



APPLIED ECONOMICS

**RANGE OF FISCAL IMPACTS
FOR SONOMA COTTON ANNEXATION
INTO THE CITY OF GLENDALE**

JUNE 2021

Introduction

The following summary presents the fiscal impacts of annexation for Sonoma Cotton, which will include 36 acres with 287,500 square feet of light industrial development, 144 units of single family rental residential, and 57,500 square feet of commercial development. Sonoma Cotton is located on the west side of the Loop 303, south of the SEC of Cotton Lane and Northern Avenue. Given the size of this area, detail on specific users within the light industrial and commercial portions of the annexation is not yet known. Therefore, this analysis presents a range of possible impacts based on hypothetical scenarios for the types of light industrial users and commercial that could develop in this area.

The potential types of light industrial users include: 1) an unoccupied shell building; 2) leased warehouse; and 3) leased manufacturing. Various assumptions were developed for each scenario regarding employment density, lease rate and capital investment (construction and FF&E). The commercial building is assumed to include 50% office, 25% services and 25% retail. While the assumptions are based on recent projects, as well as published sources for lease rates and construction costs, they are simply intended to show a general range of possible economic and fiscal impacts.

Another potential user for light industrial space is e-commerce, specifically fulfillment centers that represent point of sale for shipments. These types of projects are highly competitive and they can yield a significant amount of sales tax revenue. However, since there are a limited number of these projects looking at the Phoenix metro area, this type of potential user was not explicitly considered in the analysis.

The fiscal impacts for Sonoma Cotton assume that 0.5 lane miles of arterial streets on Northern Avenue would be taken in to the city for on-going maintenance. The single family impacts assume private internal streets.

The point of this exercise is simply to frame what each type of user could bring to the city in terms of the number and quality of jobs as well as the fiscal impacts, and how that result could be scaled to Sonoma Cotton. Note that there are often tradeoffs between high quality jobs and revenue generation at the city level.

Project Assumptions

The table below presents the results for 1 million square feet of each light industrial user type in terms of capital investment, jobs and wage levels, annual fiscal impacts (revenues less expenditures for city operating funds), one-time fees (construction sales tax, development impact fees, estimated permit fees) and overall ranking. This is followed by the “blended average” for Sonoma Cotton that includes 143,750 square feet of warehousing, and 143,750 square feet of manufacturing for a total of 287,500 square feet. The total number of square feet of light industrial uses is consistent with the site plan for Sonoma Cotton. In addition, the table shows the impacts for the 144 proposed single family rental housing units with private streets and 57,500 square feet of commercial space.

COMPARATIVE IMPACTS OF POTENTIAL LIGHT INDUSTRIAL AND COMMERCIAL USERS

AND SONOMA COTTON BLENDED AVERAGE

Building Use	Building Square Feet	Building Construction (millions)	FF&E (millions)	Jobs	Average Wage	One-Time Fees*	Annual Revenues less Expenditures	Overall Ranking
Empty Shell	1,000,000	\$80.4	\$0.0	0	\$0	\$2,480,000	\$20,000	Low
Leased Warehouse	1,000,000	\$129.8	\$22.0	400	\$43,926	\$3,850,000	\$200,000	Medium
Leased Manufacturing	1,000,000	\$143.6	\$100.0	833	\$49,107	\$4,230,000	\$240,000	High
Sonoma Cotton Blended Average Industrial (143,750 SF warehouse, 143,750 SF manufacturing)	287,500	\$39.31	\$549.0	177	\$47,427	\$1,161,500	\$70,000	Medium
Single Family	144 units	\$21.0	\$0.0	0	\$0	\$950,000	\$10,000	Low
Commercial (office, service, retail)	57,500	\$9.0	\$0.0	132	\$51,058	\$380,000	\$110,000	High
Blended Avg + Single Family + Commercial	345,000	\$69.3	\$549.0	310	\$48,978	\$2,491,500	\$190,000	High

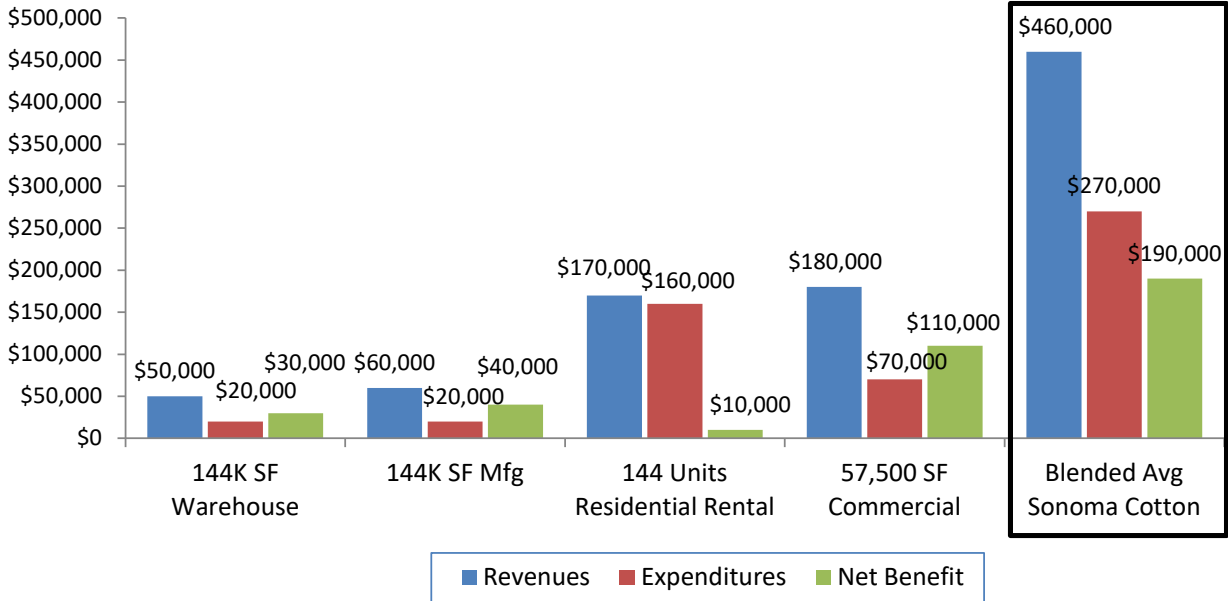
*One Time Fees include construction sales tax, estimated planning and permitting fees and development impact fees in West Glendale.

- Capital investment** is represented by a combination of building costs and FF&E for the light industrial uses, both of which generate property taxes for the city. Construction activity also results in significant one-time sales taxes. Manufacturing has higher capital investment than other uses based on the nature of their operations and the corresponding building and equipment requirements. The leased warehouse has less capital investment than manufacturing. The empty shell represents the low end with an unfinished building and no equipment, and is a temporary condition. The total construction cost for Sonoma Cotton is roughly estimated at \$39.3 million for light industrial, \$9.0 million for commercial and \$21.0 million for residential, although given the rapid increases in construction materials costs, these should be viewed as order of magnitude estimates.
- Jobs and average wages** are important not only in terms of the number of jobs created, but also the quality of jobs as represented by average wages. To the extent that workers live in Glendale, higher wages translate into more taxable spending and higher value housing. Typical warehouse operations create a limited number of jobs and typically at lower wage levels. On the higher end of the spectrum, manufacturing represents a relatively high job density, among light industrial uses, with above average wages. Note that manufacturing wages vary significantly based on the type of product being produced. It is estimated that the light industrial development in Sonoma Cotton could support about 177 jobs at an average wage of \$47,000. For the commercial development, a mix of administrative office, business services and retail is assumed that could support an estimated 132 jobs at an average wage of \$51,000.

Fiscal Results

- One-time fees** are related to construction and are generally proportional to the construction cost because construction sales taxes make up the largest share of one-time fees. Development impact fees (DIF) are the same for all types of light industrial uses since they are based on building square footage, but commercial and residential fee schedules are applied to the other proposed uses in this annexation area. One-time fees also include estimated planning and permitting fees that are generally proportional to construction costs. **Total one-time fees for Sonoma Cotton, including light industrial, commercial and residential uses, are estimated at \$2.5 million.** This number does not include any streets DIF fees or the value of any infrastructure constructed by the developer.
- The **annual fiscal impacts** represent the net value of these different types of uses to the city in terms of **revenues less expenditures**. *These annual fiscal impacts are intended to be order of magnitude only.* For each type of user, there are a variety of factors imbedded in the assumptions that will affect the magnitude of fiscal impacts for individual users including the level of capital investment, the lease rate and the presence of taxable sales. **The potential types of light industrial users that are anticipated for Sonoma Cotton results in an average net impact to the city of \$70,000 per year, excluding one-time revenues. The single family component yields a small positive net impact of about \$10,000 per year, and the commercial component yields a net impact of \$110,000 per year for a total net impact of \$190,000 per year.**
- The **overall rankings** show low impacts for the empty shell and residential, medium impacts for leased warehouse, and high impacts for leased manufacturing and commercial. The combination of uses proposed for Sonoma Cotton could produce a relatively strong net impact, depending on the specific types of light industrial and commercial uses and the share of tenants with taxable sales.

ANNUAL FISCAL IMPACTS FOR SONOMA COTTON BLENDED AVERAGE



Summary

These results frame the possibilities for how the Sonoma Cotton annexation may affect the city. In summary, all of the user types shown here generate a positive net fiscal impact, but at varying magnitudes. This project is also generally smaller in scale than some of the other light industrial annexations in this area. The long-term net impacts (revenues less expenditures) for Sonoma Cotton include \$30,000 per year for 143,750 square feet of warehouse space and \$40,000 per year for 143,750 square feet of manufacturing space, excluding one-time taxes and fees. The 144 residential units would yield a small positive net impact of \$10,000 per year assuming private streets, and the commercial component would yield a proportionally large net impact of \$110,000. The annual net impact for Sonoma Cotton as a whole is estimated at \$190,000 per year, including \$460,000 in combined annual revenues and \$270,000 in annual expenditures. Estimated annual revenues exceed expenditures for the development overall by 70 percent.

This analysis is intended as a general example of the range of possible impacts for development in Sonoma Cotton. The actual fiscal impacts will depend on the mix of final users, as well as other factors such as capital investment, lease rates, taxable sales and other project details.