973 acres for nonresidential uses, and an additional 1,309 acres for mixed use development that will host commercial, office and multifamily residential. In total there are 1,809 acres available for Commercial activity, more than double the land designated for commercial activity in the 2003 General Plan Land Use Map. The 1,309 acres designated for mixed use development is distributed in every section of Town. It will host commercial activity that will provide direct benefit to the surrounding neighborhoods, and to the Town as a whole by capturing sales from pass-through travelers on the State Roads.

Density

The General Plan presents strategies to introduce more fiscally neutral housing stock by encouraging smaller units built closer to existing services and amenities. A healthy mix of land uses can serve to balance revenue sources and demands on necessary public services like public safety and parkland.

The Land Use Element examines increases in allowable development densities as a part of a new Future Land Use Map for the Town. Areas of Town with the infrastructure capacity to absorb additional development will support increased density, which is intended to create more fiscally balanced or profitable land use mixtures. Given the revenue structure and capital demands of land uses in the Town of Payson the best means to maintain fiscal sustainability is to diversify and intensify the land uses. As shown in Figure 38 below, no single land use provides strictly positive fiscal result. The Town collects property tax and sales tax from retail establishments, but of the nonresidential land uses retail has the highest operating and capital demands. Retail generates the highest number of vehicle trips, stressing the street infrastructure, and has higher rates of public safety calls compared to other nonresidential land uses. Low density residential, generates higher property tax revenues, but requires extension and maintenance of streets, water, and utilities out to greater distances than higher density clustered development. Sprawling development generates more vehicle trips per unit than multifamily density, and an average single family housing unit in Payson has more persons per household than multifamily units, which generates more vehicle trips, and demands for public safety, and parkland capital investments.

Figure 38: Hierarchy of Prototype Land Uses and Fiscal Impacts

Land Use	Tax Revenue		Demand for Services	Fiscal Benefit
	Property	Sales		
Residential				
Low Density	High	-	High	Negative
Medium Density	Medium	-	Medium	Negative
Multifamily	Low	-	Low	Negative
Nonresidential				
Office	Medium	-	Medium	Positive
Retail	High	+	High	Positive
Industrial	Low	-	Low	Positive

Source: TischlerBise. (2013).

Infill Development

The General Plan identifies a community desire to encourage infill development as a means to slow outward growth, to create vibrancy in commercial districts, and to stabilize districts. Infill development takes advantage of already existing public infrastructure like streets, water, and utilities with the capacity to absorb the growth in a vacant or underutilized property. By encouraging investments to be made within developed areas the property values of the surrounding neighborhood may benefit. Increased property values is a net gain for Payson; however because property tax is not a large revenue stream for Payson, the purpose of infill is more to encourage vibrancy and create demand for commercial services that generate sales tax revenue. Infill development that is compatible with the existing neighborhood character restores continuity to the built environment. Infill development is environmentally friendly in many ways; it does not require use of fresh greenfield land, it does not threaten existing trees, it requires fewer raw building materials than a ground-up build, and it absorbs growth in already built districts close to services and amenities.

9.4 CRITICAL ISSUES

- 9.4.1 Reduce residential and nonresidential vacancy rates
- 9.4.2 Maintain or improve responsible public safety services
- 9.4.3 Continue or improve infrastructure maintenance

Discussion

The General Plan serves as a road map for the Town to direct development as the population and economy grows. It serves as a signal to the development community that the Town has carefully considered how it wants the built environment to evolve, while maintaining the quality of life and place celebrated by the community.

The Future Land Use Map identifies 6,735 acres, or 55 percent of Town acreage, for residential development. Only in communities with significant property taxes does residential development pay for itself. In Payson, the net cost of residential development is subsidized by other revenue sources, like sales tax revenue. The Retail Industry analysis identified a local market demand for additional clothing and home goods retail, filling this gap has the potential to generate additional point of sale

tax revenue. The Town will weigh the financial impact of new residential developments against the ability to generate revenues to offset additional costs.

Payson is working to attract quality employment that will provide a living wage for residents choosing to make Payson home. Simultaneously, the General Plan identifies opportunities to provide more affordable housing options to decrease and worker's cost of living. Increases to residents' discretionary income, retail markets, and entertainment venues will generate greater revenues to offset the cost of providing necessary public services to accommodate growth.

9.5 GOALS AND STRATEGIES

9.5.1 Utilize the annual Capital Improvements Program to implement General Plan strategies

- 9.5.1.1 Maintain public facilities and services to provide current levels of service to new development
- 9.5.1.2 Maintain or improve necessary public services
- 9.5.1.3 Plan for joint school/recreation facilities

9.5.2 Ensure the long-term financial stability of the Town with fiscally responsible policies and actions

- 9.5.2.1 Explore opportunities for economies of scale. Create service efficiency through regional partnerships
- 9.5.2.2 Consider opportunities to share costs for public safety infrastructure
- 9.5.2.3 Support quality education opportunities

9.5.3 Encourage high-quality infill development in the designated growth areas where existing infrastructure has the capacity to absorb growth

- 9.5.3.1 Encourage more dense development to increase market feasibility

9.5.4 Form an economic development strategy that identifies target industries

- 9.5.4.1 Work with Gila Community College to design training programs to provide the workforce for identified target industry employers

9.5.5 Examine and implement fiscal tools that incentivize development while offsetting its cost to the community

- 9.5.5.1 Ensure that new development pays its fair and proportional share of the cost to maintain current levels of public services such as public safety, parks and recreation, streets, and water resources