

Rhode Island Commerce Corporation Rebuild Rhode Island Tax Credits – Economic Impact Analysis

Lippitt Mill LLC Application

Introduction

The Rhode Island Commerce Corporation (the "Corporation") may issue Rebuild Rhode Island tax credits to Lippitt Mill LLC (the "Sponsor"). The credits would be issued in connection with the Sponsor's investment in the redevelopment of a complex of historic mill buildings located at 825 Main Street in the Town of West Warwick. The project would result in the creation of 65 new residential rental units. The Sponsor estimates the total cost of the project to be approximately \$15.2 million.

The Sponsor is requesting a Rebuild Rhode Island Tax Credit with a net value of \$1,893,151 and an exemption from sales taxes on eligible construction materials and furnishings, valued by the sponsor at \$230,691.

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

Jobs Analysis

Construction

As shown in Table 1, the Sponsor's estimate of total project cost is approximately \$15.2 million. After excluding certain costs that do not have a direct, current impact on Rhode Island's economy (such as land and building acquisition, reserves and interest costs), Appleseed estimates that hard construction costs and soft costs will total approximately \$12.7 million.

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

Component	Estimated cost
Land and building acquisition	\$0.7
Building construction (hard cost)	\$9.1
Soft costs	\$5.4
Total	\$15.2

Appleseed estimates that direct spending of \$12.7 million will directly and indirectly generate:

- 106 person-years¹ of work in Rhode Island;
- Approximately \$5.6 million in earnings;
- Approximately \$17.5 million in State-wide economic output²; and
- A one-time increase of nearly \$9.3 million in Rhode Island's GDP.

¹ A person-year is equivalent to the time worked by one person who is employed full-time for a year. It could for example 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.

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.

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.

In addition to the impacts on employment, earnings, output and state GDP cited above, a direct expenditure of \$12.7 million would generate a projected one-time increase of approximately \$326,000 in taxes paid to the State during construction, including:

- \$209,000 in state personal income taxes paid by Rhode Island workers employed on the project, or whose jobs are indirectly attributable to the project;
- \$91,000 in state sales taxes paid on those workers' taxable household spending;
- \$26,000 in state business corporation taxes.

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

	Employment	Earnings	Value added	Output
Direct Effect	68	\$3.9	\$6.4	\$12.7
Indirect Effect	38	\$1.7	\$2.9	\$4.8
Total Effect	106	\$5.6	\$9.3	\$17.5

Most of the activity reflected in Table 1 will occur during an eleven-month construction period, expected to be completed by October 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	\$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

The Sponsor estimates that when the project is completed, 3 to 4 workers will be employed (on an FTE basis) to manage and maintain the residential units, and that the project's stabilized-year operating and administrative expenses will total approximately \$441,000.

³ Rhode Island Department of Labor and Training, Occupational Employment Statistics, 2015

Based on these estimates, Appleseed projects (as shown below in Table 4), that when the project is completed and fully occupied (which is assumed to occur in 2018), it will directly and indirectly account for:

- 6 full-time equivalent jobs in Rhode Island;
- Nearly \$242,000 in annual earnings (in 2018 dollars);
- More than \$425,000 in annual statewide economic output; and
- An increase of more approximately \$317,000 in Rhode Island’s annual GDP.

In addition to the impacts on employment, earnings, output and state GDP cited in Table 4, ongoing operations and maintenance above, would generate a projected gross increase of approximately \$14,000 in taxes paid annually to the State (in addition to the \$322,000 in state tax revenues cited above that would be generated by spending on construction), including:

- \$9,000 in state personal income taxes paid by Rhode Island workers employed in the operation and management of project, or whose jobs are indirectly attributable to the project;
- \$4,000 in state sales taxes paid on those workers’ taxable household spending; and
- \$1,000 in state business corporation taxes.

Table 4: Direct⁴ and indirect impact of annual residential building operations (employment in FTE; income, value-added and output in thousands of 2018 dollars)

	Employment	Earnings	Value added	Output
Direct Effect	5	\$176	\$233	\$311
Indirect Effect	1	\$66	\$84	\$114
Total Effect	6	\$242	\$317	\$425

The workers employed directly in management and maintenance of the residential building will most likely be drawn from neighborhoods within the Town of West Warwick and from other nearby communities.

Impact

The state fiscal impact of the requested tax credits, state-sales and use tax exemption and bridge loan is up to \$2,123,842 in foregone state revenue and direct costs. Direct and indirect economic and fiscal benefits of the proposed project include the estimated increase of \$317,000 in annual state GDP, the associated job creation, and a gross increase of approximately \$494,000 in personal income, sales and business corporation tax revenues directly and indirectly generated by the project during the construction phase and by ongoing operations during the twelve years following completion of the project.

In addition to the economic and tax revenue impacts cited above, the proposed project would benefit Rhode Island in several other ways:

- Preserve and reuse a historic mill building;
- Remediate a site with potential environmental hazards;
- Increase the supply of rental housing in a community with a low vacancy rate; and
- Add to the Town of West Warwick’s tax base.

⁴ Direct employees in this table include those employed directly by the building management company and contract workers.

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.