**Rhode Island Commerce Corporation**

**Rebuild Rhode Island Tax Credits – Economic Impact Analysis**

***Waldorf Capital Management LLC Application***

**Introduction**

The Rhode Island Commerce Corporation (the “Corporation”) may issue Rebuild Rhode Island tax credits to Waldorf Capital Management LLC (the “Sponsor”). The credits would be issued in connection with the Sponsor’s decision to invest in the development of Chestnut Commons, a residential project to be located on Parcel 30 of the I-195 Redevelopment District in Providence. The project will include:

* 91 residential units in a newly-constructed seven-story building;
* 5,300 square feet of street-level retail and restaurant space;
* 55 covered parking spaces; and
* 5,000 square feet of public open space.

The total cost of the proposed project is estimated to be approximately $32.8 million. The Sponsor is requesting a Rebuild Rhode Island tax credit of $2,677,820 (net) and a sales and use tax exemption on eligible construction costs valued at $572,000.

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 Sponsor’s estimate of total project cost is approximately $32.8 million.

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

|  |  |
| --- | --- |
| **Component** | **Estimated cost** |
| Land and building acquisition  | $1.5 |
| Building construction (hard cost) | $27.0 |
| Soft costs | $4.3 |
| **Total** | **$32.8** |

After excluding certain costs that for purposes of this analysis do not have a direct, current impact on Rhode Island’s economy (such as land acquisition, interest costs and operating reserves), the remaining hard and soft costs total $30.4 million. Appleseed estimates that direct expenditures of $30.4 million will directly and indirectly generate:

* 250 person-years[[1]](#footnote-1) of work in Rhode Island;
* $13.5 million in earnings;
* Approximately $42.5 million in statewide economic output[[2]](#footnote-2); and
* A one-time increase of approximately $21.1 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 | 150 | $9.0 | $13.6 | $30.3 |
| Indirect Effect | 100 |  4.5 | 7.5 | 12.3 |
| **Total Effect** | **250** | **$13.5** | **$21.1** |  **$42.6**  |

In addition to the impacts cited in Table 2, direct expenditures of $30.4 million would directly and indirectly generate a projected one-time increase of approximately $792,000 in taxes paid to the State during construction. These taxes would include approximately:

* $507,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
* $221,000 in state sales taxes paid on those workers’ taxable household spending; and
* $64,000 in state business corporation taxes paid by companies directly or indirectly working on the project.

Most of the activity reflected in Table 2 is expected to occur between the spring of 2017 and the fall of 2018. 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]](#footnote-3)** |
| Architect | $40.76 |
| Construction manager | $54.17 |
| Carpenter | $21.04 |
| Electrician | $24.86 |
| Plumber | $23.54 |
| Painter | $18.10 |
| Laborer | $18.33 |

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).

***Annual operations***

After construction is completed, ongoing operations at Chestnut Commons will include:

* The operations of tenant businesses occupying the proposed 5,300 square feet of street-level commercial space – retail tenants that the Sponsor expects to employ 20 people (on a full-time-equivalent basis) and a fitness center employing 2 FTE’s; and
* Management and maintenance of the new building.

Based on these assumptions, Appleseed projects (as shown below in Table 4), that when the project is completed and fully occupied (which for purposes of this analysis is assumed to occur in 2019), it will directly and indirectly account for:

* 31 FTE jobs in Rhode Island;
* Approximately $1.23 million in annual earnings (in 2019 dollars);
* Approximately $2.86 million in annual statewide economic output; and
* An increase of approximately $1.85 million in Rhode Island’s annual GDP.

**Table 4: Direct and indirect annual impact of ongoing operations (employment in FTE; income, value-added and output in millions of 2019 dollars)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Employment** | **Earnings** | **Value added** | **Output** |
| Direct Effect | 27 | $0.99 | $1.39 | $2.11 |
| Indirect Effect | 4 |  0.24 | 0.46 | 0.75 |
| **Total Effect** | **31** | **$1.23** | **$1.85** |  **$2.86** |

In addition to the impacts cited in Table 4, ongoing operations at Chestnut Commons would directly and indirectly generate a projected increase of approximately $72,000 in taxes paid annually to the State. These taxes would include approximately:

* $46,000 in state personal income taxes paid by Rhode Island workers employed directly at Chestnut Commons, or whose jobs are indirectly attributable to tenant and building operations;
* $20,000 in state sales taxes paid on those workers’ taxable household spending; and
* $6,000 in state business corporation taxes directly or indirectly attributable to building and tenant company operations.

Workers who fill retail, fitness and building services jobs at Chestnut Commons are expected to be drawn primarily from Providence or from other nearby communities.

**Impact**

The state fiscal impact of the requested tax credits and sales and use tax exemptions is up to $3,249,820 in foregone state revenue. Direct and indirect economic and fiscal benefits of the proposed project include the estimated increase in annual state GDP of $1.85 million, the estimated associated job creation, and the gross increase of nearly $1.66 million in state personal income, sales and business corporation tax revenues during the construction phase and 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.

* Increase the supply of housing in the I-195 Redevelopment District
* Expand retail and restaurant options in the District
* Create new, green open space in the District
* Increase local real property tax revenues

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.

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. [↑](#footnote-ref-1)
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. [↑](#footnote-ref-2)
3. Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2015 [↑](#footnote-ref-3)