

Rhode Island Commerce Corporation
Rebuild Rhode Island Tax Credits – Economic Impact Analysis
Case Mead Associates LLC Application

Introduction

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island tax credits to Case Mead Associates LLC (the “Sponsor”). It is managed by Joseph R. Paolino, Jr., the Managing Partner of Paolino Properties. The credits would be issued in connection with the Sponsor’s decision to invest in the redevelopment of the Case Mead Building, located at 68-76 Dorrance Street in Providence. The project will consist of the rehabilitation of the building exterior, the development of 44 residential micro lofts, and the construction of a second means of egress. The total cost of the proposed project is estimated to be \$7.7 million.

The Sponsor is requesting a Rebuild Rhode Island tax credit of \$2,179,977. This amount will be reduced by the value of the sales and use tax exemption requested by the Company for its eligible construction and build-out costs.

This analysis was prepared by Appleseed, a consulting firm with more than twenty years of experience in economic impact analysis.

Jobs Analysis

Construction

As shown in Table 1, the Company’s estimate of total project cost is approximately \$7.7 million.

Table 1: Estimated total project cost (in \$ millions)

Component	Estimated cost
Land	\$1.6
Construction	\$5.4
Soft costs, financing and closing	\$0.6
Total	\$7.7

After excluding certain costs that do not have a direct, current impact on Rhode Island’s economy (such as land acquisition), Appleseed estimates that the remaining hard and soft costs total \$5.8 million. Appleseed estimates that direct expenditures of \$5.8 million will directly and indirectly generate:

- 51 person-years¹ of work in Rhode Island;

¹ A person-year is equivalent to the time worked by one person who is employed full-time for a year. For example, it could represent the work of two people who are each employed full-time for six months; or the work of one person who is employed half-time for two years.

- Nearly \$2.7 million in earnings;
- Nearly \$8.2 million in statewide economic output²;
- A projected one-time increase of nearly \$100,000 in personal income taxes paid to the State during construction; and
- A one-time increase of nearly \$4.1 million in Rhode Island's GDP.

These impacts are summarized below in Table 2. The project's *direct impact* is the impact of the company's direct spending on design and construction. Its *indirect impact* is the effect of spending by contractors for goods and services (insurance, construction materials, etc) purchased from other Rhode Island businesses.

Table 2: Direct and indirect impact of construction spending (employment in person-years; income, value-added and output in millions of 2017 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	31	\$1.8	\$2.6	\$5.8
Indirect Effect	20	\$0.9	\$1.5	\$2.4
Total Effect	51	\$2.7	\$4.1	\$8.2

Most of the activity reflected in Table 2 will occur during a nineteen-month construction period (estimated to be 2016-2017). The anticipated wage rates for construction jobs are shown below in Table 3. Anticipated wage rates are the median hourly wage for these occupations in Rhode Island.

Table 3: Anticipated wages during construction

Occupation	RI median hourly wage ³
Architect	\$41.70
Construction manager	\$52.12
Carpenter	\$19.70
Electrician	\$23.71
Plumber	\$24.03
Painter	\$16.07
Laborer	\$16.77

Fringe benefits associated with these jobs are expected to be in accordance with industry norms, with the cost of such benefits generally ranging between 22 and 28 percent of wages. Workers who fill these jobs are expected to be drawn primarily from the Providence-Warwick RI-MA New England City and Town Area (NECTA).

² Output is a measure of the total sales by Rhode Island companies (including the "sale" of labor by Rhode Island households) generated by the project.

³ Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2014

Annual operations

The Sponsor estimates that when the project is completed, two workers will be employed to manage and maintain the building, each with annual earnings of \$45,000. Upon stabilization, operating costs are estimated at \$427,000. Based on these estimates, Appleseed projects (as shown below in Table 4), that when the project is completed and fully occupied (which is estimated to occur in 2018), it will directly and indirectly account for:

- 7 full-time equivalent jobs in Rhode Island, with approximately \$310,000 in annual earnings (in 2018 dollars);
- Approximately \$530,000 in annual statewide economic output;
- A projected gross increase of more than \$11,000 in personal income taxes paid annually to the State (in addition to the nearly \$100,000 in personal income tax revenues cited above that would be generated by spending on construction); and
- An increase of \$350,000 in Rhode Island's annual GDP.

Table 4: Direct and indirect impact of annual operations (employment in FTE; income, value-added and output in millions of 2018 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	2	\$0.09	\$0.10	\$0.15
Indirect Effect	5	\$0.22	\$0.25	\$0.40
Total Effect	7	\$310	\$350	\$530

The two workers employed directly in management and maintenance of the building will most likely be drawn from neighborhoods within the City of Providence or from other nearby communities.

Impact

The state fiscal impacts of the requested tax credits is up to \$2,179,977 in foregone state revenue and/or state expenditures. Direct and indirect economic and fiscal benefits of the proposed project include the estimated state GDP increase of \$350,000, the estimated associated job creation, and the gross increase of approximately \$240,000 in personal income tax revenues during the construction phase and ongoing operations during the twelve years following the completion of the project. These benefits are detailed in the foregoing analysis. In addition to the economic and tax revenue impacts cited above, the proposed project would benefit Rhode Island in several other ways.

- Provide 44 units of housing that will support the continued growth of the downtown area's resident population;
- Increase the variety of housing options that are available in the area; and
- Add to City's tax base.

Beyond the fiscal impact noted above, there is no anticipated financial exposure to the state. In addition, various features of the program mitigate risk to the state. In particular, the completion

risk (i.e. the risk that the project is not completed) is mitigated by the fact that the tax credits will be payable only upon completion of the development. The risk of project cost overruns is mitigated by the fact that the tax credits are capped at the amount set forth above. In addition, if project costs come in lower than anticipated, the tax credits to be paid will be reduced accordingly.