



APPLIED ECONOMICS

**RANGE OF FISCAL IMPACTS
FOR THREE ROCKS ANNEXATION
INTO THE CITY OF GLENDALE**

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Introduction

The following summary presents the fiscal impacts of annexation and redevelopment for Three Rocks. The current annexation request includes 39 acres of a 347-acre site, and represents Phase II of the development. The 39 acres (APN 501-55-011C) located southeast of the SEC of El Mirage Road and Glendale Avenue would be used to expand the existing sand and gravel mining operations. Three Rocks plans to move 10 to 12 employees from an existing gravel mining site in the county to the 39-acre site that would be annexed into the City of Glendale. There is access to the site from El Mirage Road and Glendale Avenue. Since there would be no new construction on the site or other capital investment, no new street improvements required, and the number of employees is small, the fiscal impacts are expected to be minimal. Both revenues and expenditure impacts for Phase II are estimated to be less than \$1,000 per year with an annual net impact of less than \$100.

This analysis focusses on the fiscal impacts of the mixed use master plan in Phase III that would result in redevelopment of the parcels in Phases I and II, and the annexation of approximately 260 additional acres. The 347 acres in Phase III include a master planned development with an estimated 34 acres of employment/flex, 15 acres of commercial, 30 acres of high density residential, 33 acres of medium density residential and 181 acres of single family residential. The remaining acreage would be use for parks and open space.

Three Rocks is located on the east side of El Mirage Road, south of Glendale Avenue. The 347-acre site extends south to the Missouri Road alignment. Given the size of this area, detail on specific users within the employment/flex 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 employment/flex users and commercial that could develop in this area.

Based on the proposed acres by use, Applied Economics applied typical floor-area ratios to estimate building square by type and number of housing units. This site could support 548,000 estimated square feet of employment/flex space, 130,700 square feet of commercial space, 540 multifamily units and 1,169 single family units. The potential types of employment/flex 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 space is assumed to include 30% retail, 40% services and 30% restaurants, although no specific users have been identified. In addition to these development assumptions, the analysis incorporates published data on lease rates and construction costs.

The fiscal impacts for Three Rocks assume 2.76 lane miles of collector streets for the residential portion of the development and 1.23 lane miles of collector streets in the employment/flex and commercial areas. The analysis assumes these collector streets would be maintained by the city. The single family impacts assume private internal streets and private parks.

The point of this exercise is simply to frame what each type of use 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 Three

Rocks at build out. 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 employment/flex 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 Three Rocks that includes 274,000 square feet of warehousing, and 274,000 square feet of manufacturing for a total of 548,000 square feet. In addition, the table shows the impacts for the 540 multifamily units, 1,169 single family units and 130,700 square feet of commercial space.

COMPARATIVE IMPACTS OF POTENTIAL EMPLOYMENT, RESIDENTIAL AND COMMERCIAL USERS AND THREE ROCKS BLENDED AVERAGE

Building Use	Building Square Feet	Building Construction (millions)	FF&E (millions)	Jobs	Average Wage	One-Time Fees & Taxes*	Annual Revenues less	Overall Ranking
Empty Shell	1,000,000	\$117.2	\$0.0	0	\$0	\$4,250,000	\$20,000	Low
Leased Warehouse	1,000,000	\$157.2	\$22.0	400	\$48,230	\$5,330,000	\$270,000	Medium
Leased Manufacturing	1,000,000	\$159.9	\$100.0	833	\$75,913	\$5,410,000	\$290,000	Medium High
Three Rocks Blended Average								
Industrial (274,000 SF warehouse, 274,000 SF manufacturing)	548,000	\$86.88	\$33.4	338	\$66,934	\$2,942,678	\$150,000	Medium
Single Family	1,169 units	\$370.6	\$0.0	0	\$0	\$15,260,000	\$430,000	Low
Multi-Family	540 units	\$124.1	\$0.0	0	\$0	\$6,020,000	\$20,000	Low
Commercial (office, service, retail)	130,700	\$32.3	\$0.0	327	\$41,805	\$1,890,000	\$850,000	High
Blended Avg + Residential + Commercial	678,700	\$613.9	\$33.4	665	\$54,581	\$26,112,678	\$1,450,000	Low

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

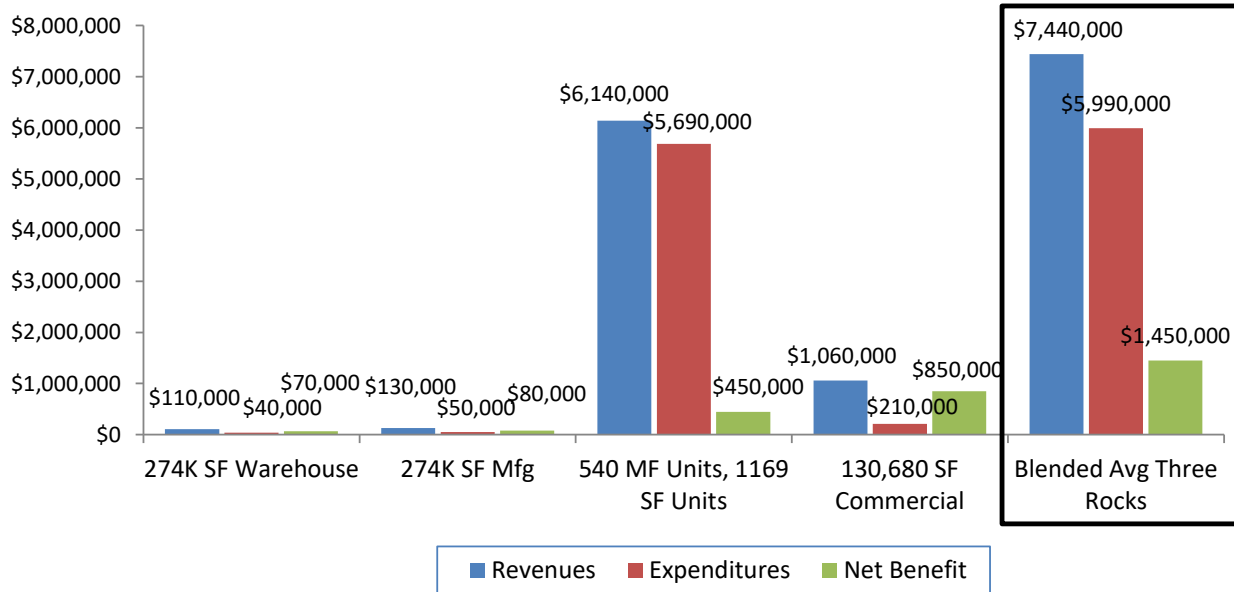
- Capital investment** is represented by a combination of building costs and FF&E for the employment/flex uses, all of which generate property taxes for the city. Construction activity also results in significant one-time sales taxes. Manufacturing has higher capital investment than other uses based 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 Three Rocks is roughly estimated at \$86.88 million for employment/flex, \$32.3 million for commercial and \$494.7 million for residential, although given the potential increases in construction material 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 employment/flex uses, with above average wages. Note that manufacturing wages vary significantly based on the type of product being produced. It is estimated that the employment/flex development in Three Rocks could support about 338 jobs at an average wage of \$66,900. For the commercial development, the mix of restaurants, business services and retail could support an estimated 327 jobs at an average wage of \$41,800.

Fiscal Results

- **One-time fees and taxes** 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 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 and taxes also include estimated planning and permitting fees that are generally proportional to construction costs. **Total one-time fees and taxes for Three Rocks, including employment/flex, commercial and residential uses, are estimated at \$26.1 million.**
- 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 employment/flex users that are anticipated for Three Rocks could yield an average net impact to the city of \$150,000 per year, excluding one-time revenues. The residential components yield a positive net impact of about \$450,000 per year. The commercial component yields a net impact of \$850,000 per year, resulting in a total annual net impact of \$1.45 million per year for all uses combined.**
- The **overall rankings** show low impacts for the empty shell and residential, medium impacts for leased warehouse, and medium high impacts for leased manufacturing, and a high impact for commercial. For manufacturing and warehousing, revenues exceed expenditures by more than 100 percent, whereas for residential development, revenues exceed expenditures by less than 10 percent. The combination of uses proposed for Three Rocks could produce a relatively modest net impact depending on the specific types of employment/flex and commercial uses relative to the amount of residential development.

ANNUAL FISCAL IMPACTS FOR THREE ROCKS BLENDED AVERAGE



Summary

These results frame the possibilities for how the Three Rocks Phase III annexation may affect the city. In summary, all the industrial uses shown here generate a positive net fiscal impact, but at widely varying magnitudes. The long-term net impacts (revenues less expenditures) for Three Rocks include \$70,000 per year for 274,000 square feet of warehouse space and \$80,000 per year for 274,000 square feet of manufacturing space, excluding one-time taxes and fees. The 1,709 residential units could yield a positive net impact of \$450,000 per year, and the commercial component could yield a proportionally large net impact of \$850,000. The annual net impact for Three Rocks for all uses combined is estimated at \$1.45 million per year, including \$7.4 million in combined annual revenues and \$6.0 million in annual expenditures. Estimated annual revenues exceed expenditures for the development overall by 24 percent.

This analysis is intended as a general example of the range of possible impacts for development in Three Rocks. The actual fiscal impacts will depend on the mix of residential, commercial and industrial uses, as well as other factors such as capital investment, lease rates, taxable sales and other project details.