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STAFF REPORT TO COUNCIL

Date: February 6, 2024

To: Mayor and Council

From: Troy Smith, Town Manager

Subject: Ordinance No. 964 Amending the Town Tax Code to Increase the Transaction Privilege Tax Rate from 2.88% to 3.88%.

PURPOSE: Council held a work session on November 5th, 2023, to consider the recommendations of the Capital Improvement Citizen Advisory Committee (CIPCAC). At the conclusion of this work session, the Council directed the Town Manager to prepare an Ordinance to increase the Transaction Privilege Tax (TPT) rate by 1% to 3.88%. Ordinance No. 964 amends the Town Tax Code to increase the Transaction Privilege Tax Rate from 2.88% to 3.88%

BACKGROUND:

Upon incorporation in December 1973, the Town of Payson adopted a Transaction Privilege Tax (TPT) rate of 1% of retail sales. Six years later in May 1980, the Town increased the tax rate to 2%. In September 2003, the tax rate was increased by 0.12% to repay voter approved bonds for public safety projects. On May 4, 2017, the Town increased the tax rate by 0.88% to 3% to help address budget shortfalls that lingered following the recession in the late 2000s as well as growing Public Safety Personnel Retirement System (PSPRS) contribution requirements. Subsequently, the 0.12% TPT increase to repay the public safety bonds ended in 2019, reducing the Town's current overall tax rate to 2.88%.

Since then, the Town has not been able to fund needed community projects with its current financial resources. These community projects are identified in the Town's Corporate Strategic Plan, the Capital Improvement Plan, the Drainage Master Plan, the Transportation Study, and the Pavement Management Report. In addition, the Town

has not been able to fund the needed maintenance or replacement costs associated with its facilities and infrastructure. For perspective, in FY 2022-23, the Town's Total General Operating Revenues totaled \$28,776,111, while the operating expenses were \$28,021,004. That leaves approximately \$750,000 for community and capital improvement projects that are expected to exceed \$400 Million over the next 10 years. Essentially, Payson's current annual revenues are insufficient to fund needed community projects, infrastructure, and preserve existing facilities/improvements.

In conjunction with the three most recent annual budget adoptions (FY22 through FY24) the Town has used a survey to solicit feedback from residents related to capital investments. The Top five investment requests from those surveys are reflected below:

Top 5 Requests for Fiscal Year 2021 – 2022 (highest to lowest)

- *Community Center 25.6%*
 - *Parks 24.6%*
 - *Streets 16%*
 - *Internet 6.4%*
 - *Infrastructure 6%*
- 51% in favor of Debt Financing*
21.6% Maybe
27.3% No

Top 5 Requests for Fiscal Year 2022 – 2023 (highest to lowest)

- *Community Center with indoor pool 59.19%*
 - *Streets and Sidewalks 53.49%*
 - *Parks & Playgrounds 37.32%*
 - *Public Safety buildings/equip 29.60%*
 - *Outdoor pool 28.49%*
- 56.10% in favor of Debt Financing*
43.90% No

Top 5 Requests for Fiscal Year 2023 – 2024 (highest to lowest)

- *Streets and Sidewalks 75.83%*
 - *Community Center with Indoor Pool 54.85%*
 - *Parks & Playgrounds 44.20%*
 - *Storm Water and drainage management 37.36%*
 - *Trailhead improvements 27.34%*
- 61.49% in favor of Debt Financing*
38.51% No

In 2021, as part of their planning for park improvements at Granite Dells Park, the Rim Country Educational Alliance also conducted a community survey regarding parks and recreation programming. The survey received over 1,100 responses. 74% of respondents to the survey indicated that parks and recreation programs were very important to the overall quality of life and 91% said a swimming facility was needed in Payson. The survey results are attached to the packet for this agenda item.

In 2023, the Town Council appointed a Capital Improvement Project Citizen Advisory Committee (CIPCAC) to gain knowledge and formally engage the community to assist the Council in determining what projects citizens want to complete, in what order, and evaluate designated funding strategies. The decision to create and appoint this citizen-based committee came following 3 years of focused strategic planning on the part of the Town Council.

The CIPCAC met regularly for several months in a series of public meetings. Further, CIPCAC held an open house attended by 100 stakeholders and presented their findings during gatherings of at least five different community organizations to obtain community feedback. CIPCAC made several recommendations to the Town Council, including removing the sunset provision within Ordinance 888, in order to maintain the Town's existing revenue sources. Additionally, CIPCAC recommended that the Council institute a 1% increase to the Town's Transaction Privilege Tax rate, to generate revenue sufficient to allow the Town to utilize excise tax backed bonds, to fund selected public improvements, as well as ongoing operation and maintenance costs for those improvements. In addition, the increase would help fund some deferred maintenance items for the existing public safety facilities. This type of debt financing would allow needed infrastructure to be delivered quickly and spread the cost of the infrastructure over the useful life of the asset. By issuing long-term debt for major public infrastructure projects that have a long service life, governments can increase equity between generations, with minimal impact to the annual operating budget. This means that the people most likely to use and benefit from the facility or infrastructure are also paying for their proportional share of the cost of the asset.

The Town's Capital Improvement Plan establishes present and future infrastructure and equipment needs over the next 10 years. It includes projects highlighted in the Corporate Strategic Plan as well as specific needs, by department. Examples include, the replacement of fleet vehicles, like police cars and fire trucks; turf and sports court within parks; street extensions, street reconstruction, and routine repairs and maintenance. Excluding Water Enterprise capital needs, the Town's anticipated capital needs over the next ten years are estimated at \$402,338,016. Detailed Capital Improvement Plan information can be found on the Town's website at: [Multi-Year Plan | Town of Payson FY23-24 Budget Book \(cleargov.com\)](#).

The projects recommended by the Capital Improvement Project Citizen Advisory Committee (CIPCAC), to be funded by an excise tax bond include:

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|---|---------------|
| • Indoor Aquatic/Recreation Center | \$29 million |
| • Public Safety Facilities Deferred Maintenance | \$3 million |
| • Event Center – Site Improvement Plan | \$6 Million |
| • Rumsey Park Drainage | \$2.3 Million |
| • Rumsey Park Improvements | \$2.5 Million |

- American Gulch Improvements \$9 Million

Upon receiving the CIPCAC recommendation, the Town Council added the following two projects to be funded by an excise tax bond:

- PATS Trail Improvements \$0.5 Million
- Pavement Maintenance \$2 Million

Governmental financial operations, including the financing of very large capital infrastructure projects, constructed on behalf of an entire community, are uniquely different from the private sector or personal financing. Most communities across the United States have long used debt financing, in the form of government issued bonds, to pay for these large expenditures. Said another way, annual municipal revenues, in most cities and towns, are insufficient to preserve existing infrastructure or build new infrastructure, when needed. While the Town of Payson has issued bonds in the past, it has primarily relied upon “pay-as-you-go” financing to fund public projects. This approach, has inhibited the delivery of a number of community priority projects reflected in the Town’s Corporate Strategic Plan, Capital Improvement Plan, the Transportation Study, Pavement Management Report, Drainage Master Plan, etc. It has also contributed to the current poor condition of its existing facilities and infrastructure. Therefore, it is recommended that the Town increase its TPT rate by 1% in order to utilize excise tax bonds to fund selected projects and their annual maintenance/operating costs.

Adopting Ordinance 964 and immediately implementing the TPT increase will accelerate the subsequent financing process.

Why Immediate Implementation of the Ordinance is Warranted

Pursuant to A.R.S. § 19-142 a Town Council Ordinance or Resolution is subject to referendum, as described above, and is not operative until thirty days after its passage. The council has set its agenda to consider a 1% TPT tax rate increase at the February 6th Special Meeting, appropriate notices have been provided to the community, as required by A.R.S. § 9-499.15, which says a 60-day public notice/comment period is required for any change or new fee or tax. With respect to the passage of a new Transaction and Privilege Tax (TPT) rate, the Arizona Department of Revenue further requires an additional 60 days to implement a new tax rate. The effect of not implementing either of these ordinances immediately is that it would take at least 5 months to approve such an increase, before it could take effect. If you were to consider the Council’s calendar, the FY 25 budget calendar, and routine council business the likelihood of further delaying the implementation of any Council action(s) is apparent.

Town Council is currently funding design and engineering services related to the construction of certain capital facilities projects, including projects related to public safety, parks and recreation, transportation, trails, and efficient governmental administration. These projects are necessary for the immediate preservation of the

peace, health or safety of the Town. The Town will need to finance these projects with short-term or long-term obligations, which may include bonds, installment purchase contracts, lease-purchase contracts, or otherwise, and these obligations may be purchased by investors or financial institutions at market rates. These financial transactions are all subject to the current volatile financial markets and fluctuating interest rate terms. Any delay in the Town's ability to act could prevent the Town Council from obtaining favorable financing terms, on behalf of the community and the projects under consideration. Therefore, in order to put the Town in a position to obtain the best financing terms for the Town and its residents, it is warranted to include an emergency clause in Ordinance 964, which is the first step in preparing long term financing for the described projects.

Other factors for consideration:

- The sooner this decision is solidified, the Town will be in a position to begin the solicitation of capital program management services & resources. If there is a waiting period, this action will have to be delayed until the end of such waiting period, before these sorts of financial commitments can be made. Because we are in the process of designing some of these projects now and other have not been able to begin design or planning, because of limited staffing, the resources are needed immediately to ensure the projects can be successfully designed and constructed in a timely manner and in compliance with the terms and covenants of future bonds.
- Prior Notice and Public Input – The Council first began discussing these capital priority projects, funded by debt financing, about 3 years ago . Over this period of time there have been more than 20 or so opportunities for the public to hear Council discussion and/or participate in public meetings and discussions about this topic, between council strategic planning work sessions, budget work sessions, regular Council Meetings, multiple CIP community surveys, and the CIPCAC public process the council created. Requiring a second public hearing to adopt the ordinance would seem to be unnecessary when looking at the history of public involvement opportunities and the associated delay could make the costs associated with financing seem unreasonable.
- Public safety buildings – the deferred maintenance conditions needing to be addressed within the public safety facilities are things that could make our buildings uninhabitable for operations. Meaning, the Town could be forced to move public safety operations out of an existing facility and find some other place for them to operate. As an example, many of the current AC units in place are several years beyond their usable life. If these units were to fail simultaneously, it would cause us to have to shut down the facility, at least during the summer months. These are the kind of issues that make the use of “immediate implementation” a very reasonable decision.
- **Town Code Section 30.54 Effective Date of Ordinance** – this section addresses

and allows for the immediate implementation of an Ordinance or Resolution, when these conditions have been met. The Code sections states in part,

“No ordinance or franchise shall become operative until 30 days after its passage by the Council and approval by the Mayor, except measures necessary for the immediate preservation of the peace, health or safety of the town, but such an emergency measure shall not become immediately operative unless it states in a separate section the reason why it is necessary that it should become immediately operative, and unless it is approved by the affirmative vote of three-fourths of all the members elected to the Council, taken by ayes and nays. A resolution becomes effective upon adoption unless otherwise provided for in the resolution”.

The summation of these factors indicates that the immediate implementation of Ordinance 964, meets all of the requirements and is necessary for the preservation of the peace, health or safety of the Town of Payson.

SUMMARY: The Town is requesting Adoption of Ordinance No. 964 which will amend the Town Tax Code to Increase the Transaction Privilege Tax Rate from 2.88% to 3.88%. This 1% TPT increase will generate additional Town revenue to pay an excise tax bond needed to fund selected municipal projects and improvements.

FINANCIAL IMPACT AND FUNDING SOURCE: Adopting Ordinance No. 964 will result in approximately an additional \$5.3 Million in annual revenue for the Town.

RECOMMENDATION: Staff recommends Adopting Ordinance No. 964.

ATTACHMENTS:

Rim Country Educational Alliance survey

<https://bloximages.chicago2.vip.townnews.com/paysonroundup.com/content/tncms/assets/v3/editorial/e/ef/eef12d4c-f0e2-5bc9-8804-666407021930/606f7d9813987.pdf.pdf>