



Staff Report to Council

To: Mayor and Council

From: Larry Halberstadt, PE, Town Engineer

Date: October 23, 2024

RE: Development Agreement with Green Valley II of Payson, LLC

Background Information

Payson has identified the American Gulch Improvement project as a key component related to revitalization of the Main Street Cultural & Historic District. The key component of the American Gulch project is channelization of the American Gulch wash from Green Valley Park to Westerly Road. These improvements will allow Payson to request a revision of the Flood Insurance Rate Map (FIRM) from FEMA. Once the improvements are complete and approved by FEMA, a significant area of land will become available for development or redevelopment. Other improvements identified as part of the current capital improvement project include construction of a linear park connecting Green Valley Park and Westerly Road which will serve as an extension of an existing linear park. McLane Road will also be reconstructed from Main Street to Wilson Court with a box culvert replacing the existing low flow crossing. Council has allocated funding for design and permitting of these improvements; however, sources of funding for construction must still be allocated as part of future annual budgets.

In order to implement these improvements, Payson has entered into various memorandums of understanding and also directly purchased multiple parcels along the American Gulch. Payson has also hired JE Fuller as the engineer of record to design the improvements and assist with FEMA permitting

In December of 2023, Payson completed the purchase of two vacant parcels east of McLane Road and south of Main Street. On March 14, 2024, Payson granted a ground lease to Payson Regional Housing Development (PRHD) for approximately 2.75 – 3.00 acres of land along the south end of Gila County Parcel 304-16-221E. The intent of the ground lease is to permit construction of 40 apartment units in 5 buildings. The development will be constructed using federal and state low income housing tax credits awarded by the Arizona Department of Housing. The parcel selected for the ground lease is located immediately east of the existing Green Valley Apartments and is landlocked with no direct access to any public streets. Payson Regional Housing Development and its development partners understood this at the time that their application for LIHTC was submitted. Their original development plan and project budget included construction of a 24 foot wide access driveway across the north end of Green Valley

Apartments to provide ingress and egress to the new apartment complex. In addition, the original plan was to connect utilities to Aero Drive.

As staff continued to work with JE Fuller on the American Gulch project and PRHD on their project, it became apparent that an opportunity existed for Payson to partner with PRHD in order to further the economic development objective of the American Gulch Project. The proposed channelization will create additional developable property north of the Green Valley Apartments and east of McLane Road. This property is currently zoned R3. Potential uses of the property include additional multifamily residential, townhomes, or other public, institutional or quasi-commercial uses permitted by Town Code § 154-12-001, table of residential district uses.

On March 27, 2024, Town Council passed Resolution 3377 declaring a housing crisis for the Town of Payson. One means of addressing this affordability crisis is to increase the density of development in areas where appropriate as defined by the Town's General Plan. The property north of Green Valley Apartments could be further subdivided into townhome lots as small as 30 feet wide by 80 feet deep (3,000 s.f.) minimum, provided that the parcel has frontage on a public or private road and access to public utilities is available. Townhomes could either be attached at the property line or detached.

In order to provide a public roadway, an extension of Wilson Court is proposed east of McLane Road. The driveway entrances to the new low income apartment complex will be connected to this roadway extension. In addition, townhome parcels would be accessed from the new roadway. It is estimated that between 10-14 townhome parcels could be created.

Proposed Development Agreement

Construction of Wilson Court east of McLane Road will be mutually beneficial to both Payson, as it seeks to further its economic development goals and to PRHC, as they construct the low income apartments. Thus, Town staff and PRHC (and their development partners) have been working together to draft a Development Agreement that describes the Cooperative Improvements and the cost sharing that would be required.

The Owner/Developer of the apartments would pay for a portion of the work including 24 feet of asphalt, driveway entrances that serve the apartments, curb and gutter along the south side of the roadway, 50% of the sidewalk cost, drainage culverts, and \$200,000 of utility improvements. Payson would pay for the remainder of the roadway asphalt, curb and gutter, utility improvements, traffic signage, street lighting, 50% of the sidewalk cost, and other miscellaneous improvements that would be required for installation of a public street. Each party has also agreed to dedicate right-of-way and easements necessary for the public street with the south half of the right-of-way crossing the Green Valley Apartments. This preserves additional portions of the Town acquired parcels for other uses, as described above. Project soft costs such as design, engineering, studies, and other permits directly related to Wilson Court construction will also be split between the parties in proportion to cost of construction. The Owner/Developer will still be responsible for 100% of the cost to construct on site improvements for the apartment complex.

Estimated Construction Cost

The design plans for Wilson Court have been advanced to 60% completion and preliminary costs have been solicited from subcontractors by the Owner/Developer's team. As of October 14, the total cost of the roadway improvements is estimated to be approximately \$2.3 million with the Town's share anticipated to be no more than 50% of the total project cost. Prior to final completion of the design, additional value engineering efforts will occur in order to identify potential cost savings. In addition, other projects being constructed by Payson may generate surplus excavated materials that could be used on this project as fill, further reducing anticipated earthwork costs.

Any investment made by the Town toward these improvements could be recovered in the future by selling the property at a price that recovers the original purchase price of the property, along with roadway and utility improvement costs.

Funding

Funding for this project is not included in the current fiscal year budget. If Council desires to move forward with this development agreement, sufficient funds will need to be budgeted within the FY 25-26 budget to cover the potential expenses.

Pros

- Cooperation with the Owner/Developer will preserve land by eliminating the future need for two parallel roadways.
- Cooperation with the Owner/Developer will reduce the cost for each party compared to constructing two parallel roadways or parallel utility lines.
- Construction of the roadway and utilities in cooperation with the Owner/Developer will increase the value to the Town Owner property. Once the improvements are completed, the property could be further subdivided and marketed for sale in order to meet the housing needs of Payson.

Cons

- Town funds will need to be expended to construct the improvements. These funds will not be available to meet other town needs until and unless the improved property is sold at a cost that fully recovers the Town's investment.

Attachments

DVA24-003 Application
Resolution 3320
Development Agreement 24-003
